JUDGMENT OF THE COURT (Fourth Chamber)
25 February 1986 *

In Case 193/83

Windsurfing International Inc., 1955 West 190th Street, Torrance, California, United States of America, represented by Willem A. Hoyng, Attorney-at-Law in the firm of Blackstone, Rueb & Van Boeschoten, The Hague, with an address for service in Luxembourg at the Chambers of Ernest Arendt, 34 B rue Philippe-II,

applicant,

v

Commission of the European Communities, represented by its Principal Legal Adviser Bastiaan van der Esch and by Ingolf Pernice, a member of its Legal Department, acting as Agents, with an address for service in Luxembourg at the offices of Manfred Beschel, a member of the Commission's Legal Department, Jean Monnet Building, Kirchberg,

defendant,

APPLICATION for a declaration that the Commission Decision of 11 July 1983, relating to a proceeding under Article 85 of the EEC Treaty (IV/29.395 — Windsurfing International, Official Journal 1983, L 229, p. 1) is void, and, in the alternative, for the annulment or the reduction of the fine imposed upon the applicant by that decision,

THE COURT (Fourth Chamber)

composed of: K. Bahlmann, President of Chamber, G. Bosco and T. Koopmans, Judges,

Advocate General: C. O. Lenz
Registrar: P. Heim

after hearing the Opinion of the Advocate General delivered at the sitting on 4 June 1985,

gives the following

* Language of the Case: English.

JUDGMENT

(The account of the facts and issues which is contained in the complete text of the judgment is not reproduced)

Decision

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1 By an application lodged at the Court Registry on 13 September 1983, the undertaking Windsurfing International Inc. which has its registered office in Torrance, California, USA, brought an action under the second paragraph of Article 173 of the EEC Treaty for a declaration that the Commission decision of 11 July 1983, relating to a proceeding under Article 85 of the EEC Treaty (Official Journal 1983, L 229, p. 1), is void in so far as it contains the finding that a number of clauses in the licensing agreements concluded between the applicant and certain German undertakings constituted infringements of the competition rules in the EEC Treaty, or alternatively for the annulment of the fine imposed upon the applicant by the decision or at least a reduction in its amount.

I — Facts

2 Windsurfing International is a company founded by Mr Hoyle Schweitzer, a key figure in the development of sailboards, an apparatus composed of a 'board' (a hull made of synthetic materials equipped with a centre-board) and a 'rig' (an assemblage consisting essentially of a mast, a joint for the mast, a sail and spars) which makes it possible to combine the art of surfing with the sport of sailing. The company's turnover derives partly from the proceeds of the sale of sailboards which it manufactures and partly from the income arising out of licences which it has granted to other undertakings. In the 1970's Windsurfing International extended its operations to Europe, where it initially submitted patent claims in certain member countries of the European Community, namely the United Kingdom and the Federal Republic of Germany.

3 The scope of the patent for invention granted to Windsurfing International in the Federal Republic of Germany in 1978, following a patent claims procedure begun in 1969, has always been a matter of dispute. It is again in dispute in these proceedings because Windsurfing International argues that the clauses at issue in its licensing agreements are linked to the exercise of its patent rights and must therefore enjoy the protection which the EEC Treaty affords to industrial property rights, while this is denied by the Commission.

4 On 1 January 1973, when its patent application was still being examined by the German Patent Office [Bundespatentamt], Windsurfing International granted to Ten Cate, a Netherlands undertaking, an exclusive temporary licence for the production and sale in Europe of sailboards incorporating its know-how. Ten Cate was also granted the right to use the word marks 'Windsurfer' and 'Windsurfing' and a design mark ('logo') showing a stylized representation of a sail.

5 In 1976 and 1977 respectively, Ten Cate granted to the German undertakings Ostermann and Shark sub-licences for the exploitation of the German patent already applied for and also, in Ostermann's case, of any patent subsequently applied for in Europe. Windsurfing International does not accept that Ten Cate was entitled to enter into those two agreements. In 1978 they were taken over by Windsurfing International, which then concluded licensing agreements with other German undertakings, namely Akutec on 1 July 1978, SAN and Klepper on 1 January 1979 and Marker on 21 August 1980.

6 A number of trade competitors of the undertakings licensed to produce and market sailboards submitted to the Commission pursuant to Article 3 (1) of Regulation No 17 of 6 February 1962 complaints calling into question, *inter alia*, the compatibility of the agreements with the Community rules on competition.

7 Following representations made by the Commission in 1981, Windsurfing International concluded a number of new licensing agreements taking account of the requirements of Community law as stated by the Commission, and these the Commission has not challenged; they include the agreements concluded with Akutec in September 1981, with Klepper in November 1981, with SAN in January 1982, with Ostermann in September 1982 and with Shark in March 1983.

8 None the less the Commission considered it necessary to initiate a proceeding for the infringement of the competition rules against Windsurfing International in view of the seriousness and duration of the infringement which it found that company to have committed prior to the new licensing agreements. That proceeding resulted in the decision of 11 July 1983 whereby the Commission found that certain clauses in the licensing agreements originally concluded between Windsurfing International and Ostermann, Shark, Akutec, SAN, Klepper and Marker constituted an infringement of Article 85 (1) of the EEC Treaty and imposed upon Windsurfing International a fine of 50 000 ECU.

9 By Article 1, which relates to the licensing agreements between Windsurfing International and the above-mentioned undertakings, the contested decision declares that the following terms in the agreements which existed until 1981/1982 constituted an infringement of Article 85 (1) of the EEC Treaty:

(a) In the agreements with Ostermann, Shark, Akutec, SAN, Klepper and Marker:

(1) The obligation on the licensees to exploit the licensed patents only for the manufacture of sailboards using boards which had been given Windsurfing International's prior approval;

(2) The obligation on the licensees not to supply rigs manufactured under the German patent separately and without the boards approved by Windsurfing International;

(3) 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;

(4) The obligation on the licensees to affix to boards offered for sale a notice stating 'licensed by Hoyle Schweitzer' or 'licensed by Windsurfing International';

(5) The obligation on the licensees to acknowledge the word marks 'Windsurfer' and 'Windsurfing' as well as a design mark ('logo') showing the abstract shape of a sail as valid trade-marks;

(b) In the agreements with Akutec, SAN, Klepper and Marker:

The right granted to Windsurfing International to terminate the licensing agreements should the licensees start production in a territory not covered by a patent;

(c) In the agreements with Ostermann and Shark:

The obligation on the licensees not to challenge the licensed patents.

10 Windsurfing International has brought an action against that decision in which it challenges both the Commission's findings of fact and its legal assessment of the clauses which it found incompatible with Article 85 (1) of the Treaty.

II — Existence of a separate market for components and of an intra-Community trade in sailboards

11 Windsurfing International states first that, contrary to the Commission's allegations, there was no market of any size in sailboard components as distinct from whole sailboards during virtually the entire period covered by the decision (from 1974 to 1981), the demand for separate components being almost exclusively for supplies of replacement parts.

12 With regard to that argument it should be noted that the question whether or not such a market existed is not without importance for the purposes of establishing whether the clauses at issue were compatible with Article 85 (1). In so far as it is shown that there was practically no trade in separate components, it cannot be maintained that the clauses in Windsurfing International's licensing agreements were capable of preventing, restricting or distorting competition in regard to those components within the common market.

13 According to Windsurfing International, there was for a long time in Europe only a market for complete sailboards, namely whole units comprising a board and a rig. Only towards the end of 1981 did very advanced surfers begin to combine rigs with boards designed for highly-specialized uses and even assemble their own sailboards from individual components. This gave rise to a distinct market, which did not, however, exceed 1% of total demand at the relevant time. A wholly artificial demand, which should therefore not be taken into account, developed after 1978 in the Federal Republic of Germany as a result of the patent granted to Windsurfing International in that country; because the patent unquestionably covered at least the rig, it compelled unlicensed manufacturers to try to purchase patented rigs in order to mount them on their own boards so as to be able to continue marketing their sailboards on the German market.

14 The Commission, however, contends that even in the period from 1978 to 1981 there was, not only in Germany but also in other countries in the EEC such as France, a demand for separate components going well beyond a simple demand for replacement parts. The fact that the demand on the German market was largely due to the patent situation in Germany is not a sufficient reason for leaving that demand out of account since the conditions created by the existence of a patent cannot be treated any differently from the other conditions influencing the behaviour of operators on a given market.

15 The existence of a market in separate components must be established in the light of the facts indicated by the parties in their pleadings and the additional information which they have furnished at the Court's request.

16 On that point it is clear from sales catalogues, from advertising material and from information obtained from manufacturers by the Commission that sailboard components (boards, rigs, and parts for rigs) were offered for sale and sold sepa-

rately from 1978, even in countries where there was no patent protecting a part of the sailboard. Royalty statements from licensees which Windsurfing International has itself produced at the Court's request also make it clear that deliveries of rigs and parts for rigs were made from 1978.

17 However, in assessing the size of the components market, it is difficult to estimate to what extent sales of separate components went beyond the mere delivery of replacement parts. The royalty statements of certain licensees of Windsurfing International in Europe, such as Ten Cate and Ostermann, show that until 1981 supplies of sailboard components represented less than 10% of the total turnover of those companies; nevertheless it is necessary to take into account the fact that those licensees sought as far as possible to avoid supplying separate components otherwise than as replacement parts. Data supplied by the Commission relating to a large Belgian undertaking indicate sales amounting to 8% of the turnover for complete sailboards in 1979 and 17% in 1980, which gives slightly lower percentages in relation to total turnover.

18 If it is borne in mind that the growth in the market brought about a constantly increasing demand for replacement parts and that according to estimates made by the licensees in 1980 — as shown in the minutes of a meeting with Mr Schweitzer held in Munich on 9 October 1980 — the normal demand for spare parts was 10 to 15%, the percentages indicated above, which include separate sales of boards as well as rigs and parts for rigs, do not support the inference that the demand for separate components was much in excess of the demand for replacement parts.

19 In view of those considerations it may be concluded that there was already a market for separate components during the period to which the decision relates but that it was not very large.

20 Windsurfing International states in the second place that there was no significant trade in sailboards between the Member States, because sailboard manufacturers operate principally on their domestic market, and that in each State imports represented on average only 20 to 30% of national production.

21 The Commission, on the other hand, notes that even in the period under consideration undertakings such as Mistral and Dufour were operating on a Community-wide basis and on a large scale.

22 It follows from the foregoing that, as Windsurfing International itself acknowledges, imports have always represented an appreciable percentage of the sailboards supplied to the market in each Member State. This is all the more true as the significance of the intra-Community trade in sailboards must be evaluated in relation to the whole of the common market and not to individual national markets.

III — Scope of the German patent

23 Another issue on which the parties are in dispute is the scope of the patent granted to Windsurfing International in the Federal Republic of Germany.

24 Windsurfing International argues in the first place that the Commission as such is not competent to rule upon the scope of a patent granted in a Member State. It takes the view that where there is at least a reasonable doubt about the scope of a patent the Commission should not substitute its view for that of the national courts, which have sole competence to give a final verdict on such a matter. In this case, legal proceedings intended precisely to obtain a decision on the scope of the patent were pending and the Commission had no right to pre-empt that decision.

25 The Commission replies that for the purposes of its decision it was neither necessary nor desirable to await the final outcome of the proceedings instituted in order to establish the scope of the patent. The view taken by the Commission was based on a legal position which had already been confirmed on several occasions by the competent German authorities. Furthermore, to await the final outcome of the pending proceedings would have meant accepting the restrictions on competition imposed by Windsurfing International for a still longer period and probably until the expiry of the patent.

26 Although the Commission is not competent to determine the scope of a patent, it is still the case that it may not refrain from all action when the scope of the patent is relevant for the purposes of determining whether there has been an infringement of Article 85 or 86 of the Treaty. Even in cases where the protection afforded by a patent is the subject of proceedings before the national courts, the Commission must be able to exercise its powers in accordance with the provisions of Regulation No 17.

27 In any event, the position of an undertaking to which proceedings under Regulation No 17 relate is not prejudiced by any findings made by the Commission. In the first place, such findings do not in any way pre-empt the determinations made later by national courts in disputes brought before them on the subject of patent rights; secondly, the Commission's decision is subject to review by the Court of Justice.

28 The review exercised by the Court must be limited to determining whether, in the light of the legal position existing in the State in which a patent was granted, the Commission has made a reasonable assessment of the scope of the patent. In this case, it should therefore be ascertained whether the Commission was justified in taking the view that the German patent granted to Windsurfing International covered only the rig for a sailboard and not the board.

29 It must be noted in that regard that none of the actions brought specifically in order to settle that point has as yet been the subject of a final decision. The test case brought by Windsurfing International in 1980 against an undertaking selling separate boards in the Federal Republic of Germany was discontinued in 1983 when Windsurfing International abandoned its claims after concluding a licensing agreement with the defendant. Two further actions in which undertakings in competition with licensees of Windsurfing International sought a declaration that the supply of boards and sails (in the first case) and masts (in the second case) did not constitute a patent infringement have for the present been stayed pending attempts to negotiate a settlement.

30 That being the case, the scope of the German patent may be determined only on the basis of the wording of the patent claim accepted by the German Patent Office and the interpretative rulings hitherto given by the competent German courts and authorities.

31 The decision whereby the German Patent Office granted the patent on 31 March 1978 indicates that the patent granted is for 'a rig for a sailboard' capable of being 'used not only for sailboards but also for ice yachts, sand yachts, surfboards, canoes, rowing boats or small sailing boats'. It should also be pointed out, first, that the patent decision mentions the existence of other kinds of patented rigs and defines the novelty of the invention as residing in the fact that the rig makes it possible to beat to windward, and, secondly, that the description of the invention refers only to components of the rig.

32 In view of the fact that every reference to a 'sailboard' in Windsurfing International's original patent claim was subsequently replaced by 'rig for a sailboard' and that the sentence in the original patent claim indicating that the invention included the sailboard was deleted, it is not possible to maintain, as the applicant does, that the changes made to the claim in the course of the patent grant procedure were purely verbal and in no way intended to limit the scope of the patent. Even assuming that the German Patent Office did not clearly indicate its reasons for rejecting the original patent claim and proposing a new wording, the fact remains that Windsurfing International expressly accepted the amended claim. In any event a letter from the German Patent Office dated 21 January 1974 makes it clear that if Windsurfing International had not accepted the proposed amendments, the claim would have had to be rejected.

33 Nor does it seem possible to draw a different conclusion from the decisions which have thus far been delivered by various German courts and authorities in proceedings requiring a determination of the scope of the patent. By a judgment of 9 August 1979, the Landgericht [Regional Court] Munich held that an unlicensed manufacturer was entitled to purchase rigs subject to the licence and mount them on his boards, which implies that the patent was not understood to cover the entire sailboard. By a decision of 28 November 1979, the Bundespatentgericht [Federal Patents Court] dismissed a number of opposition proceedings based on the existing state of technical knowledge but substituted for the principal claim a secondary claim also referring to a rig for a sailboard. The decision of the Bundeskartellamt [Federal Restrictive Trade Practices Authority] of 30 September 1981, relating to the compatibility of Windsurfing International's licensing agreements with German competition law, is also based on the finding, for which it gives detailed reasons, that the patent granted to Windsurfing International covers only the rig and not a complete sailboard. On 10 December 1981, the Bundesgerichtshof [Federal Court of Justice], on an appeal relating to an action for patent infringement brought by Windsurfing International against a manufacturer of sails specifically designed for sailboard rigs, referred to the freely and universally rotatable and pivotable mast, the sail and the split boom (wish-bone) as being parts of the patented combination. Finally, in the test case brought by Windsurfing International, the courts at first and second instance rejected the applicant's submissions on the scope of the German patent.

34 It must therefore be concluded that the Commission was right in taking the view that in the period during which it began its investigation into Windsurfing International and adopted the contested decision, there was nothing in the wording of the

patent or the interpretations given to it by German authorities and courts to justify the contention that the patent covered a complete sailboard. There has not been any change in the position since then.

35 Nor can it be accepted that, as Windsurfing International argues, the components of the sailboard other than the rig are automatically covered by the patent inasmuch as they constitute components which are indispensable for the working of the invention. As is shown by the decisions of German courts cited by the applicant, only the components comprised within the inventive step are protected, whereas in this case the board has never been found to show any inventive feature in comparison with the previous state of the art.

36 The clauses contained in the licensing agreements, in so far as they relate to parts of the sailboard not covered by the German patent or include the complete sailboard within their terms of reference, can therefore find no justification on grounds of the protection of an industrial property right.

IV — Appraisal of the licensing agreements in the light of Article 85 (1) of the EEC Treaty

A — *Restriction of competition*

37 It is therefore necessary to examine whether the clauses referred to in the contested decision were compatible with Article 85 (1) of the Treaty. For that purpose it must first be determined whether those clauses had as their object or effect the prevention, restriction or distortion of competition within the common market.

38 The first of the clauses at issue, as described by the Commission, imposed on licensees the obligation to exploit the invention only for the purpose of mounting the patented rig on certain types of board specified in the agreement, and the obligation to submit for the licensor's approval, prior to their being placed on the market, any new board types on which the licensees intended to use the rigs.

39 Windsurfing International argues first that it is not the case that the licensing agreements defined the product as a complete sailboard consisting of the rig and 'a precisely-defined type of board manufactured by the licensee' which was therefore subject to approval by the licensor because under the terms of the agreements any modification to the product also required approval.

40 However, it is clear from their wording that the agreements defined the licensed product as a complete sailboard with clearly specified characteristics as shown in the annexes. It follows that under the terms of those agreements any modification to a board was subject to the licensor's approval. The sole exception is the agreement between Ten Cate and Shark, paragraph 2 of which provided expressly that the licence related to a 'rig for a sailboard' which might be manufactured and sold only as part of a sailboard assembled from several components. It did not, however, mention the board. That situation is not in any way affected by the fact that after taking over that agreement Windsurfing International expressed its readiness to grant a similar licence for a non-composite sailboard; hence, contrary to what is stated in the decision, the agreement with Shark cannot be included with those which laid down an obligation to obtain the licensor's approval for the board.

41 Windsurfing International then argues that even if the licensor's approval was also required for the boards, the purpose of the requirement was not to restrict the types of sailboards which could be manufactured by the licensees but solely to ensure that the boards were not of inferior quality and did not infringe the rights of other licensees. There were no restrictions within the same technical field of application other than the two mentioned above, which were in any event covered by the specific subject-matter of the licensed patent rights.

42 In reply the Commission contends that the fact that an undertaking which has granted licences to other undertakings is the proprietor of an industrial property right does not entitle it to control the market in the products under licence. Restrictions on the field of use of the products may be acceptable but only if they relate to different products belonging to different markets. The design and quality of a product are the sole concern of the licensee.

43 According to the Commission, standards of quality and safety may fall outside the scope of Article 85 (1) only if they relate to a product actually covered by the patent, if they are intended to ensure no more than that the technical instructions as described in the patent are in fact carried out and if they are agreed upon in advance and on the basis of objectively verifiable criteria.

44 As regards Windsurfing International's assertion that approvals are necessary in order to prevent slavish imitation, the Commission remarks first of all that protection against slavish imitation does not form part of the specific subject-matter of any industrial property right but is a form of protection developed by the courts in many countries against the passing off of products by competitors. If the licensor himself, by means of an appropriate clause in an agreement, sets himself up as the sole arbiter, in place of the courts, of any doubtful cases that may arise, there is a danger that he will use that discretion solely in his own favour and thus restrict his licensees in their competitive freedom in areas which do not come within the scope of unfair competition.

45 It is necessary to determine whether quality controls on the sailboards are covered by the specific subject-matter of the patent. As the Commission rightly points out, such controls do not come within the specific subject-matter of the patent unless they relate to a product covered by the patent since their sole justification is that they ensure 'that the technical instructions as described in the patent and used by the licensee may be carried into effect'. In this case, however, it has been established that it may reasonably be considered that the German patent does not cover the board.

46 However, even on the assumption that the German patent covers the complete sailboard, and therefore includes the board, it cannot be accepted without more that controls such as those provided for in the licensing agreements were compatible with Article 85. Such controls must be effected according to quality and safety criteria agreed upon in advance and on the basis of objectively verifiable criteria. If it were otherwise, the discretionary nature of those controls would in effect enable a licensor to impose his own selection of models upon the licensees, which would be contrary to Article 85.

47 Windsurfing International has been unable to show that there were any objective criteria laid down in advance because no indication of the technical verifications to be carried out is contained in the agreements.

48 That conclusion is only confirmed by the applicant's statement that it undertook not to refuse its approval unreasonably and by the fact that it has virtually never refused its approval. It would have been unnecessary for Windsurfing International to promise not to refuse its approval unreasonably if the possibility of refusal had related not to its own discretionary judgment but to compliance with well-defined quality standards necessary in order to ensure that the technical instructions had been carried into effect.

49 It must therefore be held that Windsurfing International's real interest lay in ensuring that there was sufficient product differentiation between its licensees' sailboards to cover the widest possible spectrum of market demand.

50 In so far as Windsurfing International also seeks to justify its controls by relying on the alleged liability of a licensor under Californian law for accidents caused by the poor quality of a licensed product, it must be pointed out that even if such liability does exist it does not affect the question of the compatibility of such controls with Community law.

51 As regards the justification which Windsurfing International seeks to derive from the need to prevent passing-off, it must first of all be pointed out that the boards cannot be regarded as falling within the scope of the patent and that, in view of that fact alone, the patentee had no reason to intervene in disputes between the licensees over the boards which they could market.

52 The protection afforded by the patent may only be claimed in the case of copies of products manufactured by the licensor himself. In so far as the clause at issue enabled Windsurfing International to detect and prevent the slavish imitation of boards by licensees, there can be no doubt that the clause constituted a restriction on the freedom of competition. It substituted Windsurfing International's discretion for the decisions of national courts, which were the proper forum for actions by licensees who wished to obtain a finding that slavish imitation had taken place.

53 Having regard to the foregoing considerations, it must therefore be held that the clause referred to in subparagraph (1) of paragraph (1) of Article 1 of the contested decision gave rise to a restriction on competition within the meaning of Article 85 (1).

54 The second of the clauses at issue relates to the obligation on the licensees to sell the components covered by the German patent, and therefore in particular the rigs, only in conjunction with the boards approved by the licensor, or in other words as complete sailboards.

55 Windsurfing International takes the view that in any event a contractual provision prohibiting the sale of rigs to unlicensed manufacturers was entirely justified in view of the fact that such sales would have enabled unlicensed manufacturers to combine the rigs with their boards, which would have constituted patent infringement. It further argues that such a restriction is covered by the specific subject-matter of the German patent.

56 The Commission observes that the risk of a patent infringement by third parties can in no way justify the prohibition on the sale of rigs, which cannot in itself constitute a patent infringement, particularly in view of the fact that the risk of patent infringements is by no means precluded where licensees sell complete sail-boards.

57 In that regard it must be borne in mind that, as has already been seen in the discussion of the scope of the German patent, the patent must be regarded as confined to the rig. That being the case, it cannot be accepted that the obligation arbitrarily placed on the licensee only to sell the patented product in conjunction with a product outside the scope of the patent is indispensable to the exploitation of the patent.

58 Finally, Windsurfing International's argument that the prohibition on the separate sale of rigs could not have any effect on competition because it was in any event in the licensees' interest to refuse such sales cannot be accepted since, on the one hand, it has been shown that certain licensees were already selling separate components, and, on the other, even if at one time licensees generally showed no interest in separate sales, the situation might alter subsequently.

59 On the basis of the considerations set out above, the clause referred to in subparagraph (2) of paragraph (1) of Article 1 of the decision must therefore be held also to be of such a nature as to restrict competition.

60 The third disputed clause relates to the obligation on the licensees to pay royalties on sales of components calculated on the basis of the net selling price of the product.

61 Windsurfing International maintains that that clause cannot be interpreted as meaning that the royalty on sales of components was to be calculated on the basis of the net selling price of the complete sailboard. In fact the definition of the product in the agreements in question also covers components.

62 The Commission notes that the definition of the product contained in the agreements does not treat the rig as an item for separate sale and that there was therefore no means of calculating a different royalty for sales of rigs. As regards the obligation to pay a royalty on boards, namely a product not protected by the patent, the Commission states that such an obligation cannot be justified by reference to the advantage which licensees derived from the rig. The financial burden imposed on the boards adversely affected the licensees' competitiveness and induced them to seek to offset that disadvantage by refusing to sell rigs to their unlicensed competitors in order to reduce their sales.

63 In this instance it is first of all necessary to ascertain whether the definition of the product contained in the licensing agreements also covered components. It must be stated that that was so in the case of Windsurfing International's agreements with SAN, Klepper and Marker, while its agreement with Shark provided expressly that the licensee undertook to pay the royalty on the net selling price of a sailboard equipped with the patented rig, and the agreement with Akutec does not refer to components. As regards the agreement with Ostermann, it should be noted that the earlier agreement between Ten Cate and Ostermann expressly provided for a royalty on components based on the ex-factory price but that when the agreement was taken over by Windsurfing International the parties agreed to lay down a single rate of royalty payable on the product.

64 In so far as Windsurfing International's agreements with SAN, Klepper and Marker also included components in the definition of the product, it must be concluded that the contested decision is incorrect in stating that the agreements contained a clause requiring the licensees to pay royalties on components on the basis of the price of a complete sailboard. The same considerations apply with still greater force to the agreement between Ten Cate and Ostermann as worded before it was taken over by Windsurfing International, which distinguished expressly between the royalties payable on the product and those payable on components.

65 As for the agreements providing that the royalty must be calculated at least on the basis of the price of the complete sailboard, it must first of all be noted that this is not one of the cases which, according to the Commission, justify such a method of calculation, namely where 'the number of items manufactured or consumed or their value are difficult to establish separately in a complex production process, or . . . there is for the patented item on its own no separate demand which the licensee would be prevented from satisfying through such a method of calculation'. The rig is not incorporated in the board and, as was seen earlier, there was a separate demand for rigs. Those considerations also apply to the board, whose value is in any event much higher than that of the rig.

66 Nevertheless it must also be pointed out that the royalty levied on the sale of rigs on the basis of that calculation proves not to have been higher than that laid down for the sale of separate rigs in the new agreements, since the licensees acknowledged that it would be equitable to accept a higher rate of royalty once the licensor's remuneration was to be calculated on the price of the rig alone. It follows that that method of calculation did not have as its object or effect a restriction of competition in the sale of separate rigs.

67 In the light of those considerations, it must be held that the method of calculating the royalties based on the net selling price of a complete sailboard was of such a nature as to restrict competition with regard to the separate sale of boards, which were not covered by the German patent, but not the sale of rigs.

68 The fourth of the clauses at issue relates to the obligation on the licensees to affix to boards manufactured and marketed in Germany a notice stating 'licensed by Hoyle Schweitzer' or 'licensed by Windsurfing International'.

69 Windsurfing International considers that such a clause is not of such a nature as to distort competition because no consumer could infer from such a notice that the board was manufactured with Windsurfing International's know-how but only that Windsurfing International had issued a licence to sell a complete sailboard. In any event there was nothing to prevent licensees from representing themselves as technically independent.

70 The Commission, for its part, maintains that only the components covered by the patent constitute places in which such a notice may be legitimately affixed, while a notice affixed to the board creates the false impression that the complete sailboard is the subject of the patent. The licensees were therefore restricted in representing themselves as technically independent in regard to the board and in consolidating their reputation, and this affected their position in the market.

71 So far as that clause is concerned, it should be observed that, notwithstanding what is stated in the decision, there was no such clause in the agreements with Ostermann and Shark.

72 It should then be noted that such a clause may be covered by the specific subject-matter of the patent provided that the notice is placed only on components protected by the patent. Should this not be the case, the question arises whether the clause has as its object or effect the prevention, restriction or distortion of competition.

73 Despite Windsurfing International's contention that it was not the object of the clause to distort competition but merely to convey the information, by means of a notice affixed in a place where it was easily visible, that the production and sale of sailboards were made possible by a licence from Windsurfing International, it is none the less true that by requiring such a notice Windsurfing International encouraged uncertainty as to whether or not the board too was covered by the patent and thereby diminished the consumer's confidence in the licensees so as to gain a competitive advantage for itself.

74 In the light of the foregoing, it must therefore be held that the clause referred to in subparagraph (4) of paragraph (1) of Article 1 of the contested decision was incompatible with Article 85 (1).

75 The fifth disputed clause relates to the obligation on the licensees to acknowledge the word marks 'Windsurfer' and 'Windsurfing' as well as a design mark or 'logo' as valid trade-marks.

76 Windsurfing International maintains that at the time when the licensing agreements were concluded registered trade-marks and generic names for the sport and the product already existed in most countries. It was perfectly open to the

licensor to request the licensees to use those generic names and not its own trade-marks, which patent infringers, on the other hand, tried to use generically. However, nothing in the agreements precluded the licensees from requesting the courts to declare the trade-marks invalid.

77 The Commission comments that the no-challenge clause is different from the clause prohibiting the use of the applicant's trade-mark. The acknowledgment of a trade-mark's validity logically implies that no attempt will be made to establish its invalidity, and this is contrary to Article 85. Furthermore, an undertaking to that effect is foreign to the licensing agreement as a whole.

78 As the Commission has not challenged the ban on the use of the trade-marks belonging to Windsurfing International and Ten Cate as generic designations, the clauses in the agreements with Shark and Ostermann should not be regarded as numbering among the disputed clauses because, apart from the ban on their use, they do not require that the trade-marks' validity should not be challenged.

79 Windsurfing International contends that the requirement at issue was solely intended to ensure that the trade-marks would be acknowledged as long as they had not been declared invalid in order to prevent them from becoming generic designations. That contention cannot be accepted in view of the fact that, during a meeting with representatives of the Commission in January 1981, the applicant's representative himself recognized that the clause contained in Article 12 of the agreement with SAN (which, it may be added, is identical in content to clauses contained in the agreements with Akutec, Klepper and Marker) was to be regarded as a no-challenge clause in trade-mark law.

80 In any event, Windsurfing International's interest in halting the process whereby its trade-marks were being turned into generic designations of the product could not be safeguarded by means of a clause which clearly did not come within the specific subject-matter of the patent and was imposed on the licensees in the agreements relating to the exploitation of the patent even though the subject-matter of the clause was quite different.

81 On the basis of those considerations, it must be concluded that the clause requiring the licensees to acknowledge Windsurfing International's trade-marks was of such a nature as to restrict the licensees' competitiveness and therefore satisfied the first of the conditions for the application of Article 85 (1).

82 The sixth clause at issue provides for the obligation on the licensees to restrict production of the licensed product to a specific manufacturing plant in the Federal Republic of Germany, together with Windsurfing International's right to terminate the agreement immediately should the licensees change their production site.

83 Windsurfing International maintains that that prohibition was covered by the specific subject-matter of the patent in so far as it was intended to enable the licensor to maintain quality controls in respect of production for the German market. Furthermore, even if such a prohibition was incompatible with Article 85 it did not affect competition because the manufacture of sailboards represents a considerable investment and it was therefore improbable that a sailboard manufacturer would operate in different countries.

84 The Commission contends that to speak of quality controls is misconceived where numerous licensees had components of the sailboards in their range manufactured in the Federal Republic of Germany by sub-contractors over whom Windsurfing International had no control. Moreover, where the manufacture of components is farmed out to sub-contractors the investments required are very small, and this facilitates production abroad.

85 Windsurfing International clearly cannot rely on the specific subject-matter of the patent in order to gain the protection afforded by the patent in a country where there is no patent protection. In so far as Windsurfing International prohibited its licensees from also manufacturing the product in a country where it had no patent protection and so marketing that product without paying a royalty, it limited freedom of competition by means of a clause which had nothing to do with the patent.

86 That conclusion is not in any way affected by the argument based on Windsurfing International's need to maintain quality controls over the products of its licensees. It should be pointed out that, as has been stated earlier, quality controls are permissible only with regard to the patented product itself and on the basis of

objective criteria laid down in advance, and that those conditions are not met here. It should also be noted that a change of production site would not seem to have any great significance for the purposes of quality controls in a situation where, even in the Federal Republic of Germany, the manufacture of components is often farmed out to sub-contractors.

87 Finally, as far as the transfer of production abroad is concerned, no great costs are involved, particularly where production is contracted out.

88 It must therefore be concluded that the clauses in the agreements prohibiting Windsurfing International's licensees from opting to start production in a Member State other than the Federal Republic of Germany satisfied, as far as their effect on competition was concerned, the conditions laid down in Article 85 (1).

89 The seventh of the clauses which the Commission regards as incompatible with Article 85 (1) relates to the obligation on the licensees not to challenge the validity of the licensed patents.

90 On that point, Windsurfing International argues that the interest of the public in an essentially free system of competition, an interest which in any event was protected by the thorough and extensive patent application procedure provided for by the German legislation, was better served by a no-challenge clause making it easier to be granted a licence by the patentee.

91 The Commission, however, takes the view that even where a licensee is only able to challenge a patent because of the information which has become available to him as a result of his privileged relationship with the licensor, the public interest in ensuring an essentially free system of competition and therefore in the removal of a monopoly perhaps wrongly granted to the licensor must prevail over any other consideration.

92 It must be stated that such a clause clearly does not fall within the specific subject-matter of the patent, which cannot be interpreted as also affording protection against actions brought in order to challenge the patent's validity, in view of the fact that it is in the public interest to eliminate any obstacle to economic activity which may arise where a patent was granted in error.

93 It must therefore be held that the obligation referred to in paragraph (3) of Article 1 of the decision constitutes an unlawful restriction on competition between manufacturers.

94 In concluding the examination of the question whether the clauses at issue had as their object or effect a restriction on competition within the common market, it must therefore be held that that question must be answered in the affirmative in the case of all those clauses save that mentioned in subparagraph (3) of paragraph (1) of Article 1 of the contested decision (the obligation to pay royalties on components on the net selling price of the product), in so far as it applies to rigs.

B — *Obstacle to intra-Community trade*

95 Windsurfing International further argues that even though certain clauses in the licensing agreements may have been of such a nature as to restrict competition, they could not have had any appreciable effect on trade between Member States.

96 That argument must be rejected. Article 85 (1) of the Treaty does not require that each individual clause in an agreement should be capable of affecting intra-Community trade. Community law on competition applies to agreements between undertakings which may affect trade between Member States; 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.

97 In a case such as the present one, in which there is no doubt as to the significance of the agreements at issue for trade between Member States, it is therefore unnecessary to examine whether each clause restricting competition, taken in isolation, may affect intra-Community trade.

V — The applicability of Article 85 (3) of the EEC Treaty

98 Windsurfing International further submits that the clauses at issue were in any event eligible for an exemption under Article 85 (3) because, despite the restrictions which they imposed, they caused the German market to grow more than any other market. The fact that the clauses were not notified is of no sig-

nificance. They were covered by Article 4 (2) (2) (b) of Regulation No 17, under which notification is not required in the case of agreements between two undertakings intended, *inter alia*, to impose restrictions on the exercise of the rights of the assignee or user of industrial property rights.

99 In reply the Commission contends that the applicant has not indicated the reasons for which it considers that the restrictions laid down related solely to the use of the techniques under licence and has merely repeated the general arguments put forward against the applicability of Article 85 (1). In fact, at least in the case of the Federal Republic of Germany, those restrictions went beyond the subject-matter covered by the patent and were therefore not exempted from the requirement of notification. As far as the advantages to be derived from those clauses are concerned, the Commission states that it has not been shown that the variety, high technical level and quality of the licensees' products were the result of Windsurfing International's licensing policy. Furthermore, the Commission has not observed any significant differences in quality and safety between the licensees' products and those of non-licensees.

100 As regards the applicability in this case of Article 4 (2) (2) (b) of Regulation No 17, it must be stated that the restrictions laid down in the clauses at issue exceed the scope of the rights conferred by the patent because they also encompass the board, which is not covered by the patent, and because they include an obligation not to challenge Windsurfing International's trade-marks and patent.

101 In view of that finding, it must be concluded that since those clauses were not eligible for exemption from the requirement of notification laid down in the above-mentioned provision, they were also not eligible, for want of notification, for an exemption under Article 85 (3). It is therefore unnecessary to ascertain whether they could be regarded as satisfying the requirements stipulated in Article 85 (3), which is in any event disputed by the Commission.

VI — The infringements found to be established

102 It follows that all the clauses in the licensing agreements referred to by the Commission in Article 1 of the contested decision must be held to constitute infringements of Article 85 (1) of the EEC Treaty, with the exception of the clause referred to in subparagraph (3) of paragraph (1) (the obligation to pay royalties on components on the net selling price of the product), in so far as it applied to rigs.

103 Article 1 of the Commission decision of 11 July 1983 must therefore be declared void only in respect of the findings that:

The licensing agreement with Shark laid down an obligation on the licensee to exploit the licensed patents only for the manufacture of sailboards which had Windsurfing International's prior approval for the boards;

The licensing agreements between Windsurfing International and SAN, Klepper and Marker and the agreement between Ten Cate and Ostermann, before it was taken over by Windsurfing International, laid down an obligation on the licensees to pay royalties on components on the net selling price of a complete sailboard;

The licensing agreements with Ostermann and Shark laid down an obligation to affix to the boards of their sailboards the notice 'licensed by Hoyle Schweitzer' or 'licensed by Windsurfing International';

The licensing agreements with Ostermann and Shark laid down an obligation on the licensees to acknowledge the trade-marks of Windsurfing International and Ten Cate as valid trade-marks;

The obligation on the licensees to pay royalties on the rigs manufactured under the German patent only on the basis of the net selling price of a complete sailboard constituted an infringement of Article 85 (1) of the EEC Treaty.

VII — The fine

104 Windsurfing International next submits, on the basis of Article 15 (2) of Regulation No 17, that the necessary conditions for imposing a fine are not satisfied because it cannot be accused of having committed an infringement intentionally or negligently. In particular, it was possible for it to believe in good faith that the German patent, like patents in other countries such as the British patent before its final revocation in 1984, covered the entire sailboard.

105 The Commission maintains that a patentee like the applicant, who is continuously advised by a German patent lawyer, cannot deny having knowledge of the scope of its patent and the content of its licensing agreements even if those agreements were originally signed by a third party, as happened in the case of Ostermann and Shark, and were subsequently taken over by the patentee.

106 It must be stated that Windsurfing International has not provided any evidence that it did not act negligently. The fact that a patent exists in another country does not entitle it to draw conclusions with regard to what it might have thought to be the scope of the German patent. Nor can it argue, particularly after the amendments to its original patent claim, that it may have misunderstood the scope to be ascribed to the German patent.

107 In the light of those considerations, the Court must reject Windsurfing International's argument that a fine cannot be imposed upon it because the infringements found against it cannot be attributed to a deliberate policy or negligent conduct on its part.

108 In the alternative, Windsurfing International requests a reduction in the fine on the grounds that the Commission incorrectly assessed the seriousness and duration of the infringement. In particular, Windsurfing International argues:

(i) that the absence of any sales of separate rigs was due to the licensees themselves, who did not have an interest in such sales;

(ii) that the non-licensees resorted to patent infringement or found other means of circumventing the patent.

109 The Commission answers that it took account of all the relevant factors in fixing the fine.

110 Under Article 172 of the EEC Treaty, the Court enjoys unlimited jurisdiction in regard to the penalties laid down by Regulation No 17.

111 In determining the amount of the fine, it should first of all be observed that some of the findings of infringement contained in the Commission's decision have ultimately not been upheld by the Court in their entirety.

112 The seriousness of the infringements which have been established is further diminished to an appreciable extent by the fact that, as has been stated, the market for components was not very large in relation to the market for complete sailboards at least until 1981.

113 Finally, as regards the prohibition on the separate sale of rigs, it should be stated, on the one hand, that it has not been proved beyond doubt that all the licensees had an interest in the sale of separate rigs, and, on the other, that where there was in fact a demand for separate rigs, that prohibition was not strictly applied.

114 In view of the foregoing considerations, the Court considers it appropriate to set the fine at 25 000 ECU.

Costs

115 Under the terms of Article 69 (2) of the Rules of Procedure, the unsuccessful party is to be ordered to pay the costs if a submission has been made to that effect. Nevertheless, by virtue of Article 69 (3), the Court may order the parties to bear their own costs in whole or in part where each party succeeds on some and fails on other heads. As the Commission has failed in certain of the submissions in its defence, the parties must be ordered to pay their own costs.

On those grounds,

THE COURT (Fourth Chamber)

hereby:

(1) Declares void Article 1 of the Commission Decision of 11 July 1983 in so far as it finds that:

The licensing agreement with Shark laid down an obligation on the licensee to exploit the licensed patents only for the manufacture of sailboards which had Windsurfing International's prior approval for the boards;

The licensing agreements between Windsurfing International and SAN, Klepper and Marker and the agreement between Ten Cate and Ostermann, before it was taken over by Windsurfing International, laid down an obligation on the licensees to pay royalties on components on the net selling price of a complete sailboard;

The licensing agreements with Ostermann and Shark laid down an obligation to affix to the boards of their sailboards the notice 'licensed by Hoyle Schweitzer' or 'licensed by Windsurfing International';

The licensing agreements with Ostermann and Shark laid down an obligation on the licensees to acknowledge the trade-marks of Windsurfing International and Ten Cate as valid trade-marks;

The obligation on the licensees to pay royalties on the rigs manufactured under the German patent only on the basis of the net selling price of a complete sailboard constituted an infringement of Article 85 (1) of the EEC Treaty;

(2) Sets the amount of the fine imposed on Windsurfing International at 25 000 ECU, being DM 56 896.50;

(3) For the rest, dismisses the application;

(4) Orders the parties to pay their own costs.

Bahlmann Bosco Koopmans

Delivered in open court in Luxembourg on 25 February 1986.

P. Heim
Registrar

K. Bahlmann
President of the Fourth Chamber