Northwestern Journal of International Law & Business

Volume 5
Issue 4 *Winter*

Winter 1983

Trademark Licensing Agreements under the EEC Law of Competition

Rene Joliet

ARTICLES

Trademark Licensing Agreements Under the EEC Law of Competition

*René Joliet**‡

* Professor of Law, University of Liège, Belgium. *Docteur en droit*, University of Liège, 1960; LL.M, Northwestern University, 1966; S.J.D., Northwestern University, 1968.

The author prepared this study during his stay as Visiting Professor at the Northwestern University School of Law during the second semester of the academic year 1982-83. The section relating to territorial and exclusive licensing has already been published (with somewhat different and less detailed footnotes) as a separate article entitled *Territorial and Exclusive Trademark Licensing Under the EEC Law of Competition* in 15 INT'L REV. INDUS. PROP. & COPYRIGHT L., 21-38 (1984). A French version of this study has been published. *La licence de marque et le droit europeen de la concurrence*, 20 REVUE TRIMESTRIELLE DE DROIT EUROPEEN 1-59 (1984). The author is greatly indebted and very grateful to Marcia Greenberg, Articles Editor of this JOURNAL, for her careful editing of his manuscript.

‡ Professor Joliet finalized his manuscript before joining the EC Court on April 10, 1984. The editors are responsible for the considerable delay between receipt and publication of this manuscript.

I. INTRODUCTION

A vast amount of legal literature has addressed the problem of restrictive patent licensing under Article 85 of the EEC Treaty[1] and a sub-

[1] *See* P. DEMARET, PATENTS, TERRITORIAL RESTRICTIONS, AND EEC LAW (1978); B. GUNZEL, TERRITORIALE BERSCHRANKTE LIZENZE BEI PARALLELEN PATENTEN IM GEMEINSAMEN MARKT (1980); Alexander, *La licence exclusive et les règles de concurrence de la CEE*, 1973 C de D. 3; Allen, *The Present Status of Exclusive Patent Licensing Agreements in Relation to the Rules of Competition of the EEC, as Indicated by Four Recent Decisions of the EEC Commission*, 19 ANTITRUST BULL. 81 (1974); Bonet, *La commission des communautés européenes et les accords de concession de licence de brevets*, 17 JURIS CLASSEUR PERIODIQUE 12067 (1976); Burst, *L'Application de L'Article 85 § 1 du Traite de Rome au Contrat de Licence de Brevet*, L'INCIDENCE DU DROIT COMMUNAUTAIRE DE LA CONCURRENCE SUR LES DROITS DE PROPRIÉTÉ INDUSTRIELLE 107-17 (C.E.I.P.I. 1976); Burst and Kovar, Note, 1 ANNALES DE LA PROPRIÉTÉ INDUSTRIELLE, ARTISTIQUE ET LITTÉRAIRE 1-31 (1976); Cawthra, *Patent License Agreements in the EC—Two New Decisions of the Commission*, 6 INT'L REV. INDUS. PROP. & COPYRIGHT L. 418 (1975); Cawthra, *Exclusive, Sole and Non-Exclusive Rights in Patent License Agreements*, 7 INT'L REV. INDUS. PROP. & COPYRIGHT L. 430 (1977); Dashwood, *Exclusive Licenses in the Common Market*, 1973 J. BUS. L. 205; Ewing, *Durchsetzung der Kartellgesetze and Patentsysteme: Ähnlichkeiten im europäischen und amerikanischen Recht*, 1980 GRUR. INT. 333 (1980); Hayward, *Patent Licensing in the EEC*, 35 BUS. LAW. 455 (1980); Holley, *The Limits Placed by EEC Law on Territorial Protection in Patent Licensing: A Case Study in Community Law-Making*, 3 NW. J. INT'L L. & BUS. 561 (1981); Johannes, *Technology Transfer under EEC Law - Europe Between the Divergent Opinions of the Past and the New Administration: A Comparative Law Approach*, NINTH ANNUAL PROCEEDINGS OF THE FORDHAM CORPORATE LAW INSTITUTE 65 (1982); Korah, *Exclusive Patent Licenses and Article 85*, (1976) J. BUS. L. 66; Korah, *Patents and Competition Law: Recent Decisions of the European Commission*, 1 EUR. L. REV. 185 (1976); Lew, *Industrial Property Licensing and EEC Anti-Trust Law*, 17 SWISS REVIEW OF INTERNATIONAL ANTITRUST LAW 27 (1983); Lieberknecht, *Erschöpfung von Patentrechten and Exportverbote in Patentlizenzverträgen nach EWG Recht*, 1975 FESTSCHRIFT MOHRING 467; Mailänder, *Die kartellrechtliche Beurteilung von Lizenzverträgen nach EG-Kartellrecht und US-Antitrustrecht*, 1979 GRUR. INT. 378-393; Siragusa, *Technology Transfers under EEC Law: A Private View*, NINTH ANNUAL PROCEEDINGS OF THE FORDHAM CORPORATE LAW INSTITUTE 95 (1982); Stumpf-Lindstaedt, *Ausschliessliche Patentlizenzen und Exportverbote in der Entscheidungspraxis der EG-Kommission*, 1973 DER BETRIEBS-BERATER 406; Theune, *Die Beurteilung ausschliesslicher Patentlizenzverträge nach Art. 85 EWG-Vertrag*, 1977 GRUR. INT. 63,

stantial number of decisions illustrate the EC Commission's policy on that patent-antitrust issue.[2] In contrast, trademark licensing agreements have hardly caught the attention of legal writers[3] and the *Campari* case of 1977 is the only decision that deals with them.[4] Such paucity of case law is surprising for two reasons. First, trademark licensing agreements are fairly common business practice in sectors such as beer, soft drinks, aperitifs, chocolate, cigarettes or clothing; and, second, several applications for exemption under Article 85(3) must have alerted the EC Commission to other cases.[5]

Whereas only one EC Commission decision pertains to the legality of restrictive trademark licensing, many judgments of the European Court involve the relationship between the EEC Treaty rules on the free movement of goods and national trademark laws.[6] Regrettable as it may

111; Ullrich, *Patentrechtsschutz ausschliesslicher Lizenznehmer gegen Direktlieferungen innerhalb des Gemeinsamen Markt*, 1973 GRUR. INT. 53; Ullrich, *Ausschliessliche Patentlizenzen im gemeinsamen Markt*, 137 Z.H.R. 134 (1973); Ullrich, *Intellectual Property in the EEC*, in COMPETITION LAW IN WESTERN EUROPE AND THE USA C.M.C-491 (D. Gijlstra ed. 1976); Zanon, *Ties in patent licensing Agreements*, 5 EUR. L. REV. 391 (1980).

2 IMA AG v. Windsurfing Int'l Inc., 26 O.J. EUR. COMM. (No. L 229) 1, 39 Common Mkt. L.R. 1 (1983); Vaessen BV v. Moris, 22 O.J. EUR. COMM. (No. L 19) 32, 24 Common Mkt. L.R. 511 (1979); AOIP v. Beyard, 19 O.J. EUR. COMM. (No. L 6) 8, 17 Common Mkt. L.R. D14 (1976); Zuid-Nederlandsche Bronbemaling Grondboringen BV v. Heidemaatschappij Beheer NV, 18 O.J. EUR. COMM. (No. L 249) 27, 15 Common Mkt. L.R. D67 (1975); Re Kabelmetal's Agreement, 18 O.J. EUR. COMM. (No. L 222) 34, 15 Common Mkt. L.R. D40 (1975); Re Raymond Co., 15 O.J. EUR. COMM. (No. L 143) 39, 11 Common Mkt. L.R. D45 (1972); Re Davidson Co., 15 O.J. EUR. COMM. (No. L 143) 31, 11 Common Mkt. L.R. D52 (1972); Burroughs-Delplanque and Burrough Gehawerke, 15 O.J. EUR. COMM. (No. L 13) 50, 53, 11 Common Mkt. L.R. D67, D72 (1971).

3 Apart from Kinkeldey, *Pitfall of Trademark Licensing in the EEC*, 72 TRADEMARK REP. 145, 148 (1982) which is rather sketchy, I know of only U. LOEWENHEIM, WARENZEICHEN UND WETTBEWERBSBESCHRANKUNG (1970) which is about trademarks and trademark arrangements in general. When dealing with specific restraints of trade, LOEWENHEIM fails to distinguish the various contexts (e.g. licensing agreements or assignments *inter alia* to exclusive distributors) of the agreements. *Id.* at 388-422.

4 21 O.J. EUR. COMM. (No. L 70) 69, 22 Common Mkt. L.R. 397 (1978). More recently, the EC Commission announced its intention to grant an exemption to the *Carlsberg* agreement. *See* Carlsberg, 27 O.J. EUR. COMM. (No. C 27) 4, 39 Common Mkt. L.R. 305 (1984).

5 According to article 4 of Regulation 17/62, reprinted in 5 J.O. COMM. EUR. 204 (1962), the parties to an agreement which falls within the ambit of article 85(1) must notify the EC Commission, if they want that agreement to be granted a declaration of inapplicability according to article 85(3) — a so-called exemption. This requirement of individual notification is waived only when a regulation gives an exemption to a class of agreements, such as in the field of exclusive distributorship agreements. *See infra* note 27.

6 *See* Pfizer Inc. v. Eurim-Pharm GmbH, 1981 C.J. Comm. E. Rec. 2913, 33 Common Mkt. L.R. 406; Centrafarm BV v. Amer. Home Prod. Corp., 1978 C.J. Comm. E. Rec. 1823, 24 Common Mkt. L.R. 326; Hoffman-LaRoche & Co. AG v. Centrafarm Vertriebsgesellschaft, 1978 C.J. Comm. E. Rec. 1139, 23 Common Mkt. L.R. 217; Terrapin (Overseas) Ltds. v. Terranova Industrie C.A. Kepferer & Co., 1976 C.J. Comm. E. Rec. 1039, 18 Common Mkt. L.R. 482; E.M.I. Records Ltd. v. C.B.S. United Kingdom Ltd., 1976 C.J. Comm. E. Rec. 811, 18 Common Mkt. L.R. 235; Cen-

be, there is still no body of supranational law applicable throughout the Community, but only different national trademark laws whose scopes are territorially limited.[7] The coexistence of national trademark laws has created obstacles to the free flow of trademarked products across national borders. Although some of those obstacles can be justified on the basis of trademark law considerations, some cannot.[8] In the absence of

---

trafarm BV v. Winthrop BV, 1974 C.J. Comm. E. Rec. 1183, 14 Common Mkt. L.R. 480; Van Zuylen Freres v. Hag A.G., 1974 C.J. Comm. E. Rec. 731, 14 Common Mkt. L.R. 127.

[7] A proposal for a Regulation on the Community trademark has been presented by the Commission to the Council on Nov. 25, 1980: 13 BULL. EUR. COMM. Supp. (No. 5/80) (1980). This draft regulation does not purport however to abolish national trademark laws. Owners of a Community trademark will not be able to divide the Common Market by resorting to their trademark rights, but business firms will remain free to choose to apply for a Community trademark. These firms may seek instead the protection of national laws, and national trademarks owners will be in a position to oppose the acquisition of a Community trademark by third parties. On the proposed system of the Community trademark, see *Entwicklungen und Grundzüge des europäischen Markenrechts*, 17 EUROPARECHT 30 (1982); Beier, *Objectives and Guiding Principles of the Future European Trademark Law*, 8 INT'L REV. INDUS. PROP & COPYRIGHT L. 1 (1977). By contrast, the Benelux Uniform Trademark Law, *reprinted in* 8 INDUS. PROP 307-13 (1969), contains provisions which are designed to merge the three Benelux countries into a single unified territory for the application of trademark law. After it went into effect (on Jan. 1, 1971), trademark rights could be acquired only for the entire Benelux Group. The assignment of such rights for only part of the Benelux is deemed void (article 11 (a)). Territorial restrictions in licenses are refused trademark law protection (article 11(b)). *See infra* note 51 and *infra* text accompanying notes 142-44. The principle of exhaustion (*see* article 13(a) in fine and *infra* note 30) applies to products marketed by or with the consent of the trademark owner. Owners of trademark rights which have been obtained before Jan. 1, 1971 under the national laws of the Benelux countries (so-called vested rights) could retain those rights through a new registration (article 30). Those rights extend automatically to the other Benelux countries, unless they would conflict with independent rights held by third parties (article 32). If several owners of such rights on an identical trademark are economically related, they cannot divide the Benelux market by relying on their trademarks. On the Benelux system, see generally Demaret, *Circulation des produits et loi uniforme Benelux sur les marques*, 8 REVUE TRIMESTRIELLE DE DROIT EUROPEEN 523-557 (1972).

[8] Properly understood, the principle of territoriality means only two things. *See* Beier, *Territoriality of Trademark Law and International Trade*, 1 INT'L INDUS. REV. PROP. & COPYRIGHT L. 48, 59 (1970):

> (1) Trademark protection is determined by the national law of that country in which the trademark owner seeks protection on the basis of registration or use. It is that particular national law which determines the requirements, the substance, and the extent of protection.
> (2) The protection provided through a trademark granted by a given country, is limited to the territory of that country: a domestic trademark cannot be infringed by foreign acts nor can foreign trademarks be infringed by domestic acts. The area of protection and the place of infringement must coincide.

This often invoked principle does not imply that the trademark owner should always be able to resort to trademark rights to repel products bearing the same or a similar trademark which have been marketed first in a foreign country. No infringement remedy should be available, when the trademark applied to the imported goods signifies the same source as that which it signifies to the purchasing public on the domestic market, i.e., when the imported goods are genuine. The concept of source must be construed broadly to include not only cases where the identical foreign and domestic trademarks are owned and affixed by the same person, but also cases where the foreign trademark is applied by a licensee of the domestic trademark owner, cases where the foreign and domestic trademark owners are parent and subsidiary companies, and cases where an independent trademark any harmonization of laws pursuant to Article 100 of the EEC treaty,[9] the European Court has had no available remedy — other than to resort to the prohibition of measures with effects equivalent to quantitative restrictions — with which to counteract national statutes that grant infringement remedies against parallel importers of genuine goods.[10]

This article will, of course, take those judgments into consideration as it assesses the possibility for a trademark owner to confine its licensees within national borders through infringement proceedings rather than through contracts. But, Articles 30-36 of the EEC Treaty are directed at restrictive measures adopted or supported by government action;[11] this study's main concern is with collusive action by business firms which is the target of Article 85. The case law that bears specifically upon the application of Article 85 to trademark licensing agreements is indeed very sparse; problems as basic as exclusive territorial licensing and terri-

---

has been assigned to an exclusive distributor for the duration of the exclusive distributorship agreement.

9 It was not until Nov., 1980 that the EC Commission presented to the Council a Proposal for a First Council Directive to Approximate the Laws of the Member States Relating to Trademarks. European Communities Commission, *New Trademark System for the Community*, to 13 BULL. EUR. COMM. Supp. (No. 5/80) (1980). This draft directive is intended to harmonize national provisions of trademark laws that influence most directly the free movement of goods and services. It provides *inter alia* for the principle of exhaustion (article 6), including when trademarked products have first been marketed abroad, and specifies the limitations in trademark licensing agreements that can be enforced on the basis of trademark rights (article 7).

10 For a definition of genuine goods, see *supra* note 8. A parallel importer is an unauthorized importer who buys the genuine goods from a foreign middleman to whom the goods have been sold previously by the trademark owner, a related company or a licensee. By contrast, the expression "direct imports" shall refer hereinafter to cases where the products have been directly sold by a foreign licensee to an unofficial domestic importer.

11 In the *Buy Irish Campaign* case, Comm'n v. Ireland, 1982 C.J. Comm. E. Rec. 4.005; 33 Common Mkt. L.R. 706 (1981), the EC Court would not have felt it necessary to stress that the advertising campaign in favor of domestic products had been sponsored by the government and financed by government funds, if the applicability of article 30-36 was not restricted to state measures. It is true that other cases are ambiguous to say the least. For instance, in Centrafarm BV v. Winthrop BV, 1974 C.J. Comm. E. Rec. 1183, 14 Common Mkt. L.R. 480, it is not clear whether the EC Court held the measure of equivalent effect to lie in the national statute, *id.* at 2003, 14 Common Mkt. L.R. at 508 or in the judicial decision precluding the application of the exhaustion principle, *id.* at 1999, 14 Common Mkt. L.R. at 502, or in the infringement action brought by the private party, *id.* at 2003, 14 Common Mkt. L.R. at 508. *See* Joliet, *Patented Articles and the Free Movement of Goods within the ECC*, 28 CURRENT LEGAL PROBS. 15, 24-28 (1975). In Terrapin (Overseas) Ltd. v. Terranova Industries CA Kapferer & Co., 1976 C.J. Comm. E. Rec. 1039, 1059, 18 Common Mkt. L.R. 482, 505 and in Hoffman-La Roche & Co. A.G. v. Centrafarm Vertriebsgesellschaft, 1978 C.J. Comm. E. Rec. 1139, 1166, 23 Common Mkt. L.R. 217, 243, the EC Court suggested that the applicability of the rules on the free movement of goods may depend on the attitude taken by a private party. In Dansk Supermarked A/S v. Imerco A/S, 1981 C.J. Comm. E. Rec. 181, 195, 32 Common Mkt. L.R. 590, 603, the EC Court went further, saying that "it is impossible in any circumstances for agreements between individuals to derogate from the mandatory provisions of the Treaty on the free movement of goods."

torial sales restrictions remain largely unsettled.[12]

Because the EC Commission and the European Court tend to look at trademark arrangements with suspicion,[13] the need for a systematic study is even greater. Already, in their overzealous efforts to further a simplistic gospel of a unified market, these institutions have strikingly disregarded the proper function of the trademark and have unduly curtailed the scope of national trademark laws.[14] This attitude stems par-

---

[12] For the meaning of the terms: "territorial license," "exclusive license," and "territorial sales restrictions," see *infra* text accompanying notes 135-66.

[13] In the *Sirena* case, Sirena s.r.l. v. Eda s.r.l., 1971 C.J. Comm. E. Rec. 69, 81, 10 Common Mkt. L.R. 260, 273-4, the EC Court held that article 85 applied to the assignment of a trademark to an *unrelated* company, when the assignee relied upon the acquired trademark rights to repel the import of products bearing the same trademark which had been marketed first by the assignor or one of the licensees of the latter in another EEC country.

This case law makes it impossible for a trademark owner to sell his goodwill in one EEC country only. The EC Court and the EC Commission, compare the decision in *Zwarte Kip*, 17 O.J. Eur. Comm. (No. L 237) 12, 14 Common Mkt. L.R. D79 (1974), with *Penneys*, 21 O.J. EUR. COMM. (no. L 60) 19, 22 Common Mkt. L.R. 100 (1978), apply the rules of competition, not to restore a competitive situation, but, in order to establish a unified territory from the point of view of trademark law. *Cf.* article 11(a) of the Uniform Benelux Trademark Law which declares void assignments of a trademark for part only of the Benelux territory. Instead of considering such assignments as void, however, the European Court invites national courts not to grant the assignor (or the assignee) the power to stop imports of goods marketed by the other party. As a result, goods bearing the same trademark, but of different origin, can circulate freely in the same national territory.

It is improper to use article 85 to that end. An anticompetitive purpose may well underlie a trademark assignment. *See infra* note 20. When there is no evidence that the trademark has been assigned to further such a restrictive scheme, however, the assignment should be treated as a normal business transaction. Despite the criticisms formulated by legal writers against that judgment, *see, e.g.*, Ladas, *Cession des Marques et Legislation Antitrust*, 88 PROPRIETE INDUSTRIELLE 216 (1972), the EC Commission has applied the *Sirena* doctrine in *Re Advocaat Zwarte Kip*, 17 O.J. EUR. COMM. (No. L 237) 12, 14 Common Mkt. L.R. D79 (1974). The EC Court seems, however, to have qualified the *Sirena* doctrine in a later case. E.M.I. Records, Ltd. v. C.B.S. United Kingdom, Lt., 1976 C.J. Comm. E. Rec. 811, 848-9, 18 Common Mkt. L.R. 235, 267. There the Court suggested that the applicability of article 85(1) depends on collusion elements other than the trademark assignment itself.

[14] *See* Van Zuylen Freres v. Hag A.G., 1974 C.J. Comm. E. Rec. 731, 14 Common Mkt. L.R. 127. Before World War II, the well-known German manufacturer of caffein-free coffee had assigned its trademarks in Belgium and Luxemburg to a subsidiary. After World War II, the stock of this subsidiary was seized as a result of a government decree on enemy properties and sold to a Belgian firm, which in turn sold the trademark rights to another competing Belgian firm—Van Zuylen. In the 1970, the German manufacturer attempted to regain the Belgian and Luxemburg markets while using its old trademarks. Sued for infringement by the new trademark owner, Hag raised the EEC rules on the free movement of goods as a defense and, surprisingly, prevailed before the EC Court, on the ground that the trademarks in Germany and in Luxemburg had a common origin—a concept completely alien to trademark law. This judgment has been rightly criticized by almost all legal writers; see the numerous references cited by Waelbroeck, *Examen de jurisprudence (1972-1982)—Le droit economique de la C.E.E.*, 37 REVUE CRITIQUE DE JURISPRUDENCE BELGE 261, 315 (1983).

Nevertheless, the European Court reaffirmed its position in Terrapin v. Terranova, 1976 C.J. Comm. E. Rec. 1039, 18 Common Mkt. L.R. 482, saying that free circulation should be enforced in the situation described above, because the basic function of the trademark, the guarantee to consumtially from their assumption that trademarks are inferior to patents.[15] Yet that approach overlooks the fact that trademarks are more indispensable instruments of a market economy purporting to induce and reward "superior skill, foresight and industry"[16] than are patents.[17] But for trademarks, which identify the best products and services, competition on the merits would not be feasible.[18] To that extent, competition law and trademark law do not conflict, but complement each other.[19] This does not mean, of course, that trademark arrangements have never served to implement or buttress anticompetitive plans.[20] But since trade-

---

ers that the product has the same origin, is already undermined by the subdivision of the original right. I had in advance denounced this reasoning as specious in my remarks in *Actes du colloque de l'Union des Fabricants, Paris*, 1975 MARQUE ET DROIT ECONOMIQUE 124.

15 In the *Sirena* case, 1971 C.J. Comm. E. Rec. 69, 10 Common Mkt. L.R. 260, the Advocate General Dutheillet de Lamothe said in his opinion,

> Both from the economic and from the human point of view the interests protected by patent legislation merit greater respect than those protected by trademarks. . . From the human point of view, the debt which society owes to the "inventor" of the name "Prep Good Morning" is certainly not of the same nature, to say the least, as that which humanity owes to the discoverer of penicillin.

The EC Court held in the *Hag* case, 1974 C.J. Comm. E. Rec. 731, 14 Common Mkt. L.R. 127, "While in (a single market) the indication of origin of a product covered by a trademark is useful information to consumers on this point may be ensured by means other than such as would affect the free movement of goods."

This suggested explanation of the Court's attitude is no longer very convincing since in Merck & Co., Inc. v. Stephar BV, 1981 C.J. Comm. E. Rec. 2063, 33 Common Mkt. L.R. 463, the EC Court deprived national patents as well of much of their substance. *See, e.g.*, Korah, *The Limitation of Copyright and Patents by the Rules for the Free Movement of Goods in the European Common Market*, 14 CASE W. RES. J. INT'L L. 7, 28-34 (1982).

16 This is the formula used by Judge Learned Hand in United States v. Aluminum Co. of Am., 148 F.2d 416, 430 (2d Cir. 1945), to describe "competition on the merits."

17 The rationale underlying the patent system is the incentive-by-monopoly theory. *See, e.g.*, SENATE COMM. ON THE JUDICIARY, 85TH CONG., 2D SESS., AN ECONOMIC REVIEW OF THE PATENT SYSTEM 21-24, (Comm. Print 1958) (Subcommittee on Patents, Trademarks, and Copyrights, Study No. 15, prepared by Fritz Machlup). According to the marvelous formulation of Abraham Lincoln, *quoted in* S. OPPENHEIM, G. WESTON AND J. MCCARTHY, FEDERAL ANTITRUST LAWS: CASES AND COMMENTS 837, (4th ed. 1981), the patent system "adds the fuel of interest to the fire of genius." *See also supra* SENATE COMM. ON THE JUDICIARY, at 40 (quotation from J. Robinson), "The justification of the patent system is that by slowing down the diffusion of technical progress it insures [sic] that there will be more progress to diffuse."

18 Rogers, *The Lanham Act and the Social Function of Trademarks*, 14 LAW & CONTEMP. PROBS. 173, 180 (1949), eloquently expressed that view:

> The whole idea of free enterprise, as we understand it in this country, is based on the importance of identity and personal responsibility of the producer for the goods he sells, which are evidenced by his trade-marks, names, and brands. If that is the sort of an economy we are to have in this country—and I sincerely hope it is, because we have had it for a good many years and it has worked—then trade-marks and brands should be protected so that an incentive will be given to all manufacturers to produce the best goods they know how and take pride in them—and not merely comply with minimum government specifications. You can't have competition unless you can distinguish the competing goods and choose between them. Trademarks make this distinction and this choice possible. Without them there could be none.

19 *See* Handler, *Trademarks and Antitrust Laws*, 38 TRADE-MARK REP. 387 (1948).

20 Often exclusive distributors have been assigned (or authorized to register) the trademark,

mark law is an instrument of competition and trademark licensing is merely, as the direct exploitation of a trademark by its owner, another way of using a trademark,[21] trademark licensing agreements themselves should not be challenged.[22] The true and difficult problem—which this study attempts to tackle—lies with drawing a line between the accompanying restrictive clauses that should be allowed to stand and those that should be struck down.

This inquiry focuses only on product trademark licenses. It does not consider franchise agreements in the technical sense of the term,[23] that is, those agreements that grant a license to carry on business and to offer a service under a franchisor's tradename and service trademark.[24]

The reason for this limited focus is neither that some European countries protect service trademarks with laws against unfair trade practices instead of trademark laws[25] nor that the only EEC precedent — the

---

which a manufacturer held in their allocated territories, so that they could claim trademark or customs law protection against the competition of unauthorized importers. *See Grundig/Consten* case, 1966 C.J. Comm. E. Rec. 299, 5 Common Mkt. L.R. 418; United States v. Guerlain, 155 F. Supp. 77 (S.D.N.Y., 1957) and the comments in Bicks, *Antitrust and Trademark Protection Concept in the Import Field*, 49 TRADE-MARK REP. 1255 (1959), by Handler, *Trademarks-Assets or Liabilities?* 48 TRADE-MARK REP. 661 (1958), in Note, 71 HARV. L. REV. 564-568 (1958) and *infra* note 206. Also, cross-assignments of trademarks have been effectuated in order to implement a world-wide division of markets as in United States v. American Tobacco, 221 U.S. 106, 172 (1911). For a description of the trademark situation, see the British MONOPOLIES COMMISSION REPORT ON THE SUPPLY OF CIGARETTE AND TOBACCO MACHINERY, 34-35 (July 4, 1961).

21 The Benelux Uniform Trademark Law which sanctions the non-use of a trademark through its extinction (Article 5(3¼) considers the use by the licensee to be equivalent to the use by the licensor.

22 *But see* Note, *Quality Control and the Antitrust Law in Trademark Licensing*, 72 YALE L.J. 1171, 1191 (1963) which points out that "trademark licensing, by encouraging actual and potential competitors to become licensees, may not only impede research and innovation but may also reduce the very competition which trademarks are intended to promote."

23 In the United States, the expression "franchise agreements" is also used to designate exclusive distributorship agreements, i.e., types of arrangements which do not imply a true license. *See, e.g.*, White Motor v. United States, 372 U.S. 253, 267 (1963) (J. Brennan concurring); United States v. Arnold Schwinn & Co., 388 U.S. 365, 371 (1967) and L. SULLIVAN, HANDBOOK OF THE LAW OF ANTITRUST 423-424 (1976).

24 *See, e.g.*, Adams, *Franchising and Antitrust in the United Kingdom and European Community*, 26 ANTITRUST BULL. 815, 817 (1981); AZEMA, 1981 DROIT DE LA CONCURRENCE 184; Williams, *Trademarks and Related Rights in Franchise Agreements in Germany: A Comparison with U.S. Law*, 14 INT'L REV. INDUS. PROP. & COPYRIGHT L. 629 (1983).

25 This is the case in the Benelux countries where the Benelux Uniform Trademark Law only covers products; a protocol signed on Mar. 15, 1983, but not yet ratified, will however extend the scope of the statute to service trademarks. *See* 1984 REVUE DE DROIT INTELLECTUEL 84. So far, the protection of service trademarks in Belgium is identical to that of trade names. *See* E. ULMER, C. SCHRICKER & B. FRANCQ, 2 LA REPRESSION DE LA CONCURRENCE DELOYALE DANS LES ETATS MEMBERS DE LA C.E.E. 280-291 (1974). By contrast, the German Trademark Law of 1968, as it has been last amended in 1979 (see Article 1 § 2) and the French Trademark Law of 1964 also apply to service trademarks.

Campari decision — involves a product trademark licensing system. Rather, from the point of view of competition law, product trademark licenses raise somewhat different problems than franchise agreements. These differences are obvious, for instance, with regard to territorial restrictions. The services of restaurants, hotels, dance schools, and rent-a-car companies are almost inherently local. In contrast, firms which are authorized to use trademarks in connection with manufactured products normally ship those products in wide areas. The problems are also different with respect to restrictions on advertising. In the case of a service, restrictions regarding decor and design ensure the identity of the service offered — they maintain quality control.[26] The same justification cannot be put forward to support restrictions on the nature and style of product advertising.

Also, product trademark licensing agreements must be distinguished from distributorship agreements. This distinction is important for two reasons. First, parties to exclusive distributorship agreements can benefit from the group exemption granted by Regulation 1983/83.[27] In contrast, parties who want to ensure their ability to enforce restrictive provisions in trademark licensing agreements may have to secure individual exemptions under Article 85(3).[28] Second, some argue that bans on direct exports by licensees outside the licensed territory are beyond the reach of Article 85(1). Such bans, it is said, merely restate the protection inherent in national trademark laws, because the domestic trademark

26 *See infra* note 86.

27 Regulation of the EC Commission of June 22, 1983, 26 O.J. EUR. COMM. (no. L 173) 1 (1983), which has replaced the Regulation no. 67/67 of the EC Commission of Mar. 22, 1967, 10 J.O. COMM. EUR. (No. L 57) 849 (1967).

28 Under the doctrine of the second *Brasserie de Haecht* case, Brasserie de Haecht v. Wilkin, 1973 C.J. Comm. E. Rec. 77, 12 Common Mkt. L.R. 287, national courts must give full effect to restrictive agreements concluded before the entry into effect of Regulation no. 17/62, which have been duly notified, pending the Commission's decision on the grant or refusal of an exemption. *See also* Ets. A. de Bloos Spol v. Bouyer SCA, 1977 C.J. Comm. E. Rec. 2359, 21 Common Mkt. L.R. 511. By contrast, for agreements concluded after Regulation no. 17/62 came into effect, according to the second *Brasserie de Haecht* case, *supra*, the notification does not render duly notified restrictive agreements automatically enforceable. An agreement which, in the light of the Commission's previous case law, does not appear likely to be exempted, must surely be treated as illegal. But the reverse is less certain. In my view, the EC Court did not decide whether the national judge could enforce a restrictive agreement which had not yet been exempted by the EC Commission but which was highly likely to be exempted. The EC Commission, however, has submitted that the European Court actually had so ruled. *See* De Norre v. NV Brouwerij Concordia, 1977 C.J. Comm. E. Rec. 65, 89, 19 Common Mkt. L.R. 378, 398; Procureur de la Republique v. Giry and Guerlain SA, 1980 C.J. Comm. E. Rec. 2327, 2369, 31 Common Mkt. L.R. 99, 130.

Assuming that the European Court should endorse that position, the use of preliminary letters announced by the EC Commission, *see* 26 O.J. EUR. COMM. (No. C 295) 6 (1983), will enable national judges to predict the chances which an agreement has to obtain a formal exemption.

owner would be entitled to invoke its trademark right to stop resale of products directly supplied by its foreign licensee.[29] In the case of territorial resale restrictions inserted in exclusive distributorship agreements, this argument need not be discussed. The exhaustion principle provides that the circulation of a trademarked product that has been sold by the trademark owner, for instance to a distributor, is thereafter free of trademark law restraints.[30]

In the *Nungesser* case, the EC Court did not perceive the basic difference between a distributorship agreement and a licensing agreement. As a result, it inadequately transferred[31] to licenses a distinction between open and closed agreements which it had originally devised for exclusive distributorship agreements.[32] The Court apparently equated a licensor's promise not to compete with the licensees with the manufacturer's promise not directly to supply any other distributor in a designated area. It wrongly concluded that unlike territorial sales restrictions imposed upon licensees, the licensor's promise not to compete does not necessarily restrict competition in violation of Article 85(1).[33]

A clear definition of trademark licenses is even more necessary, because both business executives and lawyers use the word "license" indiscriminately and conclude agreements they call "licenses" when no license is really necessary.[34] A trademark license has been properly defined as "a contractual arrangement whereby a trademark owner permits another to use his trademark where, but for the license, the other would be a trademark infringer."[35] More specifically, by granting a license the owner promises not to sue another business for trademark infringement if that business affixes the trademark upon and sells products which it itself has manufactured, assembled, processed or in some way completed.[36]

[29] *See, e.g.*, J. ATWOOD & K. BREWSTER, 2 ANTITRUST AND AMERICAN BUSINESS ABROAD 63 (2d ed. 1981) which discusses the argument without endorsing it.

[30] *See* article 13(a) *in fine* of the Uniform Benelux Trademark Law which provides: "Nevertheless, the exclusive right to the trademark does not imply the right to oppose the use of that trademark for products which the owner or his licensee have marketed under that trademark, unless the state of the products has been altered." [Author's translation]. A similar principle applies under the German trademark law. *See* Decision of Feb. 28, 1902, 50 RGZ 229 *Kolnisch Wasser.*

[31] Nungesser v. Comm'n, 1982 C.J. Comm. E. Rec. 2015, 36 Common Mkt. L.R. 278.

[32] *See* Beguelin Import Co. v. G.L. Import Export SA, 1971 C.J. Comm. E. Rec. 949, 959, 11 Common Mkt. L.R. 81, 95-96; Technique Miniere v. Maschinenbau Ulm G.m.b.H., 1966 C.J. Comm. E. Rec. 235, 249, 5 Common Mkt. L.R. 357, 375; Joliet, *Faut-il gu'une concession de vente exclusive soit ouverte ou fermée? Réflexions ả propos de l'arrêt Cadillon de la Cour de Justice des Communautes Européenes*, 7 REVUE TRIMESTRIELLE DE DROIT EUROPEEN 814 (1971).

[33] *See infra* text accompanying notes 189-94.

[34] *See* J. GILSON, TRADEMARK PROTECTION AND PRACTICE § 6-3 (1984).

[35] *Id.*

[36] *Id.* at § 6-3 and § 6-4.

Any business that merely resells the finished trademarked product in the same condition as when it obtained it from the trademark holder serves only as a distributor; the exemption of Regulation 1983/83 may apply to such an agreement. In contrast, any business that buys a syrup from the trademark owner, makes it into a soft drink by adding carbonated water, and bottles or cans it before selling it must obtain express authorization from the trademark owner, i.e., a true license. Thus, the well-known agreements between United States syrup manufacturing companies, such as the Coca-Cola Company and independent bottlers exemplify trademark licenses.[37] There are, however, borderline cases. Should an importer, who buys beer in large containers from a foreign brewery and resells it after bottling or canning it, be categorized as a distributor or as a licensee? If the finished product is bottled or canned beer ready for sale to consumers, rather than beer itself, the trademark owner's permission is required, because bottling or canning is a completion operation.[38]

II. THE SEARCH FOR A TEST OF LEGALITY

It is a natural tendency to seek a rule of thumb by which to distinguish lawful from unlawful restraints. If such a rule could be devised, it

---

[37] *Cf.* the EC Commission notice of Dec. 30, 1983 concerning Regulations no. 1983/83 and no. 1984/83, 26 O.J. EUR. COMM. (No. C 355) (1983). The Commission explains that an exclusive distributorship agreement within the meaning of article 1 of Regulation no. 1983/83 requires an "economic identity" between the products supplied to the distributor and the products resold by him. According to the EC Commission, "the economic identity of the goods is not affected if the reseller merely breaks up and packs the goods into other packages before resale." "Where the reseller performs additional operations to improve the quality, durability, appearance or taste of the goods, the position will depend mainly on how much value the operation adds to the goods". The EC Commission will apply this test, it says, to "agreements under which the reseller is supplied with a concentrated extract for a drink which he has to dilute with water . . . and to bottle before reselling". It does not indicate, however, to which result this test leads in such cases; it is probable that the added value is very high and that consequently Regulation no. 1983/83 does not come into play.

Since the test propounded by the EC Commission is economic in nature, it may well be that an agreement which imposes certain additional operations upon the so-called distributor can benefit from Regulation no. 1983/83, although it is a trademark licensing agreement in the legal sense which is given here. I have doubts, however, whether this economic test is in accordance with the statutory language. Article 1 of Regulation no. 1983/83 seems to require the distributor to sell products which are in the same condition as obtained from the manufacturer.

[38] In the United States, a business, which buys a product in bulk and bottles it, may use the trademark to indicate it is selling the genuine product. *See* Prestonettes, Inc. v. Coty, 264 U.S. 359 (1924). The rule seems to be different under the law of most EEC countries: rebottling or repacking by an unauthorized third party can be restrained on the basis of trademark rights. *See generally*, Beier, *The Doctrine of Exhaustion in EEC Trademark Law—Scope and Limits* 10 INT'L REV. INDUS. PROP. & COPYRIGHT L. 20-51 (1979), and for the Benelux law, *see* Deliege-Sequaris, *La Protection de la Marque Selon l'Article 13 A de la Loi Benelux*, 1979 REVUE DE DROIT INTELLECTUEL 179, 219-220. It would seem that *a fortiori* using a protected trademark for the first bottling or packaging falls within the exclusive prerogative of the trademark owner.

would certainly make it easier to administer and to predict the law. But with regard to trademark licensing, the search is futile.

It is true that writers on either side of the Atlantic and courts in the United States have formulated a variety of justifications to support restrictive provisions in trademark licensing agreements: the ancillary restraints of trade theory, the inherent restrictions theory and the statutory duty theory. Whatever merits the theories may have in some instances, none serve as adequate tools by which to sort out the restrictions typically used in trademark licenses. In the first place, no theory addresses all restrictions. Secondly, all the theories together would still support antitrust immunity for very few restrictions. This is not to say, however, that all other restrictions should be found illegal; their legality should depend on their actual impact on competition.

A. The Ancillary Restraints of Trade Theory

Take the ancillary restraints of trade theory as an example. According to Judge Taft's classical formulation, a conventional restraint is legal when "the covenant embodying it is merely ancillary to the main purpose of a lawful contract, and necessary to protect the covenantee in the enjoyment of the legitimate fruits of the contract, or to protect him from the dangers of an unjust use of those fruits by the other party."[39] The word "ancillary" seems to imply that without such a restriction the aim of the transaction would be frustrated.[40] For instance, if it were unlawful to impose upon a "licensee" a duty not to disclose a secret, know-how agreements would never be concluded. Such a view of the ancillary restraint of trade theory could justify almost no restriction in trademark licensing agreements apart from provisions relating to manufacturing standards.[41]

It seems especially mistaken to uphold territorial sales restrictions as being merely ancillary to a licensing system: they can never be ancillary in the narrow sense.[42] The Federal Trade Commission's (FTC) decision

[39] United States v. Addyston Pipe & Steel Co., 85 F. 271, 282 (7th Cir. 1898). On the ancillary restraints of trade theory, see Bork, *Ancillary Restraints and the Sherman Act*, 15 A.B.A. SEC. ANTITRUST REP. 211 (1959).

[40] The EC Commission's reasoning in *Reuter v. BASF A.G.*, 19 O.J. EUR. COMM. (No. L 254) 40, 12 Common Mkt. L.R. D44 (1976), § 42 at D56, exemplifies a narrow view of the ancillary restraints of trade theory and, therefore, needs approval.

[41] Without such agreed means of ensuring product uniformity and quality, trademark owners would not be ready to enter into licensing agreements. It is obvious that their goodwill would suffer from the sale of inferior quality products by the licensees. *See infra* at text accompanying notes 77-79.

[42] *But see* Denison Mattress Factory v. Spring Air Co., 308 F.2d 403, 409 (5th Cir. 1962). Also, the antitrust division of the United States Department of Justice endorsed a broader understanding

in *In re Coca-Cola* has convincingly demonstrated that the requirement of quality control, which is necessary to protect the trademark owner from being held responsible by the public for marketing inferior products, cannot justify such territorial restrictions.[43] The Coca-Cola Company argued that its system of territorial sales restrictions promoted quality control in two ways. First, bottlers with licenses for restricted geographic areas cannot afford to risk losing clients dissatisfied with product quality. Thus, the restrictions induce bottlers to manufacture high quality products.[44] The FTC sensibly replied that "at the manufacturing level, . . . unscheduled inspections and frequent product sampling, coupled with the threat of termination, . . . should provide a strong deterrent to the bottler who might be inclined to cheat on quality, notwithstanding the markets in which he may ultimately distribute the finished products."[45] Secondly, the system enables licensors to monitor the quality of each bottler's products at the retail level.[46] To rebut that assertion, the FTC rightly pointed out that

> a supplier of a trademarked product may have available to it means less anticompetitive than territorial. . . restrictions to ensure a reasonable measure of quality control at each level in the chain of distribution. Respondents may . . . establish reasonable quality control standards for distribution and storage, including inventory rotations policies and may further require that each bottler identify itself on the bottle, bottle cap or on the can so that respondents may reasonably monitor compliance with its quality standards. Clearly, quality control and intrabrand competition are not incompatible.[47]

B. The Inherent Restrictions Theory

The inherent restrictions theory is another theory used to justify restrictive provisions. It looks to the nature of the available remedy in case of licensee non-compliance for its decisive test of legality. Thus it places particular significance on whether a licensee who violates particular restrictive provisions becomes subject to infringement actions, rather than to mere contractual remedies.[48] This theory's proponents argue that, be-

---

of the word "ancillary" in its ANTITRUST GUIDE FOR INTERNATIONAL OPERATIONS 3 (1977): "Terms of an agreement may be permitted, despite the fact that they restrict some competition, provided that the restriction is clearly ancillary to *some* legitimate purpose and is appropriately limited in scope." [Emphasis supplied by the author].

43 91 F.T.C. 517 (1978).

44 *Id.* at 632.

45 *Id.* at 633.

46 *Id.* at 632.

47 *Id.* at 634-5.

48 In the United States, the concept of "inherent" restriction is used in patent law, but not in trademark law. Even in patent law, it is not clear that it has the same meaning as that given here.

cause Article 85 requires a contractual element, those restrictions that fall within the scope of the trademark lie beyond the Article's reach.

This theory has raised an objection. As long as the availability of infringement remedies may vary according to the national laws of individual EEC Member States, acceptance of such a theory would interfere with uniform application of Article 85.[49] By itself, this objection is not decisive. If the scope of the trademark rights differs from country to country, the proper remedy lies in the harmonization of national laws pursuant to Article 100 of the EEC Treaty.[50]

The inherent restriction theory is well-founded. Nevertheless, it is unsatisfactory for two reasons; it is both unhelpful and misleading.

It is unhelpful because licensors rarely can enforce restrictions simply on the basis of trademark rights.[51] Since the national laws of many EEC countries provide for enforcement of such provisions by contractual remedies only,[52] that theory would fail, for example, to justify manufacturing specifications.

The theory is misleading because the fact that the licensor, by virtue of trademark rights, has the power to stop a licensee from taking steps not covered by the license does not imply that contractual restrictions

---

For example, in United States v. General Elec. Co., 272 U.S. 476, 489-490, (1926), the Supreme Court, dealing with a minimum price restriction in a license agreement and its antitrust legality, stated that the patentee "may grant a license to make, use and vend articles under the specification of his patent. . . upon any conditions the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to receive".

The Court did not imply that the violation of such restriction made the licensee liable to patent infringement proceedings. By contrast, in General Talking Pictures Corp. v. Western Elec. Co., 305 U.S. 124, 127 (1983), which concerned only patent law, the Supreme Court used, in connection with a field-of-use restriction, the same idea as that conveyed by the "inherent" restriction conception:

> as the restriction was legal and amplifiers were made and sold outside the scope of the license, the effect is precisely the same as if no license whatsoever had been appointed to Transformer Company. And as Pictures Corporation knew the facts, it is in no better position than if it had manufactured the amplifiers itself without a license. It is liable because it has used the invention without license to do it.

49 *See* Johannes, *La Propriété Industrielle et le Droit d'Auteur dans le Droit des C.E.*, 9 REVUE TRIMESTRIELLE DE DROIT EUROPEEN 367, 378-379 (1973).

50 *See* article 6 and article 7 of the proposal for a first Council Directive to approximate the laws of the Member States relating to trademarks, European Communities Commission, *supra* note 9, at 10.

51 *See* article 11 of the Benelux Uniform Trademark Law, which provides: "any restriction of the license other than an to duration or as to part of the products for which the trademark has been registered shall be without effect as regards the application of the present statute" [Author's translation].

52 This is at least the case under the Benelux Uniform Trademark Law. *See* the translation of article 11, *supra* note 51. By contrast, article 7 of the proposal for a first Council Directive to approximate the laws of the Member States relating to trademarks, *supra* note 9 at 7, provides that the licensee who does not comply with the manufacturing standards specified by the trademark owner is liable to a trademark infringement action.

that have the same effect should escape the prohibition of Article 85. For example, the theory implies that territorial licensing, i.e., granting a license to one firm in each Member State, should be free of illegality—even if a licensor confines each licensee within national borders by resorting to infringement remedies.[53] But normal antitrust scrutiny applies to territorial sales restrictions.[54]

C. The Statutory Duty Theory

A third theory is conceivable — the statutory duty theory. First, certain national trademark laws may make some restrictions, such as those designed to ensure quality control, mandatory.[55] Article 85 cannot, of course, penalize private parties for drafting their contracts accordingly. Second, a general law of contracts may supplement explicit contractual provisions. For example, it may prohibit assignment of the license unless parties stipulate otherwise — which they may do.[56] If parties were to insert such a prohibition in their agreement, application of Article 85 would result in invalidating the licensing agreement.[57] Such a provision would not be severable from the remainder of the agreement — which should in any event have been construed as implying the same promise.

Again, however useful that theory may be, it can legalize only very few restrictions.

D. Distinction Between The Existence And The Exercise of Trademark Rights

The European Court has drawn a distinction between the existence of industrial property rights, which Community law must respect, and the exercise of those rights which Community law can curtail. Unfortunately, that well-known and often repeated distinction offers no better guidance.

The European Court originally conceived of such a distinction in its

---

53 *See infra* text accompanying notes 147-56.

54 *See infra* text accompanying notes 160-66.

55 *See, e.g.*, the U.K. law and the U.S. Lanham Act 15 U.S.C. § 1501 (1982). On the U.K. law relating to "registered user agreements," see W. CORNISH, INTELLECTUAL PROPERTY: PATENTS, COPYRIGHT, TRADEMARKS AND ALLIED RIGHTS 556-556 (1981). On the United States law, see J. GILSON, *supra* note 34, at 6-8 and Note, *Quality Control and the Antitrust Laws in Trademark Licensing*, 72 YALE L.J. 1171 (1963).

56 For patent licensing agreements, see Joliet, *Le contrat de licence de brevet en droit civil francais et belge*, 1982 REVUE TRIMESTRIELLE DE DROIT COMMERCIAL ET ECONOMIQUE 167, 197-198 (1982) and the references cited therein.

57 *See* Joliet, *supra* note 56 at 169-170.

Grundig-Consten opinion.[58] In that case, a German manufacturer of trademarked products appointed a different exclusive distributor for each EEC country. The German manufacturer prohibited both the German wholesalers and the exclusive distributors from exporting or reexporting Grundig products, either directly or indirectly. A trademark arrangement served to buttress the contractual restrictions. Grundig affixed two trademarks on its products, Grundig and Gint. The manufacturer retained the ownership of Grundig for itself while enabling exclusive distributors to register the Gint trademark as their own. It set up this arrangement merely to provide exclusive distributors with trademark relief against parallel imports of genuine goods — a practice erroneously considered a trademark infringement.[59]

The EC Commission, endorsed by the European Court, struck down this contractual system of tight territorial confinement. But, instead of attacking the trademark arrangement itself and ordering the exclusive distributors to drop the registration of the trademark Gint, the Commission enjoined the French exclusive distributor from bringing infringement actions against parallel importers.[60] The parties challenged the order on the theory that the EEC Treaty does not grant jurisdiction to European institutions to interfere with national industrial property rights. The European Court, however, rejected that submission and stated that

> the injunction contained in Article 3 of the operative part of the contested decision to refrain from using rights under national trademark law in order to set an obstacle in the way of parallel imports does not affect the *grant* of these rights but only limits their *exercise* for the extent necessary to give effect to the prohibition under Article 85 (1).[61]

The European Court probably meant that Community law could not void the registration itself, because only national laws may determine the grounds for nullity. This conclusion is admittedly well-founded, but it does not follow that the EC Commission could limit the use of infringement remedies. A challenge to the agreement itself and an order to the exclusive distributor either to withdraw the registration or to transfer it

58 Consten and Grundig v. E.E.C. Comm'n, 1966 C.J. Comm. E. Rec. 299, 5 Common Mkt. L.R. 418.

59 The parallel import of genuine goods cannot in my view be considered as a trademark infringement. *See supra* note 8. The issue was never decided by the French Court in the *Consten-Grundig* case, 1966 C.J. Comm. E. Rec. 299, 5 Common Mkt. L.R. 418, since the EC Commission ordered Grundig and its exclusive distributor to stop the trademark infringement proceedings.

60 Re Grundig's Agreement, 7 J.O. COMM. EUR. (No. L 161) 2545, 3 Common Mkt. L.R. 489 (1964).

61 Consten and Grundig v. E.E.C. Comm'n, 1966 C.J. Comm. E. Rec. 299, 5 Common Mkt. L.R. 418 (emphasis added).

to Grundig would have been more appropriate.[62]

In endorsing the restriction on the use of the infringement remedy itself, the Court's opinion is at the root of much confusion between the scope of the rules on the free movement of goods and that of Article 85. Article 85 aims only at collusive business firm behavior. It catches the agreement which has enabled the exclusive distributor to invoke trademark relief. It does not, however, reach the use of infringement remedy which, by hypothesis, is unilateral. On the one hand, if there is an agreement permitting the exclusive distributor to register one of the manufacturer's trademarks as its own, an infringement remedy can be used to block competition from parallel importers only if there is an implicit or statutory rule to support it. On the other hand, in the absence of such an agreement, trademark protection could still be used to repel parallel imports if applicable national law were to give the manufacturer a right to sue parallel importers for infringement. Thus, only by attacking national law itself can EC institutions eradicate the resulting obstacle to competition. The Treaty prohibition of measures equivalent to quantitative restrictions which is directed at state measures provides them with the proper instrument to that end.

It is this remedy to which later cases have resorted. The Court replaced the phrase "grant of exclusive rights" with the words "existence of exclusive rights".[63] It has used the distinction to justify limitations by the EEC rules regarding the free movement of goods on the application of national laws. But the distinction between the existence and the exercise of a right has little meaning. Obviously, a right only exists in more than theory if it can be exercised.[64] The safeguard of the specific subject matter of the industrial property right at stake is a more meaningful and objective test.[65] When, without regard for whether infringement reme-

62 *Cf.* the United States *Omega Watch* case in which the U.S. government had alleged that the Swiss manufacturer and its American distributor had agreed to work cooperatively to prevent unauthorized imports into and re-exports from the United States. The government obtained a consent decree which enjoined the manufacturer from assigning its United States trademark to its distributor for the purpose of facilitating import relief actions, except in connection with a bona fide sale of the assets and business of the manufacturer. *See* United State v. Norman M. Morris Corp., 1976-1 TRADE CAS. (CCH) ¶ 68,880, 68,882; *see also* Competitive Impact Statement, 41 Fed. Reg. 5360, 5363 (1976).

63 *See supra* note 6.

64 *See* Korah, *Dividing the Common Market through National Industrial Property Rights*, 1972 MOD. L. REV. 634, 636; Loewenheim, *Trademarks and Free Competition within the European Community*, 21 ANTITRUST BULL. 727, 736 (1976).

65 By specific subject matter of the trademark, the European Court apparently means the prerogatives which must absolutely be given to the trademark owner so that the trademark can accomplish its function. *See* Joliet, *Patented Articles and the Free Movement of Goods within the EEC*, 28 CURRENT LEGAL PROBS. 15, 29 (1975).

dies are necessary to safeguard the particular subject-matter of an industrial property right, national laws permit infringement remedies against those who import into one EEC country products which were first marketed in another EEC country, those national laws conflict with the EEC rules protecting the free movement of goods. To that extent, national courts must disregard them and withhold the infringement remedy.

Clearly, the Court introduced the tests of the existence of a right or of the need to safeguard the specific subject-matter of a right only in relation with the proper use or *grant* of infringement remedies. The problem has been to oppose private party use of infringement remedies or, more precisely, national trademark statute grants of such remedies.

This is not, however, the problem presented by restrictive provisions in trademark licensing agreements. True, the EC Commission explains at times that a particular provision guarantees the existence of the exclusive right[66] or safeguards its specific subject matter.[67] The Commission probably means that the restrictive provision under review is necessary to protect the function of the industrial property right. This formulation would be more appropriate. The need to protect the trademark function is not, however, a test which can be applied in all cases. It fails to justify restrictive provisions — like exclusive licenses, territorial sales restrictions or licensee promises not to manufacture or sell competing products — which clearly have great practical importance. The failure of the proposed justification, however, does not mean that the restrictions should be held anticompetitive.

E. The Rule of Reason Analysis

In sum, only a full Rule of Reason analysis establishes a standard by which to appraise most restrictions found in trademark licensing agreements. The EC Commission should look beyond the restriction upon the parties' freedom of behavior to the "impact upon competitive conditions."[68] It should determine the reasons for the restriction "because knowledge of intent may help the Court to interpret facts and predict

[66] *See Campari*, 21 O.J. EUR. COMM. (No. L 70) 69, 75, 23 Common Mkt. L.R. 397, 407 (1978). *See also infra* at 17.

[67] *See, e.g.*, *Windsurfing International*, 26 O.J. EUR. COMM. (No. L 228) 10, 11-12, 39 Common Mkt. L.R. 1 (1983); Bomberault v. Eisele and Inra, 21 O.J. EUR. COMM. (No. L 286) 31, 23 Common Mkt. L.R. 450-451, on the exclusive license and non-competition clause.

[68] Nat'l Soc'y of Professional Eng'rs v. United States, 435 U.S. 679, 690 (1978) (J. Stevens). In my view, Justice Stevens' opinion, *Id.* at 687-692, provides the best restatement of the rule of reason. This opinion definitely quieted the often made assertion (especially by European writers, *see* Van Houtte, *A Standard of Reason in EEC Antitrust Law: Some Comments on the Application of Parts 1 and 3 of Article 85*, 4 NW. J. INT'L L. & BUS. 497, 498, 498 n.8 (1982)), that the Rule of Reason can justify anticompetitive agreements in the name of expediency.

consequences."[69] Although an agreement regulates and restricts the parties' market behavior, it may in fact promote competition.[70] For example, vertical restrictions which reduce intrabrand competition may enhance interbrand competition by allowing the manufacturer to achieve certain efficiencies in product distribution.[71] The Rule of Reason analysis requires a balancing of intrabrand and interbrand competitive effects. Of course, "litigation of the effect or purpose of a practice is often extensive and complex. . . [a]nd the result of the process in any given case may provide little certainty or guidance about the legality of a practice in another context. . . ."[72] But the alternative, a mechanical test such as whether an agreement restricts the parties' freedom of trade, involves the far worse risk of ignoring or distorting underlying economic realities.

III. Review of Restrictive Provisions in Trademark Licensing Agreements

A. Restrictions Relating to Products Manufactured under a License

Trademark licensing agreements usually specify the products they embrace and prescribe the manufacturing methods.

1. Product Specification

One particular trademark may enjoy protection with regard to a range of different products. Clearly, the owner must remain free to license that trademark for some products and not for others. Some commentators have compared this type of limitation with field of use restrictions in patent licenses.[73] This analogy, however, is inadequate. Field of use restrictions in patent licensing may be designed to segregate different categories of purchasers of the same product.[74] A similar pur-

69 Chicago Bd. of Trade v. United States, 246 U.S. 231, 238 (1918).

70 *Id.*

71 *See* Continental T.V. v. G.T.E. Sylvania, 433 U.S. 36, 54 (1977). The Supreme Court offered little guidance about the process for a rule of reason analysis. Hence, the views presented by legal writers conflict. *Compare, e.g.*, Pitofsky, *The Sylvania Case: Antitrust Analysis of Non-Price Vertical Restrictions*, 78 COLUM. L. REV. 1-38 (1978) *with* Posner, *The Rule of Reason and the Economic Approach: Reflections on the Sylvania Decision*, 45 U. CHI. L. REV. 1-20 (1977). An excellent model of the rule of reason analysis was presented *after Sylvania*. Zelek, Stern & Dunfee, *A Rule of Reason Decision Model After Sylvania*, 68 CAL. L. REV. 13 (1980).

72 Arizona v. Maricopa County Medical Soc'y, 457 U.S. 332, 343 (1982) (J. Stevens).

73 *See* Kinkeldey, *Pitfall of Trademark Licensing in the EEC*, 72 TRADE-MARK REP. 145, 148 (1982).

74 *See* L. SULLIVAN, HANDBOOK OF THE LAW OF ANTITRUST 554 (1977); General Talking Pictures v. Western Elec., 305 U.S. 124 (1938) in which one company had been licensed to manufacture and sell amplifiers for use in theaters but another company had been licensed to manufacture and sell amplifiers for the home field.

pose does not explain trademark product specification. By definition, the products encompassed in the license differ from those left out.

The Uniform Benelux Law confers trademark protection upon product limitations and upon license duration limitations.[75] As a consequence, licensees who use a trademark for products not covered by their agreements are subject to trademark infringement actions. Product specification implies only that a licensor promises not to sue the licensee for using the trademark for listed products. Since licensors can ensure compliance by relying on trademark rights, they need not exact promises from licensees not to produce goods not covered by the license. Thus, such a limitation is not contractual and remains outside the scope of Article 85(1).[76]

2. *Restrictions on How Licensees Manufacture or Process the Products Covered by the License.*

a. Manufacturing Standards

Trademark licensing agreements almost always include manufacturing standards. In addition, they usually stipulate the licensor's right to examine samples of the products and to inspect the licensee's manufacturing facilities. Such provisions certainly interfere with the licensee's freedom of behavior and restrain trade. But were it not for an agreed means of ensuring uniformity and quality of the product, trademark owners would never license their trademarks at all. Thus, these provisions are merely ancillary to the main purpose of a lawful contract. They fall outside the prohibition of Article 85(1).

The trademark owner's need, or even duty, to exercise quality control stems directly from the trademark function. United States writers have pointed out that the trademark function has developed from that of indicating origin, the so-called "source" theory, to that of guaranteeing quality.[77] This holds equally true under the Uniform Benelux Trademark Law. That characterization of the trademark function means that "the consumer assumes that products sold under the trademark will be of equal quality regardless of the actual producer of the goods," not necessarily expecting "high quality, but merely equal quality, whether that

---

[75] *See* article 11 translated *supra* note 51.

[76] *Cf.* Kinkeldey, *supra* note 73 at 148, who reaches the same conclusion but on the basis of the fallacious (in my view) analogy with field-of-use restrictions in patent licensing agreements.

[77] *See* McCarthy, *Trademark Franchising and Antitrust: The Trouble with Tie-ins*, 58 CAL. L. REV. 1085, 1111-1112 (1970); Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813 (1927); Note, *Quality Control and the Antitrust Laws in Trademark Licensing*, 72 YALE L.J. 1171, 1174-1178 (1963).

quality is high, low or mediocre".[78] As the United States Assistant Commissioner of Patents ably stated, the trademark "fixes responsibility [for quality] by indicating the source of the article bearing it."[79]

The drafters of the Uniform Benelux Trademark Law have defined that responsible source as "the center from which production is directed."[80] From such a perspective, the concept of source may encompass more than simply the trademark owner. It also includes other businesses whenever the trademark owner is able to exercise sufficient control over the nature and quality of their products.[81] Since the trademark agreement enables the owner to impose quality specifications upon licensees, the public may hold the licensor responsible for the quality of the licensees' products. Licensors who fail to maintain quality control cannot complain if their goodwill, *i.e.* their expectancy of custom,[82] suffers from the licensees' having sold inferior quality products. Thus, although the Uniform Benelux Law does not impose such a duty, the licensor in fact has a vital interest in providing for and exercising adequate quality control.

It is by drawing logical inferences from this definition of source that the Uniform Benelux Trademark Law has determined the scope of the rule of exhaustion. According to Article 13A, trademark owners cannot, simply by virtue of trademark rights, control the circulation of products they themselves have marketed.[83] As a matter of trademark law, trademark owners are free to include restrictions on territory, customers, or resale prices in their first sale agreement. But they can enforce such provisions against noncomplying parties only through contractual remedies and can sue third parties only under the tort theory of induced breach of contract.[84] The same rule applies to products marketed not by the owner but with the owner's consent, *i.e.*, by licensees.

---

78 McCarthy, *supra* note 77, at 1112.

79 Leeds, *Trademarks—Our American Concept*, 46 TRADE-MARK REP. 1451, 1453 (1956).

80 *See* the explanatory memorandum of the Benelux Uniform Trademark Law under Article 11, 1962 BULL. BENELUX 2, at 36.

81 See Section 5 and Section 45 of the U.S. Lanhan Act 15 U.S.C. § 1501 (1982) and the comments by J. GILSON, *supra* note 34, at 6-9.

82 This has been so defined by Handler, *supra* note 19, at 388.

83 *See* the translation of Article 13 A *in fine* of the Benelux Uniform Trademark Law, *quoted supra* note 30.

84 For a comparative law study of the tort theory of induced breach of contract in Germany, France and Belgium, see R. KRASSER DER SCHUTZ VON PREIS-UND VERTRIEBSBINDUNGEN GEGENUBER AUSSENSEITERN (1972); R. KRASSER, DER SCHUTZ VERTRAGLICHER RECHTE GEGEN EINGRIFFE DRITTER (1971). The leading Belgian cases are: Cour de cassation of 24 November 1932, 1933 Pasicrisie I 19 (exclusive dealing agreement); Cour de cassation of 17 June 1960, 1960 Journal des Tribunaux 627 (exclusive distributorship agreement and parallel imports); Cour de cassation of 3 November 1961, 1962 Pasicrisie I 252 (exclusive distributorship agreement and paral-

Trademark law complements competition law. Trademark licenses are legitimate transactions. Restrictions that guarantee quality control prevent the grant of a license from jeopardizing the function of the trademark as a "guarantee of quality." Consequently, they do not constitute Article 85(1) restraints of competition.

In both the United Kingdom and the United States, the imposition upon licensors of a statutory duty to ensure adequate quality control[85] leads even more conclusively to the same results. Competition law cannot conceivably prohibit those very provisions that trademark law requires. United States courts have held that such provisions do not violate Section 1 of the Sherman Act.[86] The courts have not, however, specified whether the legality results from the Lanham Act requirement or from a Rule of Reason analysis. A Rule of Reason explanation seems most probable. The fact that restrictions aimed at quality control constitute part of the licensor's statutory duty may not suffice to immunize them from Section 1 of the Sherman Act. "[I]t can be argued that Congress subordinated the Lanham Act to the antitrust laws" and that it therefore provides no defense to antitrust charges.[87] Whichever explanation prevails, however, the conclusion is the same.

In the *Campari* case, the EC Commission recognized that Article 85(1) does not reach provisions that prescribe production standards or stipulate the licensor's right to sample and inspect. The Commission reasoned that

> control over the quality of the products manufactured under the license and over their similarity with the original Italian product is. . . very important for the licensor, in the sense that it is. . . bound up with its interest in the maintenance of quality which is referable to the existence of the trademark right.[88]

The conclusion is, of course, unassailable. As has been pointed out previously,[89] however, the reference to the existence of the trademark right inadequately supports it. The ancillary restraint of trade theory, explicitly adopted in an earlier case,[90] would have justified the solution

---

lel imports); Cour de cassation of 9 November 1973, 1974 Pasicrisie I 270 (price-cutting and resale price maintenance).

85 *See supra* note 38 and accompanying text.

86 *See* Susser v. Carvel Corp., 332 F.2d 505, 517 (2d Cir. 1964): "Nor do the antitrust laws proscribe a trademark owner from establishing a chain of outlets uniform in appearance and operation."

87 McCarthy, *supra* note 77, at 1115.

88 21 O.J. EUR. COMM. (No. L 70) 75; 22 Common Mkt. L.R. 397, 408 (1978).

89 *See supra* text accompanying notes 58-67.

90 *See* Reuter v. BASF AG, 19 O.J. EUR. COMM. (No. L 254) 10, 18 Common Mkt. L.R. D 44 (1976).

better.[91]

b. Licensee's Obligation to Identify Its Products

To facilitate licensor monitoring of compliance with quality requirements at each level of distribution, licensing agreements frequently require each licensee to identify the products it has manufactured. If licensors are not permitted to restrict their licensees' sales to a specified area, identification at least provides the licensors with some means of determining which licensee is responsible for which products.[92] Licensing provisions based on such perfectly proper motives also lie beyond the reach of Article 85(1).

c. Licensee's Obligation not to Disclose or to Use Secret Recipes after the License Expiration

Certain agreements couple trademark licensing with transfer of know-how. They then impose upon the licensee a duty not to disclose the secrets to third parties or to use them after the expiration of the license.

Secret recipe disclosure is designed to provide licensees with a means of complying with manufacturing standards, *i.e.*, with quality control requirements. This aim justifies contractual agreements to protect the secret. The prohibition on use after the expiration or termination of the license is similarly justified. The licensor divulges secret recipes solely in order for the licensee to manufacture the products during the agreement's operation.[93]

In the *Campari* case, the EC Commission implicitly adopted an ancillary restraint of trade test and upheld the obligation not to disclose. It found that because such obligations are "essential if secret techniques or recipes are to be passed on for use by other undertakings,"[94] Article

91 The assessment of the obligation not to divulge secret recipes in the *Campari* decision itself is actually an application of the "ancillary restraints of trade" theory. *See infra* text accompanying notes 93-94.

92 In *In re Coca-Cola*, the FTC actually recommended the adoption of such a system as a less restrictive way to control the quality of the products marketed by each licensee than the current territorial sales restrictions. *See supra* text accompanying note 47.

93 The Commission seems, however, to object to such a restriction in transfers of know-how connected with patent licensing agreement. *See* Kabelmetal-Luchaire, 18 O.J. EUR. COMM. (No. L 999) 34, 15 Common Mkt. L.R. D 40 (1975) and article 3-10 of the proposal for a Commission Regulation on the application of article 85(3) of the Treaty to certain categories of patent licensing agreements, 22 O.J. EUR. COMM. (No. C 58) 12, 15 (1979). *Cf.* the more flexible attitude taken by the Commission with regard to the same restriction in its Notice on Subcontracting, 22 O.J. EUR. COMM. (No. C 1) 2 (1979).

94 21 O.J. EUR. COMM. (No. L 70) at 75; 22 Common Mkt. L.R. at 408.

85(1) does not extend to them.

d. Licensee's Obligation to Buy Ingredients Embodying Trade Secrets from the Licensor

This obligation has vital importance for some United States companies that own soft drink trademarks. It is a well-known fact that these companies require that their independent bottlers buy syrups or concentrates from them only. They maintain a policy of selling those ingredients, rather than spelling out quality specifications, because specification would entail divulging trade secrets of formulas. Some United States lawyers believe this policy is relatively safe from tying charges under Section 1 of the Sherman Act[95] and some courts have intimated the same view by way of dicta.[96] Nevertheless, surprising as it may be given the large number of cases that address tying in franchise agreements, the American courts have yet to decide the issue directly.

As compared with United States law, EEC law, at least at the Commission's level, is more settled. In the *Campari* case, the Commission acknowledged that Article 85(1) does not extend to the obligation to buy secret ingredients, like coloring matter and herbal mixtures, from the licensor only. Because a trade secret protected knowledge of the ingredients needed to manufacture an identical end product, the exclusive buying clause was the only way to ensure quality control.[97] Again, the ancillary restraints doctrine implicitly provided the decisive test.

Although this part of the *Campari* decision meets with approval, the EC Commission should not, and probably will not, automatically accept claims that an ingredient is secret.

e. Ban on Resale of Secret Ingredients

Licensing agreements also frequently couple the obligation to buy secret ingredients from the licensor with a prohibition against reselling those ingredients to third parties. Even those contracts that do not explicitly stipulate such a promise can be construed to imply it whenever the licensee agrees that it will not use the secret ingredients other than to manufacture the products covered by the license.

The reason for such a prohibition, however, is not altogether clear. In this case, the quality control requirement does not offer a valid explanation. Third parties who do not hold a trademark license are already precluded from using the trademark for any products — including infer-

[95] *See* J. GILSON, *supra* note 34, at § 6-29.
[96] *See* Siegel v. Chicken Delight Inc., 448 F.2d 43, 51 (9th Cir. 1971).
[97] 21 O.J. EUR. COMM. (No. L 70) at 75, 21 Common Mkt. L.R. at 397.

ior quality products which would jeopardize the trademark owner's goodwill. Third parties who are licensees are subject to quality control requirements under their agreement with the trademark owner. For them, the ban on resale is superfluous.

A different consideration may be advanced in defense of such resale restrictions: the need to prevent the secret ingredients from landing in the hands of competitors who could either study them to figure out the secret formula or who could use them to manufacture a competitive product of equal quality which they could sell under another trademark. That argument, however, fails also. Because the ban is not limited to resales to persons outside the licensing system, it reaches further than properly needed to achieve the suggested goal.

The suspicion thus arises that licensors ban resale of secret ingredients in order to buttress policies of charging different prices to different licensees. If that is their true motivation, the EC Commission may well challenge such restrictive convenants. In *United Brands*, the European Court held that a price discrimination policy consisting of charging whatever price each national market would bear violated the Article 86 prohibition against abusive exploitation of a dominant market position.[98] In contrast, as long as they rely only on natural barriers to keep groups of customers separate, non-dominant firms may lawfully implement such a policy. In such cases, price discrimination is purely unilateral. Article 85, however, forbids restrictive covenants that maintain such a policy. Actually, in a long line of cases starting with such cases as *Grundig-Consten*[99] and *Kodak*[100] and continuing with the more recent *Ford Werke* case,[101] the EC Commission has struck down both export prohibitions and practices with like effect that are intended to enable manufacturers to charge different prices in different Member States. That case law suggests that bans on resale of secret ingredients are probably invalid.

This conclusion finds even stronger support in the *Federacion Na-*

---

98 *See* United Brands Co. v. Comm'n, 21 O.J. EUR. COMM. (No. L 207) 294-299, 21 Common Mkt. L.P. 429, 498-501 (1978); Bishop, *Price Discrimination under Article 86: Political Economy in the European Court*, 44 MOD. L. REV. 282-295 (1981); Zanon di Valgiurata, *Price Discrimination under Article 86 of the EEC Treaty: The United States Brands Case*, 31 INT'L & COMP. L.Q. 36 (1982).

99 *See* EC Commission's decision, *supra* note 60, and the EC Court's judgment, *supra* note 61.

100 13 J.O. COMM. EUR. (No. L 147) 24; 9 Common Mkt. L.R. D19 (1978); Joliet, *Resale Price Maintenance under EEC Antitrust Law*, 16 ANTITRUST BULL. 589, 606-609 (1971).

101 *See* 26 O.J. EUR. COMM. (no. L 327) 31, 39 Common Mkt. L.R. 596 (1984) *appeal filed*; Ford Werke AG (interim measure) 25 O.J. EUR. COMM. (No. L 256) 20, 35 Common Mkt. L.R. 267 (1982), *vacated* — C.J. Comm. E. Rec. —. *See also* Korah, *Ford Werke AG: EC Commission's First Decision Granting Interim Measures Prohibits a Unilateral Refusal to Supply Under Article 85*, 1982 EUR. INTELLECTUAL PROD. REV. 290.

cional de Cafetoeros de Colombia case where the Colombian coffee monopoly (FNC) set two restrictions in its standard contracts: first, that its EEC distributors were to supply green coffee only to a number of approved coffee roasters who in turn were forbidden to resell and; second, that directly supplied coffee roasters were to use in their own roasting plants all the green coffee they bought.[102] According to the EC Commission, the latter provision amounted to a ban on resale of green coffee to which coffee roasters had agreed. That ban, together with the prohibition imposed on distributors from selling to non-approved roasters, impeded competition "in the market for Colombian green coffee sold by FNC."[103] Furthermore, the ban on resale of green coffee prevented coffee roasters from making group purchases, *i.e.*, from buying to supply fellow plant owners as well as to cover their own requirements and thus from taking fuller advantage of FNC's quantity discount system. The EC Commission found that this could only exacerbate the ban on resale's adverse effect on consumer selling prices.[104] The EC Commission did not explicitly state that the FNC designed its policy of segregating its customers in order to back up price discrimination between buyers. This was, however, probably the case. If the price differentials exceed differences in seller's cost of sale or of delivery that result from differing quantities in which the commodities are sold or delivered, a system of quantity discounts inevitably involves discriminatory treatment of buyers.

Of course, there would not be a price discrimination in the economic sense if the differences in the prices for secret ingredients charged to each licensee reflected only differences in the services rendered by the licensees to the licensor. In such cases, the ban on resale would, in my view, be wholly justifiable. But the EC Commission is unlikely to share that point of view.[105]

If licensors wish to ban resales of secret ingredients in order to buttress their price discrimination schemes, their use of restrictive covenants may often be unnecessary. Generally, the licensee to whom the licensor

---

102 Colombian Coffee, 25 O.J. EUR. COMM. (No. L 360) 31, 37 Common Mkt. L.R. 703, 704 (1982).

103 Id. at 34, 37 Common Mkt. L.R. at 704.

104 Id.

105 *Compare* A. Bullock & Co. v. Distillers Inc., 21 O.J. EUR. COMM. (No. L 50) 16, 21 Common Mkt. L.R. 400 (1978) *with* Distillers Co. v. Comm'n, 980 C.J. Comm. E. Rec. 2229, 2282-2290, 29 Common Mkt. L.R. 121, 130-162 (Advocate General Warner's opinion). For comments in the *Distillers* decision, see Fuller, *Price Variations—the Distillers Case and Article 85 EEC*, — INT'L COMP. L.Q. 128 (1979); Korah, *Goodbye Red Label: Condemation of Dual Pricing by Distillers*, 3 EUR. L. REV. 62 (1978). The new *Distillers* decision announced by the EC Commission seems to reflect a more flexible attitude, *see* 26 O.J. EUR. COMM. (No. C 245) 1, 3 (1983).

grants more favorable prices has no interest in reselling the ingredients to less favored licensees who are competitors in the sale of the finished product. In some instances, however, this may be different: if the favored licensee can make a higher profit on the resale of the secret ingredient than on the sale of the finished product.

f. Obligation to Buy Non-Secret Supplies from the Licensor or from Designated Sources Only

In the *Campari* decision, the EC Commission objected to a provision obligating the licensees to buy non-secret supplies only from the licensor or its designated sources.[106] The Commission agreed to grant an exemption only on the condition that the restriction be removed. The decision merely reports that the Commission's earlier statement of objections addressed to the parties found the restriction in violation of Article 85. Because the decision fails to spell out the Commission's reasoning, it does not shed light on either of the problems which those provisions raise.

(1) The Goodwill Defense

The first problem is whether the trademark owner's desire to ensure the uniformity and quality of the end product provides a valid defense. The EC Commission apparently dismissed that argument.

In *Campari*, the less restrictive alternative of specification—which allows the licensee to buy supplies anywhere so long as they meet quality standards— was probably readily available. But, this may not always be so.

First, there are instances in which the same ingredient, though not a trade secret, is absolutely necessary for maintaining uniformity of production. Brewers, for example, say that they must utilize the same yeast to produce a beer of the same taste. Secondly, if effective specifications for a substitute must be extremely detailed, it may not be feasible for the trademark owner to spell them out.[107] Thirdly, the feasibility of the specification alternative may depend on the number of licensees. The costs of inspection may differ greatly. It is obviously a lot easier to check production by a limited number of suppliers than to verify whether the ingredients purchased individually by many different licensees comply with the licensor's standards.[108]

106 21 O.J. EUR. COMM. (No. L 70) at 70-71, 22 Common Mkt. L.R. 397, 401-402 (1978).

107 *See* Siegel v. Chicken Delight, 448 F.2d 43, 51 (9th Cir. 1971); Standard Oil Co. v. United States 293, 306 (1949).

108 *See* Susser v. Carvel Co., 332 F.2d 505, 520 (2d Cir. 1964), "that Carvel was able to specify

In those three cases, the obligation to buy from the licensor or from approved suppliers is the only way to ensure the uniformity and quality of the finished product. Therefore, a justification based upon quality control considerations should immunize the restriction from Article 85(1).

(2) Nature and Effects of such an Obligation

Once the goodwill defense is rejected, a second problem arises: does the obligation under review qualify as a tying arrangement or as an exclusive buying clause?

Under United States law, that distinction is crucial for determining an antitrust violation. Because tying arrangements involve the use of economic power as leverage[109], they are subject to a much more stringent test of legality. To be a violation, they need simply affect more than *de minimis* amount of commerce in the market for the tied product.[110] In contrast, the legality of exclusive buying clauses depends on "the proportionate volume of commerce involved in relation to the total volume of commerce in the relevant market area" and on "the probable immediate and future effects which preemption of that share of the market might have on effective competition therein."[111] The Supreme Court's standard of "sufficient economic power" in the tying product market does not imply a need to show monopoly power or market dominance.[112] "[T]he crucial economic power may be inferred from the tying product's desirability to consumers or from uniqueness in its attributes."[113] According to some commentators, exacting a tying arrangement may sufficiently demonstrate such power.[114] Not surprisingly, under those conditions

(the desired texture and taste of ice cream cones and sundaes) to its source of supply, whose product it regularly checked, does not show that administration could be confided to 400 dealers."

[109] *See* Northern Pac. Ry. Co. v. United States, 365 U.S. 1, 6 (1968).

[110] *See* Fortner Enters. Inc. v. United States Steel Corp., 394 U.S. 495, 501 (1969) where it is said: "(N)ormally the controlling consideration is simply whether a total amount of business, substantial enough in terms of dollar-volume so as not to be merely *de minimis*, is foreclosed to competitors by the tie. . . ."

[111] *See* Tampa Elec. Co. v. Nashville Coal Co., 365 U.S. 320, 329 (1961).

[112] *See* Fortner Enters. Inc. v. United States Steel Corp., 394 U.S. 495, 502-503 (1969).

[113] *Id.* at 503; United States v. Loew's Inc., 371 U.S. 38, 45 (1962).

[114] *See* McCarthy, *supra* note 77, at 1104, referring to *Fortner I*, Fortner Enters. Inc. v. United States Steel Corp., 395 U.S. 495 (1965). In *Fortner II*, United States Steel Corp. v. Fortner Enters., 429 U.S. 610, 620 (1977), Justice Stevens dissipated however the ambiguities surrounding the previous pronouncements of the Supreme Court in the area of tying arrangements and especially of the opinion in *Fortner I*.

> "As the Court plainly stated in its prior opinion in this case, these decisions do not require that the defendant have a monopoly or even a dominant position throughout the market for a tying product. . . They do, however, focus attention on the question whether the seller has the power, within the market for the tying product, to raise prices or to require purchasers to accept burdensome terms that could not be exacted in a completely competitive market. In short, the

both plaintiffs and judges have attempted to bring restrictions on supplies in franchise agreements within the rule against tie-ins, rather than engaging in the extensive market inquiry imposed for exclusive buying clauses.[115]

In my view, the EEC institutions should not follow the United States case law approach. First, the Article 85(1) does not reach tie-ins as such, but only agreements between undertakings which "make the conclusion of contracts subject to the acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts." In other words, it catches only agreements under which the parties promise to engage in tie-ins in their relationship to third parties. In the absence of such agreements, tie-ins are unilateral practices. They may come within the purview of Article 86, provided that the firm is dominant in the tying product market. As a counter-argument,some will recall that United States courts have applied Section 1 of the Sherman Act, which also requires a concert of action. But the United States case law amounts precisely to reading this requirement out of Section 1 of the Sherman Act.

Second, even if this interpretation of Article 85(1) — which, no doubt, will appear too literal to certain commentators— is rejected, there is another objection to the approach taken by some United States courts. It is highy questionable to infer from the ownership of a trademark presenting certain distinctive features the kind of economic power which makes it possible to impose on buyers a product they would not normally buy. A trademark — and this is often forgotten — is just an exclusive right to use a distinctive sign; it does not prevent third parties from manufacturing competing products and from selling them under another sign.

In my view, the restrictive provisions under discussion should be

---

question whether the seller has some advantage not shared by his competitors in the market for the tying product.

Thus it is doubtful that, by itself, the inclusion of tie-in clauses in contracts with 'any appreciable number of buyers' establishes market power.

115 The leading case is Siegel v. Chicken Delight, 448 F.2d 43 (9th Cir., 1971), *cert. denied*, 405 U.S. 955 (1972). This was an antitrust class action in which franchisees of Chicken Delight sought treble damages for injuries resulting allegedly from illegal restraints imposed by Chicken Delight's standard form franchise agreement which required that franchisees purchase certain essential cooking equipment, food items, and trademark bearing packaging exclusively from Chicken Delight as a condition of obtaining Chicken Delight's trademark license to operate home delivery and pick-up food stores. Judge Merrill held that the arrangement involved distinct tying and tied products. As to the proof of economic power, he merely stated that "it can hardly be denied that the Chicken Delight trademark is distinctive; that it possesses goodwill and public acceptance unique to it and not enjoyed by other fast food chains." *Id.* at 50.

analysed as exclusive buying clauses. Article 85(1) applies only once there is a factual showing of substantial foreclosure of markets for competing manufacturers.[116] From my reading of the *Campari* decision, it does not appear that the EC Commission concerned itself with satisfaction of that requirement. My impression is that it will seldom be met. Because all the United States cases involving franchise agreements were brought by franchisees rather than by the franchisor's competing suppliers, there was little evidence of anticompetitive effects. Competitive factors will influence the trademark owner's selection of the sources from which licensees must obtain their supplies. As long as there is effective competition at the level of the finished product, it is clearly in the licensor's self-interest to require the cheapest but highest quality supply in order not to put the licensees at a competitive disadantage in comparison with competing trademark owners and their licensees.

B. Restrictions on Marketing the Products Covered by the License

1. Minimum Sales Quotas and Minimum Advertising

Licensing agreements frequently establish the licensor's right to terminate the contract if the licensee fails to achieve a certain level of sales. In addition, specific provisions often require that the licensee spend a minimum amount on advertising the licensed product.[117]

Neither provision, however, in any way impairs the licensee's competitive efforts. Both should escape the prohibition of Article 85(1). In fact, the EC Commission pointed out in its *Campari* decision that trademark licensing agreements are a decentralized means of organizing production and distribution:[118] in a given market the licensee takes over from the licensor. Under such conditions, a licensor should be permitted to compel licensees to maintain or increase the trademarked product's market share. Regulation 1983/83 on exclusive distributorship agreements gives parties complete freedom to decide whether they want to include provisions designed to promote sales and their extent.[119] This demonstrates that Article 85(1) does not apply to such obligations. The fact that a licensing agreement stipulates minimum sales quotas and ad-

---

116 *See* Brasserie de Haecht v. Wilkin/Janssen, 1967 E. Comm. Ct. J. Rep. 47, 7 Common Mkt. L.R. 26 (1968); Joliet, *La legalité des clauses de fidélité d'approvisionnement au regard de l'article 85 de Traité de Rome*, 22 REVUE CRITIQUE DE JURISPRUDENCE BELGE 146, 161-162 (1968).

117 *See* Fisher, *Foreign Licensing Checklist*, 51 TRADE-MARK REP. 470, 475 (1961).

118 *Campari*, 21 O.J. EUR. COMM. (No. L 70) 69, 75-76, 22 Common Mkt. L.R. 397, 410-411 (1978).

119 *See* the sixth recital of Regulation No. 1983/83, 26 O.J. EUR. COMM. (No. L 173) 1 (1983).

vertising rather than an exclusive distributorship agreement should not make a difference.

Nevertheless, the *Campari* case contains a puzzling remark about the obligation to lie outside the scope of Article 85(1), because "there [was] nothing to suggest that the amount of the sum in question would prevent licensees from engaging in other activities or carrying on their own advertising also."[120] This seems to mean that if such an obligation were either to interfere with the licensees' efforts to sell their own branded products or to impede the licensees' own advertising of the licensed product, it would violate Article 85(1). The EC Commission's first concern is perfectly understandable. Nevertheless, if licensees have agreed not to manufacture or sell competing products, and if such a promise not to compete is considered valid,[121] then the described effect of interfering with competing products should not invalidate the obligation to make minimum expenditures on advertising the licensed trademark. The second concern is less relevant. Even if licensees were unable to spend money beyond the stipulated minimum amount, the effect would be anticompetitive only if a restraint of competition is defined so broadly as to include absolutely any restriction on a party's freedom of trade.[122]

2. *Restrictions on Packaging and Advertising*

Sometimes trademark licensing agreements specify the type and size of containers licensees must use. Also, the agreements often subject all the licensees' advertising materials and campaigns to the licensor's approval.[123]

Conceivably, national trademark laws could grant infringement remedies against licensees who use packages or containers or launch advertising campaigns without the licensor's approval. The restrictions in question would then not have to be stipulated within the agreement. But this is not so.

In some cases, such as perfumes or beverages, the trademark can be affixed only on the package or container; This operation undoubtedly comes within the exclusive right of the trademark owner.[124] But the

[120] *Supra* note 118, at 75, 22 Common Mkt. L.R. at 409.

[121] On the test of validity of the non-competition clause, see *infra* text accompanying notes 208-26.

[122] *See infra* text accompanying notes 186-87 and note 186. *See also* Fisher, *supra* note 117, at 475.

[123] *See* the suggestion by Fisher, *supra* note 117.

[124] Article 15, § 1 of the German Trademark Law in the version of Jan. 2, 1968, as it was amended in Apr. 1969, explicitly confers upon the trademark owner the exclusive right to affix the trademark upon the package or the container.

trademark owner who agrees generally that the licensee may affix the trademark on a package or container cannot withhold such an agreement because of a particular choice of package or container. The guarantee of product quality is not jeopardized by the use of containers which the trademark owner does not like.

Article 13A of the Benelux Law regards unauthorized use of trademarks in advertising as infringements.[125] But like the German law[126], the Benelux Law only encompasses the use of the trademark in advertising for products that do not originate with the trademark owner. It thus does not enable trademark owners to rely on trademark protection to dictate advertising policy to their own licensees. Again, the guarantee of product quality is in no way at stake.

The licensor who wants to be able to oppose the use of certain containers or certain types of advertising must explicitly reserve this right in the agreement. Such restrictions are contractual. They thus meet the Article 85(1) requirement of an agreement.

The ancillary restraints of trade doctrine fails to validate the restrictions on advertising the trademarked product. True, United States courts have held that restrictions on competitive style in franchise agreements do not violate Section 1 of the Sherman Act.[127] But those cases relate to tradenames and service trademarks where the restrictions purport to ensure the uniformity of the service offered. The quality control requirement cannot justify restrictions on the nature and style of advertising a product; they go beyond manufacturing the product, the only proper domain of quality control. The same is true of restrictions regarding the size and type of containers. But it does not follow that such restrictions must be held anticompetitive under Article 85(1).

Advertising is designed to convey a certain image of the trademark to the public. A licensor must be free to reserve the right to veto a style of advertising and to object to advertising that is sexist, racist, obscene, in bad taste or simply too different from the trademark's established advertising style. Article 85(1) ought not apply to restrictions inspired by such proper business considerations. In fact, a similar argument supports re-

---

[125] *See* article 13A(1) of the Uniform Benelux Trademark Law; Deliege-Sequaris, *supra* note 38, at 190.

[126] According to article 15, § 1 of the German Trademark Law in the version of Jan. 2, 1968, (amended Apr. 1969), the trademark owner is the only person entitled to use the trademark in advertising. A dealer is not prohibited from advertising genuine products, i.e. products which have been trademarked and marketed by the trademark owner himself. *See* BAUMBACH-HEFERMEHL, 2 WARENZEICHENRECHT, 585-86 (11th ed. 1979). Hefermehl envisages only the case of a dealer or distributor. But his remarks seem to apply to a licensee for a licensee is also selling genuine goods.

[127] *See supra* note 86.

strictions on the size and type of packages and containers. The use of large rather than small bottles may influence whether the public perceives of the product as being a luxury or an ordinary article. Again, the trademark owner should remain free to choose an image and, to that end, to restrict the use of certain containers.

3. *Price Restrictions*

Price restrictions do not require extensive discussion. In the United States, horizontal or vertical price restrictions per se violate Section 1 of the Sherman Act. In the *Sealy* case, the Supreme Court specifically stated that "restraint. . . . of the resale price of a trademarked article, not otherwise permitted by law, cannot be defended as ancillary to a trademark licensing system".[128]

Although the EC Commission has not yet developed per se prohibitions[129], it has always found horizontal price-fixing agreements forbidden by Article 85(1) — once the jurisdictional test of interstate commerce was met. Moreover, the Commission has systematically refused to exempt price restrictions under Article 85(3) because they by definition cannot satisfy the requirement that utilizers receive a fair share of the agreement's benefits.[130] The EC Commission approaches the field of vertical price restrictions with similar severity.[131] If parties impose mini-

[128] United States v. Sealy, 388 U.S. 350, 356 n.3 (1967).

[129] In Arizona v. Maricopa County Medical Ass'n, 457 U.S. 332, 344 (1981), Justice Stevens has excellently restated the meaning of the American *per se* rules as follows: "Once experience with a particular kind of restraint enables the Court to predict with confidence that the rule of reason will condemn it, it has applied a conclusive presumption that the restraint is unreasonable". The EC Commission's tendency to consider as anticompetitive any restriction on the parties' freedom of market behavior is no way similar to those conclusive presumptions of illegality. The EC Commission refers to a legalistic and mechanical test, not to experience.

[130] *See, e.g.*, Re VBBB/VBVB, 25 O.J. EUR. COMM. (No. L 54) 36, 34 Common Mkt. L.R. 344 (1982); GB-Inno-BM SA v. Federation Belgo-Luxembourgeoise Des Industries Du Tabac, 21 O.J. EUR. COMM. (No. L 224) 29, 43, 23 Common Mkt. L.R. 529, 550 (1978); Comm'n v. Genuine Vegetable Parchment Ass'n, 21 O.J. EUR. COMM. (No. L 70) 54, 21 Common Mkt. L.R. 534 (1978); Re the French/Taiwanese Mushroom Packers, 18 O.J. EUR. COMM. (No. L 29) 26, 29, 15 Common Mkt. L.R. D83, D90 (1975); Re Groupement Des Fabricants De Papiers Peints De Belgique, 17 O.J. EUR. COMM. (No. L 237) 3, 9, 14 Common Mkt. L.R. D102, D115 (1974); Re European Glass Manufacturers, 17 O.J. EUR. COMM. (No. L 160) 1, 15, 14 Common Mkt. L.R. D50, D74 (1974); Re Cimbel, 15 O.J. EUR. COMM. (No. L 303) 25, 38, 12 Common Mkt. L.R. D167, D188 (1972); Re The Nederlandse Cement Handelmaatschappij NV, 15 O.J. EUR. COMM. (No. L 22) 16, 24, 12 Common Mkt. L.R. D257, D273 (1972); Re The Vereeniging Van Cementhandelaren, COMM. EUR. (No. L 13) 34, 12 Common Mkt. L.R. D16 (1971).

[131] *See* Re Application of Gerofabriek NV, 20 O.J. EUR. COMM. (No. L 16) 8; 19 Common Mkt. L.R. D35 (1976) in which the EC Commission has objected to purely intrastate resale price maintenance systems. Previously, the EC Commission's position was that only resale price maintenance systems across Member States borders were caught by article 85(1) as affecting interstate commerce. *See* the *Agfa-Gevaert* statement of objections and settlement reported and analyzed by Joliet, *supra*

mum resale prices on exclusive distributors, they are prevented from claiming the benefit of the Regulation 1983/83 class exemption.[132]

In the *Campari* case, the EC Commission explicitly found that the licensing system did not contain any restriction on the licensees' sales price.[133] It thereby intimated the decisive importance for granting an exemption of the absence of such restraints. This position is entirely justified. Price restrictions are in no way necessary to safeguard the trademark function as a guarantee of quality.[134] They serve no purpose other than to stifle competition among the licensees or between the licensor and its licensees.

4. *Territorial and Exclusive Licensing*

a. Basic Concepts

The debate over the application of antitrust law to trademark licensing is nowhere more obscure than in the area of territorial and exclusive licensing.[135] This obscurity stems from a good deal of confusion about the very nature of those arrangements.[136] In order to elucidate the com-

---

note 100, at 596-605. Clearly, price restrictions, contained in trademark licensing agreements concluded by business firms located in different Member States, will even satisfy the less extensive jurisdictional test spelled out in *Agfa-Gevaert*.

132 This is explicitely stated in the 26 O.J. EUR. COMM. (No. L 173) 2 (1983) (recital No. 8) and stressed out in the EC Commission's notice on the new group exemption regulations in the field of distribution, 26 O.J. EUR. COMM. (No. C 355) n.9 (1983). Previously, the EC Commission had made clear that as a result of article 2, § 1 of Regulation 67/67, the presence of resale price maintenance provisions precluded the benefit of the group exemption. *See* Comm'n v. Liebig, Ltd., 21 O.J. EUR. COMM. (No. L 53) 20 24-25; 22 Common Mkt. L.R. 116 (1978).

133 21 O.J. EUR. COMM. (No. L 70) at 71, 22 Common Mkt. L.R. at 403 (§ 30).

134 *Compare* J. ATWOOD & K. BREWSTER, supra note 29, at 64.

135 The terminology used in the United States is far from uniform. For instance, in *United States v. Sealy* 338 U.S. 350 (1967), the Supreme Court spoke of "exclusive territories," "exclusive territorial licenses" and "territorial exclusivity" to characterize a restrictive scheme consisting of a system of licenses which were territorial, exclusive, and coupled with territorial sales restrictions within the meaning given to those terms in the present study. In its *Coca-Cola* decision, 1978 TRADE REG. REP. (CCH) ¶ 8855 (Supp. No. 30) (Apr. 25, 1978), the Federal Trade Commission probably meant territorial sales restrictions when it referred to "territorial restrictions which prevent these independent bottlers from competing with one another." *See also* First Beverage Inc. of Las Vegas v. Royal Crown Cola Co., 612 F.2d 1164, 1170 (9th Cir. 1980). The Soft Drink Interbrand Competition Act of 1980, 15 U.S. Code §§ 3501-3503 (1982), uses the expressions "territorial provisions" and "exclusive territories." While it does not define the former term, the act uses the latter term to cover "provisions granting the licensee the sole and exclusive right to manufacture, distribute and sell such product in a defined geographic area or limiting the licensee, directly or indirectly, to the manufacture, distribution, and sale of such product only for ultimate resale to consumers within a defined geographic area."

136 *Cf.* J. GILSON, supra note 34, who distinguished exclusive licenses from non exclusive licenses, § 6.03(3), but failed to draw a distinction between licenses covering a specified area and territorial sales restrictions § 6.03(4). *See also* Leblanc, *Antitrust Ramifications of Trademark Licensing and Franchising*, 53 TRADE-MARK REP. 519, 537 (1963), who did not specify precisely the implication

petition problems involved, it is necessary to distinguish three types of arrangements: territorial licenses, exclusive territorial licenses, and territorial sales restrictions.[137]

(1) Territorial Licenses

A territorial license is a promise by the trademark owner not to sue a particular business, the licensee, for use of the trademark in a specified area. Such a promise may be a "domestic" territorial license or an "international" territorial license. The first covers only part of a national territory — such as part of France, Germany or the Benelux countries.[138] The second relates to just one foreign country when the licensor holds independent rights in different countries for an identical trademark. In fact, because licenses are always defined in connection with a territory, they are in that sense inherently territorial. A license granted for the whole of the domestic market does not cover foreign markets; a license granted for one foreign country does not encompass other foreign countries.

Systems of territorial licensing do not, as such, raise antitrust problems. Even if a trademark owner makes concurrent promises to different firms for different areas or countries, there will still be no agreement to divide territories among licensees.[139] The licensor does not agree to protect licensees against invasions of their territories by neighboring licensees; licensees do not agree not to sell to customers located outside their designated territories. Nevertheless, it has been intimated that a licensee who sells directly outside the allotted territory breaches the contract.[140] This view is mistaken. A territorial license, as defined above,

---

of the mere grant of an exclusive license for a limited territory. The author noticed the expression "territorial sales restrictions" while reading *Superior Bedding Co. v. Serta Assoc. Inc.*, 353 F. Supp. 1143, 1148 (N.D. Ill. 1972).

137 *See infra* text accompanying notes 138-66.

138 The Benelux Uniform Trademark Law contains provisions which are designed to merge the three Benelux into a single and unified territory from the point of view of trademark law. *See supra* note 7.

139 According to one view propounded by legal writers with regard to French and Belgian laws, *see* Joliet, *supra* note 56, at 183-186, the licensor would, by virtue of the general law of contracts and of the good faith principle, be under a duty to sue infringers, even in the absence of any explicit provision in the agreement. Even if that view is well-founded, it does not, however, imply the licensor's obligation to rely on trademark rights to shelter each licensee from incursions by neighboring licensees. As we shall see, *infra* at text accompanying notes 142-44 and at text accompanying notes 154-56, infringement remedies are in most cases not available against licensees holding a license for one territory when they sell directly into another area.

140 *See* the explanatory memorandum of the Benelux Uniform Trademark Law under Article 11, 1962 BULL. BENELUX 36-37; Demaret, *supra* note 7, at 539. The author must confess that he has erroneously endorsed that view in *Protection des marques non enregistrées et garantie des droits ac-*

implies a promise by the licensor only. It would be inadmissible to infer a promise by one party, the licensee, from a promise by another, the licensor. The licensor who wants the licensee to stay out of other areas should explicitly stipulate such a restriction within the agreement.[141]

Nevertheless, the subsequent question arises about whether the licensor, or even each licensee, can protect each territory from invasions by other licensees by bringing trademark infringement actions rather than breach of contract actions. This question may be answered only after distinguishing domestic territorial licenses from international territorial licenses.

Article 11 of the Uniform Benelux Law does not confer trademark protection upon domestic territorial licenses.[142] In other words, a licensee whose license embraces only Belgium does not infringe the trademark by selling directly into the Netherlands, even though the license does not cover such use of the trademark. Given the Uniform Benelux Law, the only way to confine each licensee within the part of the Benelux territory to which the license applies is to impose territorial sales restrictions.

Of course other national laws may adopt a different rule.[143] In those

---

quis dans la loi Benelux: Un exemple pour la marque européenne, 1976 REVUE DE DROIT INTELLECTUEL 65, 98.

141 *See* Parkway Backing Co. v. Freihofer Baking Co., 154 F. Supp. 823, 826 (E.D. Pa., 1957), *aff'd* 255 F.2d 641, 645-647 (3d Cir. 1958). This case involved an action for breach of contract brought by an exclusive licensee against an exclusive licensee for another territory who had sold bread to a chainstore which operated stores in the plaintiff's territory. The contract between the defendant and the licensor contained no restriction against bona fide sales to an independent vendor, even though the defendant had knowledge that the vendee would resell the breach within the exclusive territory of another licensee. Both the District Court and the Third Circuit refused to read such a restriction into the contract.

142 *See* the text of Article 11 of the Benelux Uniform Trademark Law translated *supra* at note 51, and the explanatory memorandum of the Benelux Uniform Trademark Law under Article 11, 1962 BULL. BENELUX 36-37; Demaret, *supra* note 7, at 539-540. The same rules seems also to apply under the United States Lanham Act 15 U.S.C. § 1501 (1982). The *Parkway* case, 154 F. Supp. 823, also involved an action for injunction for violation of Section 43(a) of the Lanham Act. Both the District Court and the Third Circuit dismissed the action, but on different grounds. The District Court held that "(n)ot only was there no substantial evidence of confusion as to source of origin in this case, but it is difficult to see how there could be any. The 'source of origin' of Hollywood bread is National, which controls the mix, the formulas and the packaging. There is no question that the bread which American Stores sells in Allentown is Hollywood bread, conforming in every respect to the standards for ingredients and quality set up by National. There can be no source of origin of Hollywood bread, within the meaning of the Act, other than National."

143 Article 13 of the French Trademark Law of 1964 stipulates that a license may relate only to part of the national territory. It is doubtful, however, that the licensee who sells outside his alloted territory can be sued for infringement. Such a action would not be a sale of products bearing a counterfeited or fraudulently simulated trademark, which Article 422-3¼ of the Penal Code makes into an offense. Article 13 is only intended to determine the legality of the territorial limitation. It does not specify which remedies, for infringement or breach of contract, are available against a noncomplying licensee.

cases domestic territorial licenses may raise questions similar to those of international territorial licenses.[144] But there is a major difference. In the domestic license situation, restrictions on the circulation of trademarked products are purely national measures which do not involve imports or exports.[145] Consequently, the EEC rules on the free movement of goods cannot curtail the scope of infringement remedies. Harmonization of national laws, based upon Article 100 of the EEC Treaty, offers the only means of eliminating these restrictions.[146]

With regard to international territorial licenses, however, invading licensees are arguably subject to infringement actions. The Benelux trademark owner can sue the French licensee for selling directly into the Benelux. Despite the clear genuineness of the imported goods, the principle of exhaustion[147] does not apply. Because the first sale takes place outside the territory specified by the license, it occurs without the licensor's consent.[148] In fact, the treatment of domestic territorial licenses by Article 11 of the Benelux Law supports that view. The drafters of the Benelux Law obviously thought that in the domestic context an explicit statutory provision was needed to prevent licensors from relying on

---

144 *See infra* text accompanying notes 147-56.

145 *See* P. OLIVER, FREE MOVEMENT OF GOODS IN THE E.E.C., 84-86 (1982).

146 *See* Article 7 of the proposal of a first Council directive to approximate the laws of the Member States relating to trademarks, *New Trademark System for the Community*, 13 BULL. EUR. COMM. Supp. (No. 5/80) 10 (1980), and the comments of the explanatory memorandum under the similar provision of Article 21 of the proposal for a Council Regulation on the Community trademark. *Id.* at 63-64.

147 This principle is spelled out by article 13(a) of the Uniform Benelux Trademark Law, *supra* note 30.

148 *See* Demaret, *supra* note 7, 554.

The rule is probably different under the U.S. Lanham Act, and especially under section 42, that bars entry to the United States of imported merchandise "which shall copy or simulate" the registered trademark of a domestic manufacturer or trader or of any manufacturer or trade located in a foreign country. 15 U.S.C. § 1114, 1117 (1982).

The remedy provided by section 42 is not available where the products are genuine. *See* Fred Gretsch v. Schoening, 238 F. 780, 781-782 (2d Cir., 1916) with regard to a provision introduced by the 1905 Trademark Act — which was word for word identical to the present Section 42 of the Lanham Act. 15 U.S.C. § 1501 (1982).

The famous opinion of Justice Holmes in Bourgeois v. Katzel, 260 U.S. 689, 691-692 (1922) does hold that the unauthorized importation of genuine goods constitutes an infringement and can be restrained on the basis of Section 42. *See* Bourgeois v. Aldridge, 263 U.S. 675 (1923). Wrongly or rightly, Justice Holmes analyzed the facts as involving non-genuine goods. Holmes found that the trademark did not truly indicate the origin of the goods for "[i]t is the trademark of the plaintiff only in the United States and indicates in law, and, it is found, by public understanding, that the goods come from the plaintiff although not made by it." Holmes stressed in a later case that this reason controlled. *See* Prestonettes v. Coty, 264 U.S. 359, 368 (1923).

Because the test is the genuinenes of the imported goods, there should be no distinction between *direct* imports and *parallel* imports. In both cases, the imported goods are genuine, because the United States licensor has control over the quality of goods originating with the foreign licensee.

trademark rights to repel direct sales by invading licensees. They implicitly recognized the availability of infringement remedies in the international context.[149]

The availability of infringement remedies as a matter of national trademark law does not, however, result in automatic market segregation among licensees. Not having promised each licensee to repel direct sales by others, the licensor is free either to sue or not sue.[150] Moreover, since the trademark laws of EEC countries make the infringement remedies available only to licensors,[151] one licensee cannot sue another invading licensee for trademark infringement.[152]

In fact, even if the use of trademark infringement remedies were systematic, the market segregation effect could not be imputed to the territorial licenses.[153] The market segregation stems not from an agree-

---

149 *See* Demaret, *L'utilisation de la propriété industrielle comme come cartel clandestin*, in RAPPORTS BELGES AU XI CONGRES DE L'ACADEMIE INTERNATIONALE DE DROIT COMPARE 419, n.61 (1982).

150 Of course, if the general law of contracts imposes a duty upon the licensor to sue infringers, *see supra* note 139, it would appear that the market segregation effect rests upon an agreement. But ultimately in reality it would stem from the statutory definition of infringement. *See infra* note 152. The protection of the specific object of the trademark does not imply the extension of the infringement concept to direct sales by a licensee outside the territory specified in the licence. *See supra* note 140 and 147. The obligation to sue infringers retains an effect, even if the licensor cannot invoke trademark protection to repel such sales.

151 *See* article 11D of the Benelux Uniform Trademark Law which entitled the licensee to join the infringement proceedings brought by the licensor only to claim compensation for its own damage; article 25 of the French trademark law of 1964; A. CHAVANNE & J. BURST, DROIT DE LA PROPRIETE INDUSTRIELLE 470 (2d Ed. 1980); for the German law, *see* BAUMBACH-HEFERMEHL *supra* note 125, at 438-39, remark 2 in the annex of § 8.

152 Under French and Belgian laws, the licensing agreement could confer power ("mandat") upon the licensee to sue infringers in the name of and on behalf of the licensor, *see* A. CHAVANNE & J. BURST, *supra* note 151, at 470; and for the patent law, Joliet, *supra* note 56, at 183. In such a case, in light of the EC Court of Justice case law, it would certainly be proper to conclude that, although an industrial property right as a legal entity does not include the contract element required by article 85(1), its exercise, i.e., the infringement action, falls within the ambit of article 85(1). Consequently, this right may be restricted, because it has been "the subject, the means or the result of a restrictive practice." *See* Sirena S.R.L. v. Eda S.R.L. 1971 C.J. Comm. E. Rec. 69, 82, 10 Common Mkt. L.R. 260, 273, (formula was used for the first time); and more recently Nungesser and K. Eisele v. Comm'n 1982 C.J. Comm. E. Rec. 2061, 36 Common Mkt. L.R. 278. But this case law is, in my view, questionable. True the agreement gives the licensee the infringement remedy. Nevertheless, the licensee's ability to repel direct exports by neighboring licensees ultimately relies on the statutory definition of infringement. Consequently, the impediment to competition would stem from the statute, a state measure, and not from the agreement.

153 Conversely, territorial sales restrictions do not escape article 85(1) merely because these restrictions restate the protection inherent in national trademark laws. Trademark laws provide a different type of remedy; licensor can sue the non-complying licensee for breach of contract, regardless of whether the invasion of another licensee's territory constitutes a trademark infringement. Thus, even though domestic courts must disregard national statutes granting infringement remedies against parallel imports of genuine goods because the statutes conflict with the rules on the free movement of goods, contractual provisions designed to prevent such imports are challengeable under

ment, but from an infringement action that is by hypothesis unilateral and fostered by the territorial organization of trademark laws.

There is, however, no need to dwell upon that issue. In view of the European Court case law, it is certain that when national trademark laws grant infringement remedies against direct sales in one EEC country by a licensee for another EEC country, they conflict with EEC rules on the free movement of goods. In the *Hag* case, the European Court decided that a German trademark owner's direct exports into Luxemburg, where an unrelated company held the trademark rights, could not be barred on the basis of the Uniform Benelux Trademark Law.[154] In that case the imported goods did not originate with the same source identified by the trademark in Luxemburg. Since the alleged German infringer and the Luxemburg plaintiff did not represent affiliated companies and were not linked by a distributorship or licensing agreement, there was no guarantee of the uniformity or quality of the product.[155] The *Hag* doctrine applies *a fortiori* whenever the products are genuine for having been manufactured by the trademark owner's licensee.[156] As a result, trademark owners can no longer utilize infringement actions to implement a policy of confining licensees within national borders. Such a policy must rely instead on restrictive convenants, *i.e.*, territorial sales restrictions.

(2) Exclusive Territorial Licenses

Licensors can go one step further than merely promising not to sue the licensee for use of the trademark in a specified area. They may guarantee that the license will be exclusive. The exclusivity entails a promise not to make the same territorial promise to anyone else, and thereby a

article 85(1). *Compare* the argument of the U.K. Government in the *Nungesser* case *with* the answer of the European Communities' Court of Justice; Nungesser and K. Eisele v. Comm'n, 1982 C.J. Comm. E. Rec. at 2070, 14 Common Mkt. L.R. at 354.

154 Van Zuylen v. Hag, 1974 C.J. Comm. E. Rec. 731, 743-745, 14 Common Mkt. L.R. 127, 143.

155 This is precisely the reason that *Hag* case provoked such an outcry among legal commentators. *See* authorities cited *supra* note 14.

156 *See, e.g.*, Demaret, *supra* note 148, at 520. Parallel imports are already free by virtue of the principle of exhaustion. This principle applies as a result either of national law or Community law. For a comparative study of national laws, *see* F.K. Beier, *Territoriality of Trademark Law and International Trade*, 1 INT'L REV. INDUS. PROP. & COPYRIGHT L. 48 (1970); on Benelux trademark law, see Demaret, *supra* note 7, at 551-552 and the explanatory memorandum under article 13, 1962 BULL. BENELUX 36; on German law, see the *Cinzano* judgment of the Bundesgerichtshof of Feb. 2, 1973, 4 INT'L REV. INDUS. PROP. & COPYRIGHT L. 432 (1973) and the comment by F.K. Beier; on British law, see the decision of the Court of Appeal (Civ. Div.) of Nov. 22, 1979 in the *Revlon* case, 11 INT'L REV. INDUS. PROP. & COPYRIGHT L. 378 (1980) and the comment by W. Cornish. The *Winthrop* case of the European Communities' Court of Justice, Centrafarm v. Winthrop, 1974 C.J. Comm. E. Rec. 1183, 14 Common Mkt. L.R. 480, clearly establishes that domestic courts must disregard national statutes which grant infringement remedies against parallel imports of genuine products, because the statutes conflict with the rules of the free movement of goods.

commitment not to guarantee immunity to third parties for use of the trademark in the same territory. The licensor retains the option of resorting to available infringement remedies against such third parties. The exclusivity does not, however, imply any agreement actively to prevent other firms, for instance neighboring licensees, from using the trademark in the allotted territory.

Thus, concurrent exclusive territorial licenses do not effectuate horizontal market division among licensees any more than do concurrent non-exclusive territorial licenses.[157] The preceding discussion of infringement remedies[158] applies to exclusive territorial licenses as well.

The term "exclusive license" is also used to refer to the licensor's undertaking not personally to use the trademark in the territory allotted to the licensee. To the extent that such an undertaking amounts to a promise not to sell in the licensee's territory, the label of exclusive license is misleading. The restriction is in fact a territorial sales restriction accepted by the licensor and is generally accompanied by a reciprocal promise by the licensee not to invade the licensor's reserved territory.[159]

(3) Territorial Sales Restrictions

Rather than merely grant an exclusive license for one specified area, a licensor may agree both personally not to use the trademark in the area and to prevent each licensee from using the trademark in exclusive territories of other licensees, *i.e.* from selling directly in those territories.[160]

---

[157] The United States enforcement agencies have never challenged exclusive territorial licenses, and there is at least one case, Superior Bedding Co. v. Serta Assocs., 353 F. Supp. 1143, 1147-1148 (N.D. Ill. 1972), which intimates that, unlike territorial sales restrictions, exclusive territorial licenses do not raise any antitrust problems.

[158] *See supra* text accompanying notes 142-156.

[159] *Cf.* GILSON, *supra* at note 34, at § 6.03[3]-(4), suggesting that a licensor's promise to refrain from suing the trademark in a particular area is, unlike territorial sales restrictions, immune from antitrust attack. This was not the posture of the Federal Trade Commission in the *Coca-Cola* case, 91 F.T.C. 517 (1978). It is a well-known fact that, in the soft drink industry, some syrup manufacturers operate their own bottling facilities (directly or through subsidiaries) in some areas and, at the same time, license independent bottlers in other areas. The Federal Trade Commission treated properly as territorial sales restrictions both the licensor's promise not to use the trademark in independent licensed bottlers' territories and those bottlers' undertaking not to sell outside their alloted territories.

[160] In the *Nungesser* case, 1982 C.J. Comm. E. Rec. at 2067, 36 Common Mkt. L.R. at 352, the provision, which the EC Court construed as a promise not to grant a license to any other person for the same territory, was drafted so that the provision could have implied the licensor's duty to protect the licensee against direct sales by other licensees. The words "to refrain from *having* . . ." seem to translate in German, "zu *lassen*," poorly; the phrase "die Verpflichtung des INRA . . . das betreffende Saatgut in Deutschland weder erzeugen noch verkaufen zu lassen" can also mean "the obligation upon INRA . . . to refrain from letting the relevant seeds produced or sold in Germany." *See* Axter, (1982) GRUR INT 646, 649.

As we have seen,[161] licensors can no longer resort to infringement remedies to keep each national licensee from invading national territories allotted to other exclusive licensee. Thus, in order to carry out such a promise to one licensee, the licensor must exact from the other licensees a covenant not to export directly into the first licensee's territory.

In such cases, there is a market division between a licensor and its licensees and between its licensees and it is traceable to a system of agreements. The market division between the licensor and its licensees is especially obvious if the licensor, in return for promises not to compete with the licensees in their territories, exact promises from licensees that they will not sell in its reserved territory. But, as exemplified by the American case law, such restrictive schemes should not be banned automatically. In both *Sealy* and *Topco*, the United States Supreme Court categorized territorial sales restrictions as horizontal agreements.[162] Consequently, the Court held that they were *per se* violations of Section 1 of the Sherman Act. Factually, both cases involve a licensing corporation that was owned and controlled by its licensees. If licensees have a relationship with an independent licensing entity, however, then territorial sales restrictions generally qualify as vertical restraints. In those cases, they are subject to review under the *Sylvania* [163] Rule of Reason approach.[164]. By virtue of the Soft Drink Interbrand Competition Act of 1980[165], a less stringent test controls the territorial restrictions used in agreements between syrup manufacturers and their independent bottlers.[166]

161 *Supra* text accompanying notes 147-56.

162 United States v. Sealy, 388 U.S. 350, 354 (1967), United States v. Topco Assoc., 405 U.S. 596, 608 (1972).

163 Continental Television v. GTE Sylvania, 433 U.S. 36 (1977).

164 *See also* the Federal Trade Commission's decision in the *Coca-Cola* case, 91 F.T.C. 517 (1978), First Beverages of Las Vegas v. Royal Crown Cola Co., 612 F.2d 1164, 1168-1171 (9th Cir. 1980).

165 15 U.S.C. § 3501 (1982). The sponsors and proponents of the bill objected to the Federal Trade Commission's decision in the *Coca-Cola* case, *supra* note 164, because the Commission did not weigh properly the effects of the territorial sales restrictions on competition between the various syrup manufacturers. *See Hearings on S. 598 Before the Subcomm. on Antitrust, Monopoly and Business Rights of the Senate Comm. on the Judiciary*, 86th Cong., 1st Sess. 68 (statement of E. Gellhorn) [hereinafter cited as *S. 598 Hearings*].

166 While under the *Sylvania* rule, the benefits to interbrand competition must outweigh the detriments to intrabrand competition, the 1980 Act disregards any effects on intrabrand competition as long as interbrand competition remains effective and substantial. *See S. 598 Hearings*, at 143 (statement of R. Favretto); Abrams, *Antitrust Law in the Soft Drink Industry*, 26 ANTITRUST BULL. 697, 701 (1982). In a persuasive case study, Stern, Zelek and Dunfee, *A Rule of Reason Analysis of Territorial Restrictions in the Soft Drink Industry*, 27 ANTITRUST BULL. 481 (1982), applied the model of Rule of Reason analysis the authors had outlined, *see supra* note 71, to the soft drink industry. They concluded that territorial sales restrictions overall should be considered to be anticompetitive.

b. Views of EEC Institutions
The EC Commission: The *Campari* Decision

In the *Campari* case, the EC Commission faced a system of international exclusive territorial licenses supplemented by the licensor's promise not to compete in the licensees' territories and by bans on each licensee's direct exports into other EEC countries.[167]

The Commission held that both the exclusivity promise and the licensor's promise not to compete violated Article 85(1). It found that the exclusivity promise limited competition by restricting the trademark owner's freedom to license other firms for the alloted territory[168] and that the promise not to compete with the licensees equally violated Article 85(1), because it deprived the trademark owner of "the competitive advantage to be gained from manufacture by himself in (their territories)".[169] But, under Article 85(3), the Commission exempted both the exclusivity and the licensor's promise not to compete under Article 85(3).

Undoubtedly the bans on exports effectuated a geographical market division among licensees. The Commission made it clear that it could not permit absolute bans on exports.[170] At the same time, however, it accepted less absolute territorial sales restrictions, *i.e.* prohibitions on each licensee and on the licensor from pursuing active sales policies outside their reserved territories.[171] Such restrictions are identical to those exempted by Article 2 § 1 (b) of Regulation 1983/83 for exclusive distributorship agreements.[172]

It is not always easy to distinguish which of the exemption's justifi-

---

[167] 21 O.J. EUR. COMM. (No. L 70) 69, 22 Common Mkt. L.R. 397 (1978).

[168] *Id.* at 73, 22 Common Mkt. L.R. at 406.

[169] *Id.* Actually, the promise not to use the trademark in the licensees' territories does not restrict the trademark owner's freedom to manufacture because manufacturing alone does not involve a use of the trademark but does restrict the trademark owner's freedom to sell in those areas.

[170] *Id.* at 71, 22 Common Mkt. L.R. at 401 (§ 22).

[171] *Id.* at 76, 22 Common Mkt. L.R. 411 (§ 41). The EC Commission acted rather inconsistently. On the one hand, the Commission exempted the licensor's promise not to use the trademark in the licensees' territories, *i.e.* a promise not to sell into those territories. At the same time, however, the Commission objected to the export prohibition to which the licensor agreed and compelled Campari to the prohibition with a promise not to pursue an active sales policy outside the reserved territory!

[172] 26 O.J. EUR. COMM. (No. L 173) 1 (1983), which has replaced the Regulation No. 67/67 of Mar. 22, 1967, 10 J.O. COMM. EUR. (No. 57) 849 (1967). Such provisions are more restrictive than areas of primary arrangements. For a definition of primary arrangements, *see* OPPENHEIM, WESTON AND MCCARTHY, *supra* note 16, at 612 which the United States Department of Justice seems to accept more easily than strict territorial sales restrictions. *See reproduced in* HOUSE COMM. ON THE JUDICIARY, THE SOFT DRINK INTERBRAND COMPETITION ACT, H.R. REP. NO. 1118, 96th Cong., 2d Sess. — (1980) (letter from the Assistant Attorney General, A. Parker).

cations apply to which restrictions.[173] The EC Commission reasoned that the exclusivity and the licensor's promise not to compete "confer(red) upon each licensee an advantage in its allotted territory" and that "(t)his advantage (was) such as to permit a sufficient return on the investment made by each licensee for the purpose of manufacturing the product bearing the trademark. . . ."[174] Thus, both restrictions contributed to improving production and distribution. The ban on active sales policies outside the allotted territory would compel licensees to concentrate their sales efforts, but "without preventing buyers elsewhere in the Community from securing supplies freely from any of the licensees."[175] The Commission also explained, without referring to either of those restrictions specifically, that "none of the licensees and in all probability no other undertaking would have been prepared to make the investment necessary for a significant increase in sales of Bitter if it was not sure of being protected from competition from other licensees or Campari-Milano itself."[176] For that reason, the restrictions were indispensable for achieving the above-mentioned benefits.

The European Court: The *Nungesser* Case

Since the Commission's decision for the major part favored them, neither Campari nor the licensees had reason to challenge it. As a result, the European Court of Justice never had the opportunity either to approve or disapprove of that Commission position on trademark licensing. But, in the *Nungesser* case,[177] the Court dealt with exclusive territorial licenses and with territorial sales restrictions in relation to breeders' rights. Although breeders' rights obviously perform functions different than those of trademarks[178], the views of the European Court of Justice can apparently transfer to trademark licensing.[179]

---

173 The EC Commission did not bother to justify guaranteeing protection to the licensor in the reserved territory. The arguments that support the licensees' protection obviously do not apply to the licensor's protection.

174 21 O.J. EUR. COMM. (No. L 70) at 75, 22 Common Mkt. L.R. at 410 (§ 68).

175 *Id.* at 76, 22 Common Mkts. L.R. at 411 (§ 73).

176 *Id.* 22 Common Mkt. L.R. at 412 (§ 77).

177 *See* authorities cited *supra* note 31; Axter, 1982 GRUR INT'L 646 (English version in 38 BUS. LAW. 165 (1982)); Korah, *Exclusive Licenses of Patent and Plant Breeders' Right Under EEC Law After Maize Seed*, 28 ANTITRUST BULL. 699 (1983); Pietzke, 1982 GRUR INT'L 530 (English version in 14 INT'L REV. INDUS. PROP. & COPYRIGHT L. 274 (1983)); Turner, 8 EUR. L. REV. 103 (1983); Usher, 38 J. BUS. L. 506 (1982); Van Bael, (1983) C. DE D 176.

178 Like the patent system, *see supra* note 16, the breeders' protection is designed to provide an incentive to invention and innovation. On the trademark function, see *supra* text accompanying note 79.

179 A judge of the EC Court of Justice stressed that the scope of the *Nungesser* case is limited to breeders' rights. *See* Everling, *Zur neueren EuGH-Rechtsprechung zum Wettbewerbrecht*, 17

The Court drew a distinction between open and closed exclusive licenses. In the first case,

> the exclusivity of the license relates solely to the contractual relationship between the owner of the right and the licensee, whereby the owner merely undertakes not to grant other licenses in respect of the same territory and not to compete himself with the licensee on that territory. On the other hand, the second case involves an exclusive license or assignment with absolute territorial protection, under which the parties to the contract propose, as regards the products and the territory in question, to eliminate all competition from third parties, such as parallel importers or licensees for other territories.[180]

Holding that Article 85(1) does not automatically apply to open exclusive licenses, the Court quashed the part of the Commission's decision that regarded the exclusivity promise and the licensor's promise not to compete as violative of Article 85(1).[181] The Court argued:

> In fact, in case of a license of breeders' rights over hybrid seeds newly developed in one Member State, an undertaking established in another Member State which was not certain that it would not encounter competition from other licensees for the territory granted to it, or from the owner of the right himself, might be deterred from accepting the risk of cultivating and marketing that product, such a result would be damaging to the dissemination of a new technology and would prejudice competition in the Community between the new product and similar existing products.[182]

In contrast, the Court decided that those who secure territorial protection against competition from parallel importers by stipulating contractual provisions or by resorting to infringement remedies inherent in the industrial property right itself violate Article 85(1).[183] Furthermore, because such actions go beyond what is indispensable to the improvement of production or distribution or to the furtherance of technical pro-

---

EUROPARECHT 301, 310 (1982). True, the EC Court referred in § 58 of its judgment "to the specific nature of the products in question" (but without explaining how "specific" these natures were) and restricted its conclusion to "a case such as the present." Nevertheless, the argument invoked to find open exclusive licenses beyond the reach of article 85(1) (i.e. the incentive to take the risk of investing capital into a new product) is also valid for trademark licensing. *See infra* note 192. The only way to differentiate these licenses is to contrast technology with mere branded products. Such a distinction, however, would have little justification.

180 1982 C.J. Comm. E. Rec. 2015, 2068, 36 Common Mkt. L.R. 278, 352, (1983). The European Communities Court analyzed the various arrangements at issue, *see id.* at 2058, 2066-67, 36 Common Mkt. L.R. at 345, 351, as licenses. This analysis is of dubious validity but it is outside the scope of this study to discuss it. Suffice to say, the Court does not clearly recognize the basic difference between the following agreements: granting one person the power to apply for protection on behalf of another person, transferring the right to apply for such protection, assigning the breeder's right once it has been obtained, licensing such a right and agreeing to an exclusive distributorship.

181 1982 C.J. Comm. E. Rec. 2015, 36 Common Mkt. L.R. 278.

182 *Id.* at 2069, 36 Common Mkt. L.R. at 353.

183 *Id.* at 2070-71, 36 Common Mkt. L.R. at 347-48, 354.

gress, they do not qualify for Article 85(3) exemption.[184] To that extent, therefore, the Court upheld the Commission's decision.

c. A Critical Appraisal

(1) The Exclusivity Promise

The EC Commission's rigid stand on exclusive territorial licenses stems from its adoption of a very formalistic approach for determining whether a contractual provision restrains competition in violation of Article 85(1). Without any concrete analysis of the actual impact upon competition at large, the EC Commission deems any restriction upon a party's freedom of trade inherently anticompetitive. As early as the sixties and the commencement of EEC competition law enforcement, this approach has been subject to severe criticism.[185] But such criticism has had little influence on the EC Commission's attitude.[186] If the exclusivity itself restrains competition merely by preventing the trademark owner from licensing any other business for the designated territory, the logical remedy would be to impose a duty upon the trademark owner to license any possible applicant.[187] But of course because such a remedy would gravely interfere with the owner's basic freedom of choice, it is too unreasonable to have ever been advocated, even by the EC Commission.

The Commission believes that the promise not to grant a license to a third party for the same area gives each licensee some territorial protection.[188] This is not true. Properly defined, exclusive licenses impose no duty upon the licensor to protect each license against competition from neighboring licensees. Contrary to what the Commission suggested in the *Campari* case, exclusive licenses do not bar licensees from manufacturing in others' exclusive territories. Moreover, the Commission seems to imply that one needs a license to manufacture a trademarked product. In fact, anyone who does not actually use the trademark to identify the

---

184 *Id.* at 2073-74, 36 Common Mkt. L.R. at 356.

185 *See* R. JOLIET, THE RULE OF REASON IN ANTITRUST LAW, 108, 191 (1966); Korah, *The Rise and Fall of Provisional Validity—The Need for a Rule of Reason*, 3 NW. J. INT'L L. & BUS. 320, 358 (1981); Kon, *Article 85 § 3: A Case for Application by National Courts*, 19 COMMON MKT. L. REV. 541, 554-55 (1981), Schechter, *The Rule of Reason in European Competition Law*, 1982 LEGAL ISSUES OF EUR. INTEGRATION 3.

186 *But see* Re Cement Makers Agreement, 12 O.J. EUR. COMM. (No. L 122) 8, 8 Common Mkt. L.R. D15 (1969); Re Societé Anonyme de Fabricants de conserves alimentaires, 14 O.J. EUR. COMM. (No. L 13) 44, 11 Common Mkt. L.R. D 83 (1971).

187 *See* P. DEMARET, PATENTS, TERRITORIAL RESTRICTIONS AND EEC LAW, 113 (1978).

188 *Campari*, 21 O.J. EUR. COMM. (No. L 70) at 75, 22 Common Mkt. L.R. at 410. At that point, however, the European Communities also addresses the licensor's promise not to compete; this promise undoubtedly guarantees some territorial protection to the licensee. *See supra* text accompanying note 174.

product for sale is free to manufacture it. Therefore, although the licensee is perhaps inhibited as to the permitted area in which to sell the product identified by the trademark, it remains free, as a matter of trademark law, to manufacture the product anywhere.

Thus, the EC Commission has unnecessarily worried about the anticompetitive effect of exclusive territorial licenses. On that issue, the *Nungesser* judgment of the European Court should be welcomed for reflecting a more liberal approach. The Court's distinction between open and closed exclusive licenses is awkwardly phrased.[189] Nevertheless, it must be approved to the extent that it rebuffs the Commission's rigid stand on promises not to grant a license to any third party for the same territory.[190] As early as 1964, a legal commentator in the United States propounded a similar distinction with regard to trademark licenses. It suggested differentiating

> (1) appointment of exclusive licensees in specified territorial areas where the only restrictions are upon the licensor and the sales of the licensee are not restricted in any manner; and (2) exclusive licensee appointment wherein additional restraints are imposed upon the licensees limiting the territorial area within which they may sell the licensed product.[191]

The European Court found that exclusivity promises lie beyond the scope of Article 85(1), whenever they are necessary to provide licensees with an incentive to take the risk of investing capital. This is not the true reason for the inapplicability of the Article 85(1) prohibition. In fact, once exclusive licenses are properly defined, it is clear that they do not afford protection against competition from neighboring licensees. Thus, if such a protection is necessary to induce licensees to invest, exclusivity promises alone would not do. The investment-incentive argument relates more properly to territorial sales restrictions (including the licensor's promise not to compete with the licensees). Exclusive licenses should not be subject to the Article 85(1) prohibition, simply because they do not

---

189 The phrase "closed exclusive license" seems to suggest that the combination of exclusive territorial licenses and territorial sales restrictions imposed upon other licensees must be considered to be inseparable and be struck down in its entirety. This result would contradict the doctrine of partial illegality that the EC Court adopted as early as 1966, *see supra* note 186, and applied in the *Nungesser* case itself. *See infra* text accompanying notes 201-02.

190 In the 12TH REPORT ON COMPETITION POLICY 45 (1983), the EC Commission tried to minimize its defeat. The Commission presented the main holding of the *Nungesser* judgment as though the Court confirmed the view that exclusive licenses may fall under Article 85(1).

191 LeBlanc, *Antitrust Ramifications of Trademark Licensing and Franchising*, 53 TRADE-MARK REP. 519-537 (1963). LeBlanc's distinction, however, is ambiguous, inasmuch as he does not define the implication of an exclusive license. If LeBlanc means "exclusive license" to include a licensor's promise not to compete with the licensees in their territories, then his opinion on this issue is subject to the same criticisms as those directed to the *Nungesser* judgment. *See infra* text accompanying notes 189-92.

restrict competition either between licensor and licensees or among neighboring licensees. As a result, the inapplicability of Article 85(1) should depend not on a case-by-case analysis, but on a generally applicable rule.

(2) Territorial Sales Restrictions

The EC Commission was more consistent in its treatment of the licensor's promise not to compete and of territorial sales restrictions imposed upon other licensees in the *Campari* case than the EC Court of Justice was in the *Nungesser* case.

First, there is no good reason to hold that whereas the licensor's promise not to compete may escape the prohibition of Article 85(1)[192], territorial sales restrictions upon other licensees may not.[193] True, the licensing agreement usually provides the trademark owner with a way of penetrating a geographical market otherwise inaccessible. If another business possesses trade connections or technical abilities that put it in a better position to develop goodwill there, the trademark owner may choose to license that business for that territory. Consequently, even in the absence of any restriction, licensors cannot be expected to compete actively with licensees in the licensed territories. Nevertheless, the licensor's promise and the territorial sales restrictions exacted from other licensees foreclose intrabrand competition in the same way. Both types of restrictions raise the same problems with regard to the applicability of Article 85(1).

Secondly, if one agrees that some protection against competition may be necessary to induce capital investment[194], it is wholly unjustified

---

192 *See* § 53 of the *Nungesser* judgment, 1982 C.J. Comm. E. Rec. at 2068, 36 Common Mkt. L.R. at 352. Probably, the Court's conclusion results from its inappropriate application of the distinction between open and closed distributorship agreements, *see, e.g.*, Beguelin Import Co. v. G.L. Import SA, 1971 C.J. Comm. E. Rec. 949, 959, 11 (Common Mkt. L.R. 81, 96, to licensing agreements.

An open exclusive distributorship is an arrangement whereby a manufacturer is committed to supply only one dealer located in a given territory directly, while this dealer, as well as exclusive distributors for other territories, remain free to resell outside their territories. Such an arrangement, in a way implies an obligation by the manufacturer not to compete with the exclusive distributor. Without the privilege of being the only distributor directly supplied by the manufacturer, a distributor would not have an exclusive position at all. Nevertheless EC Court does not seem to realize the distinction—that a license can be exclusive, even if not accompanied by the licensor's promise not to compete.

193 Sections 53 and 57 of the judgment seem to contradict each other. When discussing the investment incentive argument (in section 57), the EC Court refers to a need to protect against competition from other licensees as well. But there only appears to be a contradiction between these sections. Probably—but erroneously—the European Communities Court believed that the exclusivity promise itself provides sufficient protection against competition from other licensees.

194 As the *Campari* case demonstrates, this argument also can justify territorial sales restrictions

to distinguish, as the *Nungesser* judgment does, protecting licensees on the one hand from the licensor and on the other hand from other licensees. That distinction, which does not appear in the *Campari* case, simply does not make sense. For a firm that has obtained an exclusive license for the Benelux countries and plans to build expensive manufacturing facilities there, it makes absolutely no difference whether competition comes from the British trademark owner or from the French licensee.

The European Court of Justice's inconsistent reasoning has very serious consequences. Whereas the Commission's *Campari* opinion expressed a readiness to exempt some restrictions on direct competition from licensor and other licensees, the European Court's *Nungesser* judgment held that territorial sales restrictions imposed upon licensees are always anticompetitive. Moreover, the Court seemed to suggest that territorial sales restrictions imposed upon other licensees can never be exempted under Article 85(3).[195] In that respect, therefore, the Court of Justice's doctrine is far more stringent and far less consistent than that of the Commission.

In my view — and this was the EC Commission's approach in the *Campari* decision — territorial sales restrictions should not be condemned outright. If they serve the interest of interbrand competition by helping a new entrant, who could not otherwise find investors to put up the capital necessary to manufacture and market the product, they ought to turn out to be legal. In EEC law, such a Rule of Reason analysis can be conducted either at the Article 85(1) stage or at the Article 85(3) stage. The choice depends on the definition of restraints of competition under Article 85(1). If a restriction on intrabrand competition automatically brings into play the section 1 prohibition,[196] the Commission should consider the favorable effects on interbrand competition only as it examines whether the agreement qualifies for section three exemption. If, however, a restraint of competition is defined as a restraint of market competition at large, as opposed to a mere limitation of intrabrand competition, the section 1 stage of analysis already involves a Rule of Reason

in trademark licensing agreement. 21 O.J. EUR. COMM. (No. L 70) 69, 22 Common Mkt. L.R. 397 (1978).

195 The only way to restrict the scope of the judgment is to assume that the unqualified condemnation of airtight territorial confinement applies only to provisions designed to bar parallel imports and that the EC Court did not mean that territorial restrictions on direct sales by licensees could never fulfill the article 85(3) requirements. A strong argument supporting that interpretation can be made, because the facts of the case actually involved parallel imports only.

196 This was the approach adopted by the EC Court of Justice in Consten and Grundig v. Comm'n, 1966 C.J. Comm. E. Rec. 299, 342-43, 5 Common Mkt. L.R. 418, 472-73, and by the EC Commission in the *Campari* case, 21 O.J. EUR. COMM. (No. L 70) 69, 22 Common Mkt. L.R. 397.

approach.[197] The second view has the advantage of freeing the Commission from issuing numerous decisions for cases where the restriction is likely to be exempted under Article 85(3). The Commission could then concentrate its time and energies on those cases where detrimental effects on intrabrand competition are not outweighed by positive effects on interbrand competition.

Some commentators suggest that it is inconsistent for the Commission to permit territorial sales restrictions under Article 85(3), at the same time that the Court finds that national laws that grant infringement actions against direct sales by a foreign licensee conflict with the rules on the free movement of goods.[198] In view of the nature of the problems, however, this difference is perfectly understandable. In the case of national infringement actions, the problem is whether the availability of an infringement remedy is necessary to safeguard the trademark function. Since the imported products are genuine, the answer is clearly no.[199] In contrast, in the case of territorial sales restrictions, the question is whether contractual restrictions on intrabrand competition in fact promote interbrand competition. Some antitrust economists have advocated an affirmative answer.[200]

(3) Partial Illegality

A finding of illegal territorial sales restrictions should not spread illegality to the exclusive promise itself. Where a contract is only partially illegal and where the illegal clause can be severed from the remain-

197 In the *Nungesser* case, the EC Court adopted this approach, holding that, when it is necessary to provide the licensee with an incentive to invest, the promise by the licensor not to compete with the licensee may escape the prohibition of article 85(1).

198 *See* Demaret, *supra* note 149.

199 *See supra* text accompanying notes 143-51 and note 148 on United States trademark law. *See also* the explanatory memorandum under article 21 of the proposed Council regulation of the Community trademark, supra note 145.

200 Antitrust economists in the United States do not agree, however, on the validity of the capital incentive argument. *Compare* Comanor, *Vertical Territorial and Customer Restrictions: White Motor and its Aftermath*, 81 HARV. L. REV. 1419 (1968) *with* S. 598 HEARINGS, *supra* note 163, at 63 (statement of V. Goldberg). Even if the capital incentive argument is valid, it will not always justify territorial sales restrictions. The legality of such provisions will depend on a case-by-case analysis. *See* Stern, Zelek, and Dunfee, *supra* note 164, at 509:

> While this argument is relevant to some extent for an emerging industry or distribution system, it has little support in the case of an established, ongoing situation, such as Coca-Cola's bottling system, because real investment will continue whenever the prospective rate of return exceeds the cost of additional capital.

While eager to obtain control over territorial sales restrictions under article 85(1), the EC Commission may agree too readily to grant these restrictions exemption under article 85(3) based on the capital investment incentive argument.

der of the contract, the remainder should remain enforceable.[201] In fact, exclusive territorial promises and territorial sales restrictions (including the licensor's promise not to compete with the licensees) are perfectly severable. According to the opinion of one American judge in a case outlawing territorial sales restrictions, "the judicial surgery did not cut the heart out of the body of the license agreement."[202] Indeed, this is the conception underlying the *Nungesser* judgment. Otherwise, the European Court would have been unable to quash the part of the Commission's decision that dealt with the exclusivity itself, and at the same time uphold the part that outlawed territorial sales restrictions.

(4) Contractual Provisions and Infringement Remedies

In its own *Nungesser* decision, the Commission also struck down the German license's use of the infringement remedy to repel imports into Germany of products first sold in France by the French licensee.[203] On that issue, the Court has endorsed the Commission's decision.[204] The positions of the Commission and the Court, however, are both highly questionable.

Suppose that a licensing agreement contains only an exclusivity promise, but that the licensor, or the licensee, brings infringement proceedings to keep out neighboring licensees. Clearly, the infringement action is unilateral. The only way to bring it within the ambit of Article 85, a provision aimed at restrictive agreements, is to hold that the combination of the exclusive license with the infringement action violates Article 85. In such a case, a provision which itself does not restrict competition becomes unlawful when combined with the use of a statutory remedy. It is impossible, however, to separate the exclusive licensing feature from the restriction on sales; to do so would amount to forbidding a unilateral action.[205] This result conflicts with the principle of partial illegality ex-

---

201 For United States antitrust law, see Superior Bedding Co. v. Serta Assoc., 353 F. Supp. 1143, 1147 (N.D. Ill. 1972); for EEC law, see Consten and Grundig v. Comm'n, 1966 C.J. Comm. E. Rec. 299, 344, 5 Common Mkt. L.R. 418, 474; Société Technique Minière v. Maschinenbau, 1966 C.J. Comm. E. Rec. 235, 250, 5 Common Mkt. L.R. 357, 375.

202 Superior Bedding Co. v. Serta Assoc., 353 F. Supp. 1143, 1148 (N.D. Ill. 1972).

203 Bomberault v. Eisele and Inra, 21 O.J. EUR. COMM. (No. L 286) 23, 23 Common Mkt. L.R. 434, 450, 458 (1978).

204 The EC Court analyzed the agreement at issue as a license. *See supra* note 179. However, the Nungesser society could sue infringers only because it was the owner of the breeders' rights. According to the German law on breeder protection, it is dubious that a licensee, even an exclusive licensee, might use statutory remedy. *Cf.* the solution in patent law as described by Krasser & Schmid, *Der Lizenzvertrag über technische Schutzrechte aus der Sicht des deutchen Zivilrechts*, 1982 GRUR INT 331.

205 *See* remarks by Joliet on the *Beguelin* case, Beguelin Import v. S.A.G.L. Import, 1971 C.J.

pounded above.

In fact, the restriction on competition in such a situation stems not from the agreement, but from the national law defining the scope of the infringement remedy. It lies in legislative action, *i.e.* a state measure, as opposed to collusive action by business firms.[206] The proper course of action would have been for the Commission to challenge the German breeders' rights statute under Article 169 for violating the rules on the free movement of goods. Also, the importer could have raised the German statute's incompatibility with Community law as a defense to the infringement action.[207] Use of Article 85 has merely confused competition law with the rules on the free movement of goods.

C. Restrictions on Manufacturing and Selling Competing Products—The Exclusive Dealing Clause

1. *The EC Commission's View*

The *Campari* case shows that while exclusive dealing clauses in trademark licensing agreements are caught as a matter of principle by Article 85(1), they are likely to be exempted under Article 85(3). The

Comm. E. Rec. 949, 959-960, 11 Common Mkt. L.R. 87, 96, in 8 REV. TRIM. DRT. EUR. 434-435 (1972).

206 Thus, it falls under the rules on the free movement of goods that are directed against such measures. *See* Joliet, *Patented Articles and the Free Movement of Goods within the EEC*, 28 CURRENT LEGAL PROBS. 15, 24-28 (1975) Ullrich, *Intellectual Property in the EEC*, in COMPETITION LAW IN WESTERN EUROPE AND THE U.S.A., § 8, 20 (D.J. Gijlstra ed. 1977).

In the United States, one District Court similarly equated use of a *statutory remedy* (i.e. section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526 (1982) to prevent importation of genuine goods by unauthorized middlemen with exclusionary behavior violative of section 2 of the Sherman Act 15 U.S.C. § 2 (1982). *See* United States v. Guerlain, 155 F. Supp. 77 (S.D.N.Y. 1957). If § 526 could be used to that end, an issue left to the unauthorized importer to litigate, it seems strange to prosecute private parties for taking advantage of the statute. Because the statute itself created the obstacle to competition, as has been argued cogently by Dam, *Trademarks, Price Discrimination and the Bureau of Customs*, 7 J.L. & ECON. 45 (1964), the proper remedy would be to amend the statute which the United States Government has never managed to do. *See* W. FUGATE, 2 FOREIGN COMMERCE AND THE ANTITRUST LAWS 96-98 (3d ed. 1982).

Although the *Guerlain* case provides rather weak authority (the action was finally dismissed, *see* FUGATE, *supra*, at 96), the case has left imprints on the Justice Department attitude. In DEPARTMENT OF JUSTICE, ANTITRUST GUIDE FOR INTERNATIONAL OPERATIONS 36 (1977), the Department warned that it "would look with considerable suspicion upon the use of Section 526 to exclude [imported products originating with affiliated or licensed foreign firms]". *See* J. ATWOOD & K. BREWSTER, 2 ANTITRUST AND AMERICAN BUSINESS ABROAD, 58-59 (2d ed. 1982) (critical remarks).

207 Because article 30 has direct effects, according to the doctrine of primacy that the EC Court has adopted in Costa v. Enel, 1964 C.J. Comm. E. Rec. 585, 594-595, 3 Common Mkt. L.R. 425, 456, and *Simmenthal II*, 1978 C.J. Comm. E. Rec. 629, 643-644, 23 Common Mkt. L.R. 263, 282-83, the national court should have been under a duty to disregard the German statute and, thus, rule in favor of the freedom of import.

EC Commission held first that the Campari licensees' promise not to manufacture and sell competing products, under a third party's license or under their own brands, violated Article 85(1). The Commission based its holding on the simplistic ground that such a promise eliminated the Campari licensees as potential buyers or licensees of other brands.[208] But, the Commission then proceeded to grant Article 85(3) exemption to the licensees' promise. It found that because the restriction compelled the licensees to concentrate their sales efforts on Campari and prevented them "from neglecting Campari in the event of conflict between the promotion of Campari sales and possible interest in another product"[209], it improved the distribution of the Campari products. This reasoning typifies the EC Commission's formalistic approach for ascertaining whether an agreement restricts competition within the meaning of Article 85(1).[210] Quite clearly, if the exclusive dealing clause is necessary to promote competition with other brands, it does not restrain market competition at all. It falls beyond the ambit of Article 85(1). Article 85(3) exemption is neither necessary nor appropriate.

2. *The United States Case Law*

As the recent *Joyce Beverages of N.Y. v. Royal Crown Cola* case demonstrates[211], the Rule of Reason analysis of United States courts is far more sophisticated. In that case, a Royal Crown Cola licensee for the New York area planned to accept a license to manufacture and to sell a competing cola product from another trademark licensor. When Royal Crown threatened to terminate its license, the licensee filed a motion for a preliminary injunction to restrain Royal Crown from terminating the license to distribute its cola products. The licensee alleged that if an exclusive dealing clause were read into the contract, it would violate antitrust law.

Judge Pollak held, however, that by accepting a license to manufacture and sell a competing cola, the Royal Crown licensee breached its obligation to devote its best efforts to handling and expanding Royal Crown sales. The licensee was proposing to sell the new product to the established customers of the old product and planning to use the advertising and distribution methods developed in the promotion of the first for the promotion of the second. The licensee would control pricing,

208 *Compari*, 21 O.J. EUR. COMM. (No. L 70) 69, 73, 22 Common Mkt. L.R. 397, 406 (1978) (section 53).

209 *Id.* at 75, 22 Common Mkt. L.R. at 410 (§ 71).

210 *See supra* text accompanying notes 186-87.

211 Joyce Beverages of N.Y. v. Royal Crown Cola, 555 F. Supp. 271 (1983).

placement of local advertisements, special promotions, feature advertising and special displays of two competitive products. The licensee certainly would not be able to protect the interests of two competing trademarks licensors evenhandedly.[212] In the circumstances of the case, Judge Pollak interpreted the best efforts clause to mean that best efforts were exclusive efforts.[213]

But, Judge Pollak denied that such an interpretation of the contract violated antitrust law. "The crucial inquiry is whether the opportunities for other competitors to enter or remain in the market has been significantly limited. The test is whether the system of challenged exclusivity arrangements in fact forecloses competition from a substantial market."[214] The exclusive dealing clause "insures that the bottler devotes undivided loyalty to its particular brand and that it competes vigorously against all competing brands."[215] As long as the evidence does not show that the competing licensor would be foreclosed from the market by reason of its inability to find a suitable distributor in the area in question, such practice does not constitute an antitrust violation. In the *Royal Crown* case, there were viable alternative methods of distribution for the competing product.[216] There was not any antitrust violation.

The United States Federal Trade Commission's majority opinion in *In re Coca-Cola Co.* also strongly differs from the EC Commission's view that exclusive dealing clauses are anticompetitive. The majority opinion suggests that it is not the exclusive dealing clauses that have adverse effects on competition, but the practice of "piggybacking," *i.e.* the production and sale by a bottler of soft drink brands trademarked by two or more syrup companies

> [I]n the sale of finished soft drink products to retailers, piggybacking allows a Coca-Cola bottler to control the pricing and marketing strategies for each piggybacked brand. . . Thus he may determine unilaterally the extent to which pricing policies respecting one of these brands will be permitted to "cannibalize" sales of his other brands. . . Consequently, if a competing bottler undercuts Coca-Cola and thereby cuts into Coca-Cola sales, the Coca-Cola bottler's only defense may be a responsive price cut. In contrast, if a Coca-Cola bottler who piggybacks Dr. Pepper finds that his price on a Dr. Pepper promotion is cutting too deeply into his Coca-Cola sales, he may find it in his interest to raise the price of Dr. Pepper rather than lower the price of Coca-Cola. . . Thus, the Coca-Cola bottler in New York City, having assessed the potential strength of Dr. Pepper in New York and hav-

212 *Id.* at 275.
213 *Id.* at 277.
214 *Id.* at 279.
215 *Id.* at 278.
216 *Id.*

> ing determined that its entry was imminent, became a Dr. Pepper 'piggybacker'. . . because: 'we would rather compete with ourselves than have somebody else compete with us'.[217]

According to the majority opinion, "the 'intensity' of interbrand competition cannot be realistically assessed simply by naming and counting brands available in a market."[218] Indeed, "the fact that piggybacking tends to increase the concentration of brands controlled by the strongest bottlers in a territory" is far more significant.[219]

3. *Suggested Solution*

To conclude, because a licensee cannot serve two masters in an adverse relationship,[220] a Rule of Reason analysis should find that exclusive dealing clauses in trademark licensing agreements are not anticompetitive. It is "piggybacking" which has detrimental effects on interbrand competition at the retail level.

But, as Commissioner Clanton stressed in his dissenting opinion in the *Coca-Cola* decision,[221] "piggybacking" may operate procompetitively in exceptional circumstances. For example, in the case of high barriers to entry due to the steep capital requirements of bottling, "piggybacking" is the only means by which a new entrant can enter the market. Exclusive dealing clauses ought to be struck down only in such special circumstances.

D. Obligations Respecting the Protection or Policing of the Trademark

1. *The Non-Challenge Clause.*

a. The EC Commission's Case Law Relating to Agreements Other than Trademark Licenses.

A trademark can be subject to different challenges: opposition to its registration, action for annulment or nullity raised by way of defense to infringement proceedings, or action designed to obtain a decision on the loss of the trademark. The promise not to challenge the trademark in this way and on one of the grounds provided by national laws may appear in various arrangements. More specifically, in trademark licensing agreements, the so-called non-challenge clause covers two types of undertakings. First, licensees may recognize the validity of the trademark —

[217] 91 F.T.C. 517, 637 (1978).
[218] *Id.* at 639.
[219] *Id.*
[220] 555 F. Supp. 271, 277 (1983).
[221] 91 F.T.C. 517, 593-598 (1978).

and thereby promise not to attack it on grounds such as the descriptiveness or the lack of distinctive character. Second, and this type of undertaking is more frequent, licensees may recognize that their only rights to the trademark are those granted by the agreement. By accepting that the licensor is the owner of the trademark, the licensees surrender the possibility of asserting a prior right to it.

Contrary to what certain writers have stated,[222] the EC Commission has not examined the legality of non-challenge clauses in trademark licensing agreements, but only in other kinds of arrangements.

First, the EC Commission has ruled[223] against the validity of non-challenge clauses that are intended to prevent one party from bringing suit based upon the non-use of the trademark by the other party for periods of more than five years after the conclusion of the agreement.[224] Such covenants, which appeared in so-called trademark delimitation agreements, were designed to end a dispute between the parties over the registration by one of them of the trademark. The policy underlying this position is that "the object of the user requirement is to avoid overloading the trademark register with unused prior marks in order to facilitate the registration of new marks for new products and their entry into the market."[225] The EC Commission found that private arrangements which defeat that legislative purpose by preventing one party from applying for the cancellation of an unused trademark conflict with an overriding public interest[226] and violate Article 85.

222 *See* Kinkeldey, *supra* note 73, at 146.

223 *See* Toltecs v. Dorset, 25 O.J. EUR. COMM. (No. L 379) 19, 39 Common Mkt. L.R. 412 (1983). *See also* Penney's, 21 O.J. EUR. COMM. (No. L 60) 19, 22 Common Mkt. L.R. 100 (1978). The *Penneys* decision did not deal with a true trademark delimitation agreement. It was a trademark assignment, which was designed to give a single company the exclusive right to use the trademark, "Penney's" throughout the EEC.

224 On the obligation to use the trademark, *see* e.g. Article 5(3) of the Uniform Benelux Trademark Law, Article 11 of the French Trademark Law of 1964 and Article 11(1)-4 of the German "Warenzeichengesetz" in the version of 2 January 1968. There is an essential difference between those three legislations. According to the French and German laws, the uninterrupted period of non-use must precede immediately the date on which a third party applies for cancellation ("extinction" or "Löschung"). By contrast, under the Benelux law, the applicant can invoke a non-use that has lasted five years, regardless when the non-use occurred and of whether the trademark has been used afterwards.

Assuming that the dates of registration and of the non-challenge covenant coincide, the EC Commission's position invalidates any kind of agreement restricting an application for cancellation on ground of non-use. The only non-challenge covenants which may be upheld are those which concern older registrations. The policy reason underlying this difference in treatment does not appear clear, to say the least.

225 *Toltecs-Dorcet*, 25 O.J. EUR. COMM. (No. L 379) 26, 39 Common Mkt. L.R. 412 (1982).

226 *Id.* However, because only private parties bring suits for the cancellation of an unused trademark, it is questionable whether a public interest is at stake.

There is no need to discuss whether this stand is correct or not. This line of decisions is not revealing as to the position the EC Commission would take with regard to non-challenge clauses if they are in trademark licensing agreements. A licensor is not likely to be confronted with the particular threat against which parties in those cases seek to protect themselves: loss of the trademark because of non-use. In practice, a business would have no interest in becoming a licensee for a trademark which is unexploited and therefore unknown. On the other hand, once a licensing agreement has been concluded, the licensee is under a duty to use the trademark and that use of it enables the trademark owner to meet the statutory requirement.

Second, the EC Commission has found that provisions in patent licensing agreements which require licensees to recognize certain words as valid trademarks violate Article 85.

> In relinquishing by contract the possibility of bringing (the descriptiveness) into play, the licensee renounced the opportunity of using names or symbols that might indicate generally, and without reference to a specific undertaking, a particular sport in a striking way to a broad public. Such a possibility might have represented an important element in their competitive behaviour, particularly in advertising. Conversely, the licensor could gain an unjustified competitive advantage if it succeeded in monopolizing the use of any such name or symbol for itself. The obligation of the licensees not to challenge the trademarks was advantageous in this context. . . [T]he conclusion of a licensing agreement concerning patents only must not be used in order to induce the patent licensee to acknowledge the validity of trademarks belonging to the licensor or third parties and thus to deny him the opportunity of clarifying whether use of the relevant marks is open to all competitors.[227]

But the EC Commission explicitly left undecided "whether a non-challenge clause with regard to a trademark also violated Article 85(1) when it is part of an agreement concerning the licensing of this very trademark."[228]

b. Suggested Solution

In my view, the EC Commission should not consider promises not to challenge the licensed trademark as infringements of Article 85.

Generally, the utility of a licensee's promise not to challenge the validity of the trademark on grounds of descriptiveness is doubtful. Licensees are not likely to take such a step anyway. A business has no interest in becoming a licensee for a trademark which could be proved to

227 *Windsurfing International*, 26 O.J. EUR. COMM. (No. L 229) 1, 15, 39 Common Mkt. L.R. 1 (1983).
228 *Id.*

be generic. Moreover, once the licensee has entered into a license agreement, it would be contrary to its self-interest to assert that the licensed trademark is generic. Having invested large sums in manufacturing and marketing the trademarked products, the licensee would lose the value of those investments once others could freely use the trademark. Thus, such a restrictive provision merely deprives licensees of a right which they are not likely to exercise anyway.

That situation, however, differs somewhat from attacks on the ownership of the trademark. In fact, a licensee may well have an interest in asserting a prior right against the licensor. But, a potential licensee with a claim to a prior right in the use of the trademark should not enter into a licensing agreement in the first place. EEC competition law should not come to the rescue if a licensee later realizes such a mistake. There is no policy reason to support promotion of a licensee's interest rather the licensor's. The trademark's use will be monopolized — regardless of whether it is the property of the licensee or of the licensor.

If the EC Commission's case law were to evolve in another direction, it would contrast markedly with United States law. An agreement whereby one party recognizes either another party's ownership of a trademark or the general validity of that trademark estops that first party from claiming rights to ownership or from contesting the trademark's validity. United States courts enforce such agreements and uphold the contract principle that contracting parties may not repudiate their promises solely because they later become dissatisfied with their bargains.[229] Although in *Lear v. Adkins*, United States courts found this principle to conflict with the patent policy—that ideas in general circulation should be available for the public good unless protected by a valid patent[230] — they have distinguished trademark law principles from those of patent law.

> [T]he public interest in guarding against the depletion of the general vocabulary available for the description of articles in commerce is not so great that it should take precedence over the rule of the law of contracts that a person should be held to his undertakings.[231]

Even in the absence of any contractual provision in the contract, however, a licensee is considered estopped from claiming ownership in the trademark or from contesting its validity by virtue of the licensing agreement itself.[232] Apparently no one has yet thought to apply antitrust law

229 Beer Nuts Inc. v. King Nut Co., 477 F.2d 326, 328 (6th Cir. 1973).

230 Lear Inc. v. Adkins, 394 U.S. 753 (1968).

231 Beer Nuts Inc. v. King Nut Co., 477 F.2d 326, 329 (6th Cir. 1973).

232 *See* Prichard Co. v. Consumer Brewing Co., Donald F. Duncan Inc. v. Royal Tops Mfg. Co., 343 F.2d 655, 657 (1965); Smith v. Dental Prod. Co., 140 F.2d 140, 148 (7th Cir., 1944), *cert.*

to overturn those principles.

The EC Commission would be well-advised to follow the United States example.

2. *Prohibitions on License Assignments*

Under the Belgian and French laws of contracts, patent licenses are granted in consideration of the licensee's personal qualities, for example, financial assets, technical ability, manufacturing facilities, trade connections and marketing skill. Thus, patent licenses are personal in nature and, unless an express permission is stipulated, are not transferable.[233] Even if there is no case to support that proposition, the same rule undoubtedly applies to trademark licensing agreements. If the licensee is prohibited from assigning the license when the contract does not spell it out, it would be absurd to declare an assignment prohibition anticompetitive when expressly stipulated. In fact, because such prohibitions would not be severable, a finding that they are anticompetitive would result in invalidating the license agreement itself, despite the fact that the license agreement as such is a perfectly legitimate transaction. Therefore, an assignment prohibition is, in my view, beyond the reach of Article 85(1).

Although the Commission reached the same the conclusion in the *Campari* decision, it did not base it on a statutory duty theory. It reasoned only that "by banning assignments, the licensor is simply safeguarding its freedom to select its licensees. When it enters into an agreement the identity of the other party is highly material to it and it must remain free to decide with whom it will deal."[234]

Often, however, the agreement goes one step further than spelling out a prohibition on assignment. The licensor may also reserve the right to terminate the agreement if the licensed corporate entity passes into the control of a third company with which the licensor prefers not to do business, because, for instance, it is one of its competitors.[235] As there is no license assignment in the legal sense in such cases, it may be necessary under the Belgian and French law of contracts to provide expressly for such a right. Such a provision, therefore, cannot be justified by the statutory duty analogy. Nevertheless, those provisions should certainly be

denied, 322 U.S. 743 (1944); Medd v. Boyd Wagner Inc., 132 F. Supp. 399, 405 (ND. Ohio, 1955); GILSON, *supra* note 34 at § 6.03(8).

233 *See* Joliet, *supra* note 56, at 197-198 and the references cited.

234 21 O.J. EUR. COMM. (No. L 70) 69, 75; 22 Common Mkt. L.R. 397, 409 (1978) (section 65).

235 In Superior Bedding v. Serta Assocs., 353 F. Supp. 1143, 1149-1150 (N.D. Ill. 1972), the court construed a provision prohibiting assignment of the license, directly or "otherwise", as embracing indirect assignment through transfer of ownership of a majority of a licensee's stock. The court held a new non-assignment provision that explicitly prohibited indirect assignment to be reasonable.

considered as outside the scope of Article 85(1). They merely supplement the assignment prohibition in order to prevent a result which, from an economic point of view, can hardly be distinguished from an assignment in the technical sense. It has been stressed that to allow a licensee to control marketing and pricing policies of two competing trademark licensors would be contrary to the basic requirements of competition.[236] If one producer, by taking over another company, were to become the licensee of another producer, the anticompetitive effects would be even worse.

3. *The Licensor's Obligations to Sue Infringers and the Licensee's Obligation to Inform the Licensor of Trademark Infringements*

Under the Uniform Benelux Trademark law, licensees are not empowered to bring actions for infringement of their licensed trademarks. They may only join the proceedings brought by the licensor in order to claim compensation for their own damages.[237]

Of course, the licensor will almost always have a self-interest in asserting the trademark protection against infringers. Nevertheless, the question arises whether a good faith principle of the law of contracts binds a licensor to sue, even in the absence of any explicit provision in the agreement. An affirmative answer has been advocated with regard to patent licenses under the French and Belgian laws.[238] In my view, the same answer should extend to trademark licenses. If the law imposes such a duty upon the licensor, however, it should impose a corresponding duty on the licensee. The licensee should be obligated to inform the licensor of potential trademark infringements and to assist in the infringement proceedings.

Again, if one assumes that the licensor's duty to sue infringers derives from the general law of contracts, then invalidating an explicit promise to the same effect amounts in fact to a challenge to the licensing agreement itself. The reasoning is the same as in the case of the prohibition on assignment. Such a restriction does not restrict market competition anyway. A problem arises only because of the Commission's mechanical tendency to treat any restriction on either party's freedom of conduct as anticompetitive.[239]

A troublesome problem arises, however, from the fact that certain

236 See *supra* text accompanying note 217.
237 *See supra* note 151.
238 *See* Joliet, *supra* note 56, at 183-186.
239 *See supra* text accompanying notes 185-86.

national laws erroneously extend the concept of infringement to a licensee's direct sales outside the territory specified in the license. In view of that position, territorial licenses — and all licenses are territorial — are arguably coupled with a licensor's promise to resort to its trademark rights to protect each licensee from direct competition by neighboring licensees. But this is not actually the case.

As we have seen, licensees who hold a license for only part of the Benelux territory are not infringers if they sell directly into another part of that territory.[240] By contrast, national trademark laws may grant infringement remedies against foreign licensees who export directly into the domestic market.[241] To that extent, however, the EEC rules on the free movement of goods preclude their applicability, at least with regard to trade between EEC countries themselves.[242] Infringement remedies are not available in that situation either. In most cases, the obligation to sue infringers is thus limited to persons who sell true counterfeits, and does not carry a duty to bring infringement proceedings against invading licensees who sell genuine goods.[243]

IV. CONCLUSIONS

Of the many restrictive clauses reviewed in this study that are common to trademark licensing, very few raise serious antitrust problems. I would cite only price restrictions, tying-like practices, prohibitions on the resale of secret ingredients and territorial sales restrictions. But those practices are not all equally objectionable. The traditional view is that price restrictions are inherently anticompetitive. The obligation to buy non-secret supplies from the licensor or from its designated sources only would run a smaller risk of antitrust condemnation if it were analyzed, as I believe it should be, as a requirements contract rather than as a tie-in arrangement.[244] Too little is known yet about the purpose of a ban on the resale of secret ingredients to justify a strict presumption of illegality. Finally, the case of territorial sales restrictions, which is certainly the most difficult, remains.

Whether intrabrand and interbrand competitive effects of territorial sales restrictions are subject to Rule of Reason balancing at the Article

240 *See supra* text accompanying notes 142-43.

241 *See supra* text accompanying notes 146-49.

242 *See supra* text accompanying notes 154-56.

243 *See* article 2 § 1-6 of the Proposal for a Commission Regulation on the application of Article 85 (3) of the Treaty to certain categories of patent licensing agreements, 1979 O.J. EUR. COMM. (No. C 58) *and*, 12, according to which "the obligation to take legal action against an infringer" does not preclude the benefit of the group exemption granted by article 1.

244 *See supra* text accompanying notes 109-16.

85(1) stage or at the Article 85(3) stage,[245] they may be judged only on a case-by-case basis. Whereas certain justifications, such as the capital investment-incentive, may legitimize territorial sales restrictions in one economic setting, they will clearly not do so in a different economic setting. Passage of block exemption regulation by the Commission pursuant to Regulation 19/65[246] would not be a proper tool. Block exemptions should be designed to insure greater legal predictability.[247] Predictability, however, is only feasible if the block exemption is granted by using mechanical tests requiring no extensive factual analysis. But, it is precisely in passing judgment on territorial sales restrictions that extensive market analysis on a case-by-case basis seems to be unavoidable.

The procedures for making formal decisions are cumbersome and take considerable time. The Commission must reduce this administrative burden. At the same time, it must create greater legal predictability and retain enough flexibility to be able to take into account the pecularities of individual cases. The only way to achieve those goals is to issue a general notice that would provide the business community with guidelines for drafting their trademark licensing agreements in order to avoid antitrust pitfalls.[248] Such a general notice should include three parts. First, it should contain a checklist of those provisions which clearly lie outside the scope of Article 85(1): product specification, manufacturing standards, obligation neither to disclose secret recipes nor to use them after the license expiration, obligation to buy secret ingredients, minimum sales quotas and minimum advertising, restrictions on types of packaging and advertising, territorial and exclusive licenses, non-challenge clauses, assignment and sublicensing prohibitions, and promises to sue infringers. Secondly, it should enumerate the restrictions which are devoid of any redeeming virtue and therefore deserve an outright condemnation — such as price restrictions. Thirdly the general notice should outline the

---

245 *See supra* text accompanying notes 196-97.

246 Council Regulation of Mar. 2, 1965 on the application of Article 85(3) to certain categories of agreement and concerted practices, 1965 J.O. COMM. EUR. 533, empowers the EC Commission to grant a group exemption to certain categories of bilateral agreements containing restrictions in relation to the use of industrial property rights, and especially trademarks.

247 On the need for greater legal predictability which, for instance, Regulation No. 67/67 on exclusive distributorship agreements was designed to fulfil, see the EC Court's remarks in De Norre v. Brouwerij Concordia, 1977 C.J. Comm. E. Rec. 65, 94-95, 19 Common Mkt. L.R. 378, 404-05.

248 The European Communities Commission has already issued several notices of that kind. *See* the Notices on Exclusive Agency Contracts Made with Commercial Agents, 1962 J.O. COMM. EUR. 2921; on Patent Licenses, 1962 J.O. COMM. EUR. 2922 (the so-called "Christmas message"); on Cooperation, 1968 J.O. COMM. EUR. (No. C 75) 3; on Minor Agreements, 1977 O.J. EUR. COMM. (No. C 313) 3; on Subcontracting, 1979 O.J. EUR. COMM. (No. C 1) 2. On the binding effect of such notices, see R. JOLIET, LE DROIT INSTITUTIONNEL DES COMMUNAUTÉS EUROÉENNES: LES INSTITUTIONS, LES SOURCES, LES RAPPORTS ENTRE ORDRES JURIDIQUES, 186-189 (1983).

factual conditions under which some restrictions—such as the obligation to buy non-secret ingredients from the licensor, exclusive dealing arrangements or territorial sales restriction—should escape Article 85(1), because they either lack pernicious effects on market competition or possess overall procompetitive virtues.

This approach would of course require the EC Commission to abandon its present practice and to apply a Rule of Reason under Article 85(1). But competition policy would have everything to gain. It is a futile enterprise to subject to the Article 85(3) exemption scheme all agreements which contain any restrictive provisions, but which will ultimately turn out to be procompetitive. The Commission's limited resources would be put to better use if they were utilized to uncover agreements with clearly detrimental effects on competition and to prosecute the participating firms. Those agreements should be the main target of a meaningful competition policy. But will the EC bureaucrats ever learn the lesson from experience?