COMMISSION DECISION

of 12 July 1985

relating to a proceeding under Article 85 of the EEC Treaty (IV/4.204 Velcro/Aplix)

(only the French text is authentic)

(85/410/EEC)

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,

Having regard to Council Regulation No 17 of 6 February 1962, first Regulation implementing Articles 85 and 86 of the Treaty (1), as last amended by the Act of Accession of Greece, and in particular Articles 3 and 5 thereof,

Having regard to the notification filed on 30 January 1963 by Velcro France, Paris, later renamed Aplix SA (and hereinafter referred to as 'Aplix'), of the licensing agreement which Overseas Textile Machinery Sàrl (to whose rights Aplix succeeded on 16 February 1959) had signed on 14 October 1958 with Velcro SA (hereinafter referred to as 'Velcro'), of Nyon, Switzerland,

Having regard to the complaint made to the Commission under Article 3 of Regulation No 17 on 10 November 1981 by Velcro acting jointly with Velcro Europe BV (hereinafter referred to as 'Velcro Europe'), of Haaksbergen, the Netherlands, that the notified agreement infringed Article 85 (1),

Having regard to the Commission Decision of 26 June 1984 to initiate proceedings in this case,

Having given the untertakings concerned the opportunity to make known their views on the objections raised by the Commission, in accordance with Article 19 (1) of Regulation No 17 and Commission Regulation No 99/63/EEC on the hearings provided for in Article 19 (1) and (2) of Council Regulation No 17 (2) and having regard to the written submissions made by Aplix and Velcro and their statements at an oral hearing held on 25 October 1984,

After consulting the Advisory Committee on Restrictive Practices and Dominant Positions,

Whereas:

A. FACTS

I. The notified agreement

The agreement of 14 Ocotber 1958 contains the following clauses:

1. Under clauses 1 and 2, Velcro grants Aplix the exclusive manufacturing and exploitation rights in France, Morocco, Tunisia and all the countries belonging to the French Economic Union for an invention of a type of textile fastener formed of two hook-bearing tapes, which was protected by French patent No 1.064.360.

   Aplix undertakes to exploit the patents in accordance with Velcro's directions or generally to manufacture a technically equivalent product (clause 5). It also agrees to pay Velcro, in consideration of the patent rights and technical support granted to it, a lump sum plus annual royalties on its sales at a fixed percentage of the net selling price ex-works. Velcro is guaranteed a certain minimum amount of annual royalties and is to be allowed to check Aplix's production and sales records for this purpose.

2. Under the first and second sentences of clause 6 Aplix is obliged to sell all the products arising from its exploitation of the patents under the trade mark 'Velcro'. The right to use the trade mark is granted to Aplix free of charge.

3. Under clause 8, Aplix is free to sell the products covered by the agreement in countries in which Velcro has not yet granted an exclusive licence.

   However, the products may under no circumstances be exported directly or indirectly to countries covered by another Velcro licence (clause 2).

4. Clause 19 provides that the agreement, which came into effect on 14 October 1958, is to last for as long as the patents covered by it and any patents that might be obtained in the same field remain valid.

   Clause 7 makes Aplix responsible for defraying the cost of maintaining the patents for the licensed invention, and any patents that might be obtained later in the field of the invention and which Aplix wishes to use, in force in the licensed territories during the currency of the agreement. In the first sentence of clause 9 the parties also undertake to communicate to one another without delay, and free of charge to the other party, any improvements that might be made to the invention.

(1) OJ No 13, 21. 2. 1962, p. 204/62.
(2) OJ No 127, 20. 8. 1963, p. 2268/63.

Supplementary agreements ('avenants') to the initial agreement were signed between Aplix and Velcro on 17 November 1958, 29 May 1972 and 10 December 1973 under which the following further patents were added to that originally licensed, which expired on 12 October 1972:

(a) patents Nos 1.182.436 and 1.188.714 covering a process for manufacturing a loop tape and a hook and loop fastener, which expired on 9 August and 15 December 1977, and

(b) patent No 2.015.550 covering a metal tape fastener, which does not expire until 11 August 1989.

However, it is not contested between the parties that the supplementary agreement of 10 December 1973 was intended to allow Aplix to intervene in an action for illicit copying brought by Velcro against a third party in France.

In these supplementary agreements the parties expressly referred to the clause of the agreement of 14 October 1958 which provides that the exclusive licence covers any patent subsequently obtained in the field of the invention, and agreed that the abovementioned patents also fell within the scope of the exclusive licence.

Aplix maintains that Velcro breached its contractual obligations by failing to communicate to Aplix all the patents that Velcro itself or companies belonging to its group obtained in France.

5. Aplix undertakes to order all its requirements of manufacturing equipment, machinery and accessories from the tape loom manufacturer Jakob Müller, of Frick, Switzerland (third sentence of clause 6).

6. Aplix also agrees not to use this equipment outside the licensed territories (fourth sentence of clause 6).

7. Under clause 12, Aplix undertakes not to manufacture or sell any fastener that might compete with the licensed invention during the currency of the agreement. Velcro similarly agrees not to compete with Aplix directly or indirectly in this field and, in particular, not to grant rights to its inventions to any competitor of Aplix.

8. If Aplix makes any potentially patentable invention in the field covered by the agreement which is subsequently patented in Germany, the United Kingdom, the Netherlands or the US, such patent is to be obtained by Velcro or assigned to it. Fair compensation would be paid to the inventor or the person who has succeeded to the rights of the inventor. Velcro's other licensees would be authorized to use the invention (clauses 9.2, 9.3 and 15), just as Aplix could use any inventions of other licensees or of Velcro.

9. Clause 17 provides for arbitration to settle any disputes arising from the interpretation or application of the agreement and lays down the procedure to be followed.

II. The undertakings concerned in the case

1. Velcro SA ('Velcro') is a Swiss company founded by the engineer M. G. de Mestral, who assigned all his patents to the company. Until 1977 Velcro was not in the business of manufacturing and selling the patented hook and loop fasteners itself, but exploited the patents by licensing and by defending them in infringement actions, of which it has brought a number in recent years in the Netherlands, France and other countries. Besides Aplix, Velcro also licensed the following other companies in the EEC: Ausonia SpA for Italy, Gottlieb Binder for Germany, Van Damme & Cie NV for the Benelux countries and Selectus Ltd for the United Kingdom, Ireland and Denmark. All these licensing agreements were entered into before 1963 and were notified to the Commission and, except for that with Selectus Ltd, have expired. The basic Velcro patents were taken out in all Community countries; they have all since expired long ago.

Being itself unable to provide its licensees with adequate technical support, which they initially obtained from the loom manufacturer Jakob Müller, Velcro set up with its licensees a research association, initially called Eavil and later Dinco. This association was dissolved in 1971.

Since 1969 Velcro's shares have been held by the Netherlands Antilles corporation Velcro Industries NV, Curaçao, which acts as a holding company for the Velcro group. The Velcro group also includes Velcro USA Inc. (Velcro's American licensee), Canadian Velcro, Velcro Israël, Velcro New Zealand and Velcro Europe BV. The main business of the group, which has production units for Velcro fasteners in the US, Canada, India and New Zealand, is the manufacture and sale of hook-and-loop fasteners under the 'Velcro' trade mark in a large number of countries including, in the last few years, European countries.

2. Velcro Europe BV, a member of the Velcro group, was registered in 1977 at Haaksbergen, the Netherlands, as the manufacturing and marketing centre for Velcro products in the European Community.

The fasteners manufactured at Haaksbergen and exported from the Netherlands under the 'Velcro' trade mark qualify as products of Community origin under

Commission Regulation (EEC) No 749/78 [1] because the value of the fabric imported from the US that Velcro Europe uses in making the fasteners is within the limits for the percentage of imported materials in the finished product stated in the Regulation. Since 1984 the fasteners produced by Velcro Europe are entirely manufactured in the common market.

3. The loom manufacturer Jakob Müller, to whom Velcro had already assigned under earlier agreements the development of looms and other equipment necessary for manufacturing the patented product, was designated in Velcro's agreement with Aplix of 14 October 1958 as the exclusive supplier of such equipment, which was in part the subject of patents which had expired in the meantime. The licensees' purchases of this equipment from Jakob Müller have provided the latter's recompense for the effort of developing it. Other manufacturers, especially in Europe and the Far East, have been able to supply equipment comparable to that of Jakob Müller at least since 1977.

4. Aplix manufactures and sells wall coverings as well as self-gripping fasteners, but achieves the bulk of its turnover in fasteners. It is thanks to the exclusive Velcro licence that Aplix has been able successfully to enter the field of plastic fasteners in France, where, at present, it has two factories. It holds a number of patents and registered trade marks in France and in various other countries. It set up a factory in the US in 1982, another in Taiwan in 1984, and established subsidiaries in the Federal Republic of Germany and in Italy in 1983. Between 1978 and 1983 Aplix's turnover tripled, and it reached nearly FF . . . [2] in 1984.

III. The products

(a) The self-gripping hook-and-loop textile fasteners marketed by Aplix under the 'Velcro' trade mark and, since 1977, partly under its own 'Aplix' mark are composed of a tape covered with loops, commercially called 'Astrakan', and a tape covered with hooks, commercially called 'Hooks'. Both tapes are woven in polyamide yarn which can stand temperatures of over 140 °C. When the two tapes are pressed together, the hooks engage the loops. By pulling from one end, the hooks open and release the loops, and then return to their original position because they are set in this position by a heat-setting process.

The hook-and-loop fasteners combining two tapes that are manufactured and sold by Aplix conform to the fastener described in French patents Nos 1.182.436 and 1.188.714, which are referred to as the basic patents and which expired during the year 1977. This is the only type of fastener ever marketed by Aplix or by any other Velcro licensee. The fastener covered by the original French patent No 1.064.360, made up of two tapes each covered with hooks, has never been exploited, because it did not meet the technical requirements of the market.

Aplix does not exploit any improvement patents currently held by Velcro. In particular, it does not manufacture metal-hooked tape, patent No 2.015.550, which was the subject of the supplementary agreement of 10 December 1973.

In accordance with clause 9 assigning to Velcro any patents in the Federal Republic of Germany, the United Kingdom, The Netherlands or the United States for improvements made by Aplix, Velcro holds several patents for inventions made by Aplix and its chairman. Only a few of these patents have been exploited commercially for limited periods.

(b) The hook-and-loop fastener had a novel character when the patents were first exploited and required substantial technical and commercial development by the licensee.

Protracted technical development work was necessary even to produce the materials and it was several months after the agreement was signed before trial production could begin. In France, as in the other territories for which licences were issued, commercial production of Velcro fasteners did not really begin until the end of 1960. Promotion work was also necessary to stimulate demand for what was a completely new product marketed under a trade mark not previously used.

The technical data the parties supplied during the investigation of the case give as the main advantages of the hook-and-loop fastener its ability to withstand a very large number of opening and closing operations with very little wear and the fact that it can be sewn, stuck, bonded or stapled on to the backing material, which enables it to be used to make a quick-release closure in or between a wide variety of different materials, fabrics, cardboard, paper, metal, glass, leather, etc., including those which have to be washed or dry-cleaned.

The main users of the fasteners are, in descending order of importance, household furnishing and clothing manufacturers and distributors, the automotive and transport equipment industries and the leather and footwear industries.

(c) The hook-and-loop fasteners sold under the 'Velcro' or 'Aplix' trade marks are in competition with other types

[1] OJ No L 101, 1. 4. 1978, p. 7.

[2] In the published version of the Decision, some figures have hereinafter been omitted, pursuant to the provisions of Article 21 of Regulation No 17 concerning non-disclosure of business secrets.

of textile fasteners, which are cheaper, partly because of the greater age of the underlying invention and quality differences.

The market for textile fasteners can be divided into two groups of products of widely differing importance:

— slide (zip) fasteners, whose market is about 20 times that for self-gripping fasteners and which to a limited extent are substitutes for self-gripping fasteners;

— self-gripping fasteners, which besides Velcro (hook and loop) fasteners also includes 'mushroom' type fasteners, which directly compete with Velcro fasteners but have a more limited range of applications and inferior performance (they cannot withstand boiling and are suited only to applications involving a very limited number of opening and closing operations).

The French market for self-gripping fasteners (both hook-and-loop and mushroom type) is currently estimated at some 22 million metres of tape, of which about 8 million is mushroom type. Aplix holds about . . . % of this market. At present, its sales are mainly of hook-and-loop fasteners sold exclusively under the 'Aplix' trade mark, with the rest accounted for by mushroom-type fasteners sold under the 'Fixa' mark and new self-gripping plastic fasteners sold under the 'Plasti-Aplix' mark. The market for self-gripping fasteners is contracting because of a fall in consumption by the footwear industry.

The other firms besides Aplix that supply self-gripping fasteners to the French market are Niedick (Federal Republic of Germany), Kanebo (Japan), Kuny (Switzerland) and Louison (France), which sell mushroom-type fasteners under the trade marks 'Brisa', 'Magicloth', 'Fix Velours' and 'Cric Crac' respectively. These manufacturers also sell in other EEC countries. Hook-and-loop fasteners are sold in other EEC countries by Velcro Europe and the Velcro licensee Selectus, which use the 'Velcro' trade mark, and by the ex-licensees of Velcro and the American firm 3M.

IV. The dispute between the parties

(a) At a meeting held in Geneva on 31 May and 1 June 1976 with all its European licensees, Velcro told them that as the licensing agreements contained a large number of clauses prohibited by the EC Commission in its Decision 76/29/EEC (AOIP/Beyrar) (1), they would have to be substantially amended. Velcro mentioned the possibility of terminating the agreements and forbidding the licensees to use the trade mark after expiry of the basic patents.

In an exchange of correspondence with Aplix in November 1977, Velcro told Aplix that the agreement of 14 October 1958 would end with the expiry of French patent No 1.188.714 on 15 December 1977.

Aplix, which had earlier unsuccesfully tried to obtain a licence from Velcro to continue to use its trade mark for a long period after the basic patents expired, contested Velcro's position and declared itself entitled to withhold certain sums Velcro claimed Aplix owed it. In particular, it alleged that it had suffered serious harm because of Velcro's failure to pass on improvement patents to it and to comply with the formalities for registering licences for such patents with the INPI (Institut National de la Propriété Industrielle). Aplix also changed its company name from Velcro France Sàrl, which it had used since 1959 with Velcro's consent, to its present one, Aplix SA, and began to use the 'Aplix' trade mark.
The parties decided to refer their dispute to arbitration as provided for in clause 17 of the agreement, but the arbitrators declined to give a ruling, feeling that they must await a decision by the Commission on whether or not the notified agreement was valid.

(b) Velcro later brought the dispute before the Paris Regional Court (Tribunal de Grande Instance) claiming that Aplix was engaging in unfair competition by taking various steps to deprive the 'Velcro' trade mark of its distinctiveness, and in particular by using the words 'la plus forte production de Velcro en Europe' in its letter headings, and asking the court to declare the agreement terminated through the fault of Aplix.

In its judgment given on 17 March 1981, the court held that the entire dispute was subject to the arbitration clause stipulated in the agreement and declined jurisdiction. Its decision was upheld by the Paris Court of Appeal on 19 October 1981, on the ground that the agreement notified to the Commission enjoyed provisional validity until such time as the Commission took a decision and must be enforced by national courts without reference to Article 85 of the Treaty. The agreement was also held to enjoy provisional validity by a Dutch court when it refused on 23 June 1983 an application for an injunction against one of Aplix's French dealers who was exporting hook-and-loop fasteners to the Netherlands. It found that the exported fasteners must be considered as having been legitimately put on the market in France (by Aplix) under the 'Velcro' trade mark with Velcro's consent.

(c) Meanwhile, following request for information by the Commission, the parties had entered into negotiations early in 1979 with a view to reaching an amicable settlement incorporating the changes the Commission

(1) OJ No L 6, 13. 1. 1976, p. 8.

had asked to be made in the notified agreement, in particular to remove the territorial exclusivity granted to Aplix and the exclusive purchasing obligation, the non-competition clause, the export ban imposed on Aplix and the compulsory assignment of Aplix improvement patents in the Federal Republic of Germany, the United Kingdom, The Netherlands or the United States. The need for these changes was confirmed by the Commission by letters dated 7 June 1979 and 16 November 1981 to Velcro and Aplix respectively.

The negotiations between the parties continued, despite interruptions during which Velcro asked the Commission to issue a statement of objections against the agreement, at least until the summer of 1982, as is shown by letters which the parties' lawyers sent to the Commission on 27 July and 17 September 1982. In the end the negotiations broke down, with each side blaming the other for the failure. Aplix had throughout expressed a willingness to delete the following clauses, which were mainly to the benefit of the licensor:

(i) the ban on exports to countries covered by an exclusive Velcro licence;

(ii) the obligation to purchase exclusively from Jakob Müller;

(iii) the licensee's obligation to assign its rights in improvement patents in the Federal Republic of Germany, the United Kingdom, The Netherlands and the United States; and

(iv) the non-competition clause, except for countries covered by the licence but outside the scope of Community law.

It should be noted that notwithstanding the non-competition clause, Aplix in fact exploited products competing directly with Velcro fasteners, in particular 'mushroom' fasteners and fasteners made under a competing patent invented and obtained by Aplix in 1967.

(d) Since 1979 Velcro Europe has been selling self-gripping fasteners under the 'Velcro' trade mark to French distributors. On 4 November 1981 Aplix wrote to one of these French distributors claiming that its industrial property rights were being infringed, though it did not specify how and, in particular, made no reference to the 'Velcro' trade mark or to the recent French court judgments. In April 1983 it also sent letters and telexes to Velcro Europe alleging that it had infringed a patent Aplix had obtained in 1973 by exporting bonded tapes to France. Subsequently, Aplix explained to the Commission that it was on the basis of this patent that it had written to the distributor on 4 November 1981. According to Velcro, the letter, though hedged with legal safeguards, was extremely threatening and calculated to drive its customers over to Aplix through fear of court action.

(e) In its reply to the Commission, Aplix maintained that its agreement with Velcro was valid until at least 11 August 1989, the date of the expiry of patent No 2.015.550, which was the subject of the supplementary agreement of 10 December 1973. This supplementary agreement, Aplix argued, had been entered into in the same way as the previous ones which had extended the agreement until December 1977, without any objection from Velcro, which had received royalties until that time Aplix contended that it therefore had every justification for claiming that the territorial exclusivity granted to it under the original agreement had been extended until 11 August 1989.

Aplix made it clear, however, that in view of the principle established by the Court of Justice of the European Communities in Centrafarm v. Winthrop (1), it would never have attempted to oppose the entry into its territory of products bearing the 'Velcro' trade mark that had been placed on the market in another Member State under the trade mark by the trade mark owner or with his consent. On the other hand, it contended that the agreement of 1958 granted it an exlusive right to use the trade mark Velcro in France and that this exclusive right entitled it to oppose the entry on to the French market of products bearing the 'Velcro' mark that were directly sold by Velcro Europe to French buyers without having first been placed on the market in the Netherlands. Although repeatedly voicing this position of principle, Aplix does not appear, apart from its action in sending the above mentioned letter to a French distributor supplied by Velcro, to have actually tried to prevent direct imports by Velcro from the Netherlands. Furthermore, Aplix, considering itself bound by the export ban, never made any sales in the EEC countries covered by an exclusive licence from Velcro.

(f) In a letter to the Commission dated 11 July 1983, Velcro again disputed that the notified agreement could be considered to be in force after December 1977, arguing that the agreement could not have been extended by the supplementary agreement of 10 December 1973 because the patent to which it referred had (a) been licensed to Aplix at Aplix's request solely to enable it to intervene in a patent infringement action Velcro had brought against the French company Décor and (b) had never been exploited.

(1) Case 16/74, ECR (1974) 1183.

The following assessment of the clauses of the notified agreement in relation to the competition rules of the EEC Treaty is without prejudice to the view a national court might take of the question whether or not the agreement was extended by the supplementary agreement of 10 December 1973.

(g) At the oral hearing held on 25 October 1984, the parties reiterated their basic positions. In particular, Aplix asked the Commission to recognize its right to oppose direct imports of products bearing the 'Velcro' trade mark should its status as the exclusive licensee of the mark be upheld by a national court.

It also complained of a lack of cooperation by Velcro in connection with the removal from the agreement of the exclusive purchasing clause, the export ban, the non-competition clause and the obligation to assign the rights to improvement patents, which would at least have enabled the Commission to exempt the agreement for the past. Aplix also reaffirmed its wish to reach an agreement with Velcro that was consistent with the competition rules. Velcro, for its part, submitted that the supplementary agreement of 10 December 1973 could not be regarded as a separate later agreement capable of validly extending the life of the 1958 agreement, since in this as in the previous supplementary agreements the parties explicitly referred to clause 19 of the 1958 agreement, which provided for automatic extension.

Velcro also contested the right of Aplix to use the 'Velcro' trade mark in a direct or indirect manner in France after expiry of the basic patents in December 1977 and ruled out the possibility of an amicable settlement in the near future.

B. LEGAL ASSESSMENT

I. The scope of this Decision

This Decision concerns an agreement dated 14 October 1958 to which only two undertakings are party and which was notified to the Commission pursuant to Article 5 of Regulation No 17 before 1 February 1963. It is thus an agreement which – on the assumption that it is caught by Article 85 (1) and that the conditions for the application of Article 85 (3) are fulfilled – the Commission could exempt retroactively under Article 6 (2) of Regulation No 17. The Commission in fact considers it possible that until 15 December 1977, certain of the agreement's clauses could either have fallen outside the scope of Article 85 (1) – the circumstances of the case justifying the protection of the investments made by the licensee in France up to 15 December 1977, which date coincides in the present case with the date of expiry of the basic Velcro patents in France – or have benefited from exemption pursuant to Article 85 (3). However, the Commission considers that at present, there is no need to make a finding as to the validity of the 1958 agreement during the period prior to 15 December 1977, during which the parties honoured the agreement in good faith. Furthermore, the Commission has no knowledge of any claim by a third party, before the Commission or a national court, concerning that period.

On the contrary, the Commission considers it desirable to determine the validity of the agreement in the period following 15 December 1977, on the subject of which the Commission has received a complaint from Velcro SA and one of its licensees. The Commission also considers that there is no doubt that since the expiry of Velcro's basic patents in France in December 1977, the notified agreement is caught by the prohibition contained in Article 85 (1) and does not qualify for exemption pursuant to Article 85 (3).

II. Article 85 (1)

The licensing agreement of 14 October 1958, supplemented by the supplementary agreements of 17 November 1958 and 29 May 1972, and possibly also by the supplementary agreement of 10 December 1973, is an agreement between undertakings within the meaning of Article 85. The agreement has the object and effect of restricting competition within the common market by means of the provisions discussed below. The resulting restrictions have an appreciable effect on the relevant fastener market, given the share of the French market held by Aplix.

1. The provisions of the agreement listed in paragraphs 1 – 8 of section A I above constitute, since 15 December 1977, restrictions of competition in the meaning of Article 85 (1).

Paragraphs 1 and 2 The exclusivity granted to Aplix under the agreement and operated by the parties prevents Velcro from itself exploiting its patents for the fasteners and the 'Velcro' trade mark in France and from offering licences to other firms that might be interested in the patents or trade mark, and so prevents competition in these territories between different persons exploiting the same inventions and the same trade mark.

This restriction on the owner of the industrial property rights has fallen under the prohibition contained in Article 85 (1) at least since the expiry of the basic patents. Assuming that the agreement was validly extended until 1989 and that Aplix exploited until that time Velcro patents that were still valid, an exclusivity for such patents could only be considered compatible with Article 85 (1) of the Treaty if it concerned the introduction and protection of a new technology in the contract

territory, within the meaning of the Court's judgment in the 'Maize seed' case (1), which cannot be maintained in this case.

The exclusivity, as so far applied by the parties, has had the effect of restricting the freedom of Velcro to market directly in France not only any new products resulting from still-valid improvement patents but also products made under the expired basic patents, which are at present the only ones exploited by either Aplix or Velcro.

Article 85 (1) is not excluded from applying to this restriction on the free movement of goods by the fact that the goods are marketed under the 'Velcro' trade mark while under the agreement Aplix has undertaken to sell all products arising from the exploitation of the patents, under the name Velcro. Apart from the fact that such use of the mark is not stipulated as exclusive to Aplix, it must be pointed out that Aplix is wrong in saying that Community law only requires free movement of trade-marked goods which have already been placed on the market in another Member State.

In its Hag judgment (2), the Court of Justice held that it would be contrary to the EEC Treaty to prohibit the marketing in a Member State of goods on which a trade mark had been lawfully placed in another Member State on the ground that an identical trade mark having the same origin existed in the first Member State.

It is clear from this judgment that the assignment of a national mark does not alter the position regarding the applicability of trade-mark law: it does not permit either the assignee or the assignor of a national mark to oppose direct imports by the other on the basis of that law. If it is unlawful to invoke trade-mark law against direct imports even where the mark has been assigned or otherwise transferred (by court order or expropriation), this applies all the more where the mark has merely been licensed.

Thus, in the absence of any justification resulting from a need to protect the introduction of the Velcro mark in France even after December 1977, it is not part of the essential function of a trade mark to enable Velcro or Aplix to isolate national markets by prohibiting imports of products manufactured in another Member State and lawfully bearing the 'Velcro' trade mark affixed by the trade mark owner himself or by any of his licensees. In the present case, the criteria for judging such a restiction on free trade between Member States can only be those laid down in Article 85 (3).

(1) Case 258/78 ECR (1982) 2015.
(2) Case 192/73 ECR (1974) 731.

Paragraph 3 The export ban prevents Aplix from selling its products outside the licensed territory in countries where Velcro has granted exclusive licences. Since exclusive licences are still in force in the United Kingdom, Ireland and Denmark, Aplix cannot export its hook-and-loop fasteners made under Velcro patents from France to those countries. Indeed, Aplix gave a formal undertaking not to make such exports to the United Kingdom in the settlement on 2 November 1983 of an action brought against it by Velcro's United Kingdom licensee, Selectus Ltd, in the High Court of Justice, Chancery Division, London.

As is stated in the AOIP/Beyrard Decision, referred to above, it is no part of the essential function of patent rights to enable the licensor to prohibit the licensee from exporting to countries in which the licensor has granted a licence. The protection of one licensee against the competition of another licensee through a contractual ban on exporting or importing is at least after expiry of the basic patents a restriction of competition within the meaning of Article 85 (1). Furthermore, as stated above, the invocation of the Velcro mark also does not permit such isolation of markets.

Paragraph 4 The automatic extension of the term of the licensing agreement, on condition only that Aplix defrays the cost of maintaining in force the improvement patents it desires to use, denies the licensor the possibility of escaping the restrictive obligations upon him at the end of the statutory period of protection for the basic patents. The restriction of competition resulting from the denial of this possibility to Velcro is all the more serious in that the agreement does not provide a right of early termination, except for serious breach of contract.

As the Commission stated in the AOIP-Beyrard Decision, the parties are free to agree subsequently to extend the term of the original agreement; but the Commission would reiterate the principle that a unilateral extension of the term of an agreement, that is to say, in the absence of a specific agreement to that effect, is not permissible. In the present case, it should be noted that the contract was validly extended to December 1977 by the specific agreements of 17 November 1958 and 29 May 1972 concerning the so-called basic patents, which alone permitted the effective exploitation of the Velcro fasteners.

Paragraph 5 As interpreted and applied by the parties, the obligation to obtain looms and other equipment exclusively from the tape loom manufacturer Jakob Müller relates only to plant specifically for the production of self-gripping fasteners, such as looms for weaving the tape and cutting machines for making the hooks. At least with effect from 1977, when it may be considered that substitute products were on the market (see point A.II.3 above), such an obligation prevents the licensee from obtaining the equipment from other manufacturers in the common market, possibly on more favourable terms.

Besides restricting the freedom of the licensee, this obligation also significantly affects the position of third parties, especially loom builders, who are thereby deprived of an important potential customer.

Paragraph 6 The obligation not to use the looms outside the licensed territory restricts the licensee's freedom to manufacture in Member States other than France the Velcro fasteners for which it has received a patent licence and prevents it doing so in the Member States where it could manufacture most advantageously.

Paragraph 7 The obligation on the parties not to compete with one another prevents the licensee and the licensor from carrying on research in fields connected with the licensed patents or from manufacturing or selling competing products while the agreement is in force.

Paragraph 8 The obligation to allow Velcro to acquire the title to patents in the Federal Republic of Germany, in the United Kingdom and in The Netherlands for improvements discovered by Aplix is, in principle, an unwarranted extension of the licensed patents in that the licensor is using his industrial property rights to appropriate certain foreign patents covering improvement inventions that are wholly or partly the work of his licensee.

2. The restrictions of competition discussed above have been, since the expiry of the basic patents in December 1977, likely to affect trade between Member States. The exclusivity prevents Velcro from exploiting its patents and trade mark directly in France and hence from exporting from or to that territory. The indefinite term of the agreement influences trade between Member States at least when combined, as in the present case, with other restrictive clauses likely to affect trade. The obligation on the licensee to obtain looms and other production plant from a specific supplier in Switzerland prevents it from obtaining these supplies from other Member States and so restricts trade in such products between France and those States. The restriction of the licensee's manufacturing rights to French territory prevents it from transferring its production base to or setting up a new production unit in other Member States. The ban on either party taking an interest in competing products prevents them from engaging in trade in such products across Member State frontiers or obtaining licences for them from firms in other Member States. The export ban isolates certain other Member States from the French market. The obligation to assign Velcro certain improvement inventions prevents the licensee from obtaining patents for such improvements in other Member States and hence from exploiting them in such States, whether directly or by licensing.

III. Article 85 (3)

Under Article 85 (3), the provisions of Article 85 (1) of the EEC Treaty may be declared inapplicable in the case of agreements between undertakings which contribute to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which do not:

(a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;

(b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

1. (a) To the extent that the agreement gives Aplix the benefit of a prohibition on the licensor from exploiting the products in France and from granting further licences there during the life of the patents which expired in 1977, the Commission considers that the agreement was outside the scope of Article 85 (1) to the extent that circumstances of the kind described in the abovementioned 'Maize seed' judgment, especially new technology, the need for investment and a beneficial effect on competition *vis-à-vis* other products, were present in this case until December 1977, or that it could in any event have been exempted under Article 85 (3).

The exclusivity no doubt made it easier for Aplix to take upon itself the risk of investing in the exploitation of the Velcro patents and thus facilited the development of a new product, self-gripping fasteners, in competition with slide fasteners, so contributing to technical and economic progress.

The industrial exploitation of the Velcro patents through licensing provided the user industries with a product which they came to appreciate for its qualities and its suitability for particular applications. The user industries can thus be said to have received a fair share of the benefit resulting from the agreement. The territorial protection resulting from the licensee's exclusive sales rights and the related ban on the licensor exporting into the territory can be considered to be indispensable for inducing the licensee to undertake a commitment to develop and manufacture a new product, which when the agreement was signed was still at an experimental stage, and to build up from scratch a

market for the product and considerable goodwill for the 'Velcro' trade mark. The agreement did not eliminate competition for a substantial part of the products in question, since there are many other producers in France manufacturing competing products.

(b) The Commission sees no justification under Article 85 (3), however, for restrictions on the marketing in France of products manufactured by Velcro Europe after the patents for the processes used by Velcro Europe, notably the so-called basic French patents Nos 1.182.436 and 1.188.714, had expired on 9 August and 15 December 1977 respectively.

The Commission would point out that any exclusivity that may be granted for patents under an agreement is indissolubly linked to the existence and continuing validity of the patents. Therefore, in the present case exclusivity can no longer apply between the parties for the Velcro patents, which the licensee exploited throughout their life, and no obstacle can on that basis be placed on the importation and marketing in France of products manufactured using processes that are no longer protected.

Nor can the import of Velcro products into France be justifiably opposed on the basis of use of the trade mark. Although trade mark rights, unlike patent rights, are not subject to a time limit provided the mark continues to be used or its registration is renewed, a trade mark owner or his licensees cannot enforce the rights held in a mark where one of them exports to the other's territory within the common market unless special reasons such as the protection of the introduction of the mark into those territories justifies such action.

In a case like the present one, it can be accepted that exclusive user rights for a trade mark help to promote the entry of a new product in a new respective territory in which the licensor or a licensee operates. However, such exclusive rights must cease at the latest when the basic patents expire, so that the products, which up till then have been protected from competition within national territories, can spread beyond these territories and become established throughout the enlarged market of the Community. In fact, nearly 20 years after the introduction of the Velcro mark to France and other EEC countries, including the Netherlands, the Commission cannot find that in the present case there are special circumstances which might still justify exclusivity of the mark in favour of Aplix or of Velcro after the expiry of the basic patents in December 1977.

(c) Finally, supposing that the contractual relations between the parties did continue after December 1977 for the exploitation of patent No 2.015.550 (and of any other patented processes that Aplix might be entitled to exploit until August 1989), no exclusive manufacturing and sales rights on Aplix's part with respect to this or any other more recent patent could be accepted under Article 85 (3), or even considered as falling outside the scope of Article 85 (1) for a certain period, unless it were established that such patents were actually exploited. The Commission understands that no such more recent patent has been exploited by Aplix. Even if Aplix had done so and exclusive rights in Aplix's favour could be justified, this would not entitle Aplix to oppose imports of products bearing the 'Velcro' mark manufactured in other Member States not according to these patents but to patents that have expired.

2. The export ban on Aplix, the automatic extension of the term of the agreement, the obligation to obtain supplies exclusively from the loom builder Jakob Müller, the prohibition of Aplix from manufacturing the patented product outside the licensed territory, the non-competition clause, and the obligation on the licensee to assign the licensor its rights to certain improvement inventions are not justified since December 1977 by valid patents or by trade-mark rights and do not fulfil the conditions for exemption laid down in Article 85 (3).

(a) The export ban on Aplix is designed to underpin a system of territorial protection for other licensees in other common market countries and for Velcro itself. Whilst export bans imposed by Velcro on Aplix and the other licensees might in the past have been eligible for exemption for a certain period during the validity of the basic patents in France and the other common market countries on account of the novelty of the licensed technology and the investment undertaken by the licensees, there is no longer any justification for such an exemption at least since 1977. This export ban therefore represents a serious limitation of Aplix's freedom to compete within the common market.

(b) The provision in clause 19 of the notified agreement is, in the absence of specific agreements validly extending the agreement beyond December 1977, a serious restriction of Velcro's freedom to escape the restrictive obligations imposed on it in the agreement, and it is difficult to see how this clause

could contribute to improving the production or distribution of the products or promote technical or economic progress.

(c) The obligation upon the licensee to obtain the special equipment it requires for the production of hook-and-loop tape exclusively from Jakob Müller, although it is established that at least since 1977 the licensee could have obtained similar equipment from other suppliers in the common market, is a serious restriction on the licensee's freedom to choose his source of supply. This restriction is thus not necessary to ensure a technically satisfactory exploitation of the invention. Furthermore, after 1977, there is no justification by way of legitimate recompense to Jakob Müller for the effort of developing the equipment necessary to exploit the invention, as Jakob Müller was able to obtain such recompense from supplying Aplix and the other licensees up to that date.

(d) After the expiry of the basic patents, the ban on manufacturing the patented products outside the licensed territory has no beneficial effects for the purposes of Article 85 (3), but acts rather as a brake on better allocation of resources within the common market.

(e) Given that Aplix has not exploited any valid patent since December 1977, the non-competition clause cannot be justified by reason of an improved exploitation of patents. There is also no justification based on a more intensive use of the Velcro mark by the licensee, as Velcro has been disputing the legality of such exploitation since 1977 and Aplix has been using a mark of its own since then.

(f) The restriction of competition involving the compulsory assignment to Velcro of the title to certain foreign improvement inventions made by the licensee also cannot be justified after December 1977. Velcro's basic patents having come into the public domain since then, Velcro can no longer invoke rights to obtain title to any improvement patents.

3. Since not all the conditions laid down in Article 85 (3) are fulfilled in respect of the period following the expiry of Velcro's basic patents, namely 15 December 1977, the notified agreement cannot be exempted after that date.

IV. Article 7 (1)

Where agreements notified before 1 February 1963 do not fulfil the conditions of applicability of Article 85 (3) of the Treaty, and the parties terminate them or amend them so that they are no longer caught by Article 85 (1) or fulfil the conditions of applicability of Article 85 (3), the Commission is empowered, when adopting a decision pursuant to Article 85 (1), to determine the period to which the prohibition laid down in Article 85 (1) applies.

In the present case, Aplix wanted to amend certain clauses of the agreement (see point A. IV (c) above), while Velcro wanted to terminate the agreement in December 1977 (see point A. IV (f). Notwithstanding this disagreement over the amendment or termination of the agreement within the meaning of Article 7 of Regulation No 17, both parties were bound by the agreement until the date of this Decision, as it is an old agreement which benefits from provisional validity. This validity was confirmed by the French and Dutch courts in 1981 and 1983 (see point A. IV (b) above). The Commission considers that in the present case, despite the absence of the conditions laid down in Article 7 of Regulation No 17, since the parties were bound by the agreement until the date of this Decision, the principle of legal security should prevail, at least as regards the effects of the agreement as between the parties, over that of the retroactivity of the Commission Decision. However, the Commission does not consider itself empowered to limit the period during which the prohibition laid down in Article 85 (1) applies if the conditions of Article 7 of Regulation No 17 are not fulfilled.

V. Article 3 (1)

Article 3 (1) of Regulation No 17 provides that where the Commission, upon application or upon its own initiative, finds an infringement of Article 85 of the Treaty, it may by decision require the undertakings or associations of undertakings concerned to bring such infringement to an end. On the basis of the findings set out in sections I, II, III and IV above, the Commission considers that since 15 December 1977 the undertakings in question have committed an infringement of Article 85 (1) and that no exemption may be granted for the notified agreement,

HAS ADOPTED THIS DECISION:

Article 1

As regards the territory of the common market and, in particular, of France, the clauses listed below of the licensing agreement signed by the undertakings referred to in Article 4 on 14 October 1958, and supplemented by supplementary agreements signed on 17 November 1958, 29 May 1972 and 10 December 1973, constitute infringements of Article 85 (1) of the EEC Treaty since 15 December 1977:

1. clause 1 (exclusivity);

2. clauses 2 and 8 (export bans);

3. clause 19 (extension of the term of the restrictive clauses of the agreement beyond the life of the so-called basic patents, namely patents Nos 1.064.360, 1.182.436 and 1.188.714);
4. third sentence of clause 6 (exclusive purchasing obligation);
5. fourth sentence of clause 6 (prohibition on manufacturing outside the licensed territory);
6. clause 12 (non-competition clause); and
7. clause 9 (compulsory assignment of improvement patents in the Federal Republic of Germany, the United Kingdom and The Netherlands).

Article 2

Application of Article 85 (3) of the EEC Treaty is hereby refused.

Article 3

The undertakings referred to in Article 4 shall immediately bring the infringements listed in Article 1 to an end.

Article 4

This Decision is addressed to:

1. Velcro SA,
rue César-Soulié 3,
CH-1260 Nyon
2. Aplix SA,
avenue Marceau, 75bis
F-75116 Paris

Done at Brussels, 12 July 1985.

For the Commission
Peter SUTHERLAND
Member of the Commission