COMMISSION

COMMISSION DECISION

of 15 December 1986

in proceedings under Article 85 of the EEC Treaty

(IV/31.302 — Boussois/Interpane)

(Only the German and French texts are authentic)

(87/123/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 Spain and Portugal, and in particular Articles 4, 6 and 8 thereof,

Having regard to the application filed on 1 August 1984 by Boussois SA, of Levallois-Perret, France, and Interpane Entwicklungs- und Beratungsgesellschaft mbH & Co. KG, of Lauenförde, Federal Republic of Germany, for negative clearance or alternatively exemption under Article 85 (3) of an agreement which they had signed on 3 and 5 September 1983 for an indefinite period,

Having published a summary of the application in accordance with Article 19 (3) of Regulation No 17 (2),

Having consulted the Advisory Committee on Restrictive Practices and Monopolies,

Whereas :

I. FACTS

A. Subject-matter of the agreement

(1) The agreement concerns the transfer by the German firm Interpane to the French firm Boussois of a body of technical information, some patented and some not, in connection with the sale to Boussois of a production plant for applying fine thermal insulation coatings to flat glass to produce insulating 'low-emissivity' glass for double-glazing units. The coating technology used in the plant is one of several processes based on the principle of depositing alternate layers of a precious metal and a metal oxide. The novel technology developed by Interpane involves the alternation of bismuth oxide with silver (called 'colour-neutral coatings') or gold (called 'gold coatings') which maintains a high degree of transparency of the glass. The new plant sold to Boussois entered service in France in 1985.

The licensed technology mainly consists of unpatented technical information that is secret and is of substancial importance ('know-how'). One of the types of coatings is patented in some Member States, however.

(2) The unpatented know-how licensed to Boussois is substantial in that it comprises the following bodies of detailed information about both the production plant and the insulating coatings themselves :

— Interpane's latest technology, at the time the production plant is handed over, concerning the assembly, commissioning and operation of the plant ; in particular, Interpane gives Boussois full details of the design of the plant and of its operating methods and procedures ; for this purpose, plans, drawings and descriptions of materials and operations are attached to the contract, together with specifications of the performance characteristics of the plant and each type of product, lists of the materials and consumables Boussois will have to keep in

(1) OJ No 13, 21. 2. 1962, p. 204/62.
(2) OJ No C 218, 29. 8. 1986, p. 2.

stock to operate the plant satisfactorily and of their suppliers, and lists of spare parts and their suppliers, if any, other than Interpane;

— Interpane's latest technology at the time the plant is handed over and the improvements made to that technology in the five years following the hand-over concerning the insulating coatings for which the Boussois plant can be used, and covering (a) the various stages in the production process, including in particular the preparation, cleaning and inspection of the glass in very large sheets, preparation in the vacuum chamber, in particular the regulation of the cathode potential and gas flows to suit each type of product, the coating process for each type of coating, involving cathode sputtering under vacuum, the discharging of the coated glass from the vacuum chamber and its inspection and handling, and (b) the training of operatives, type approval, packaging and the precautions required in long-distance transport, especially by sea, and the fitting of the finished double-glazing units in buildings.

The unpatented know-how licensed to Boussois is also secret in the sense that, although individual components of it may not be totally unknown or unobtainable, particularly for qualified engineers in the industry, the know-how package as a whole is not readily available, and can therefore be said to be not in the public domain.

(3) The patents licensed to Boussois cover only the 'colour-neutral' coating '1.3', which is marketed by Interpane under the trade mark 'I-PLUS', and for which it holds two patents in Germany, No P 3130857.0-45 of 4 August 1981 and No P 3211753.1-45 of 30 March 1982. The second patent has been extended as European Patent No 83103077.0 to six other Community countries together with Finland, Sweden and Switzerland. It is also registered in the US, Canada and Japan. There are no parallel patents in Denmark, Greece, Ireland, Spain or Portugal.

Although a number of other types of coatings, both 'colour-neutral', other than '1.3', and 'gold', can be made using the transferred know-how without exploiting Interpane's patents, only coatings of the patented '1.3' type are currently used by the parties. Glass with these coatings was first sold on a commercial scale in the Community by Interpane in Germany in January 1983.

B. The significant clauses of the agreement

(4) Boussois is allowed to manufacture the insulating glass in France to the exclusion of any other licensee for the first five years after signature of the agreement and on a non-exclusive basis for an indefinite period thereafter. Interpane has reserved the right to build and operate a similar plant in France itself not earlier than two years after signature of the agreement.

The agreement does not give Boussois a licence to manufacture in other countries and this is understood by the parties as a prohibition on its doing so in respect of any of the coatings concerned and in any of the other 11 countries of the Community, both those in which Interpane holds patents and those in which it does not. Boussois is free to manufacture competing products.

(5) Boussois is allowed to sell the products:

(a) in France, to the exclusion of any other licensee, including licensees for other countries, for the first five years after signature of the agreement and on a non-exclusive basis thereafter;

(b) outside France, including Germany, on a non-exclusive basis for an indefinite period. At present Interpane does not have any licensee apart from Boussois. Boussois's right to sell in any country is understood by the parties as being without prejudice to the possibility of Interpane's later granting another licensee an exclusive sales licence for another territory.

Boussois is also free to sell competing products. Coated insulating glass in expensive to transport

over long distances, being bulky and fragile. It is not normally sold direct to the general public but mainly to processors who resell the finished double-glazing units to the building trade.

(6) The parties undertake the following obligations concerning improvements to, and protection of, the know-how. They agree to communicate to one another on a non-exclusive basis any improvements they make to the transferred know-how during the currency of the agreement. The improvements can be used by the recipient indefinitely just as the original know-how can ; in other words, the period of the licence for improvements is the same as that for the original know-how licensed to the licensee. The parties also agree to preserve the secrecy of the original know-how and any improvements to it for five years following communication of the know-how or the improvements, except if third parties have in the meantime obtained the same information from other sources.

The two parties are agreed that the life cycle of technology in the industry, i.e. the time it takes for an original technology to be replaced by a new one, is generally not more than five years and only in exceptional cases will know-how both remain secret and retain an economic value beyond that average date. Even in that case, the parties are released from their obligation to keep a given piece of information secret after five years from the date it was communicated.

(7) The agreement also contains the following other provisions :

— Boussois pays a fixed sum for the plant, which is spread over several instalments during the construction period,

— Boussois pays another fixed sum for the know-how on the plant and the coatings combined, which is also spread over several instalments during the construction period. The instalments are payable in full even if part of the initially transferred know-how should in the meantime have fallen into the public domain or if the know-how transferred over the next five years should do so prematurely. In respect of the latter, the parties do not rule out additional payments later to preserve the spirit of the agreement,

— in addition to the fixed sums just mentioned, royalties are payable for the use of the patents, but only in respect of patents still in force and only if Boussois uses them,

— Boussois may use its own trade mark or, with Interpane's consent, the trade mark 'I-PLUS'. In fact, Boussois markets the products under its own trade mark 'Diaplus' without mentioning Interpane.

There is no clause prohibiting Boussois from challenging the validity of Interpane's industrial property rights.

C. The relevant products and markets

(8) Double-glazing units using glass coated with an insulating 'low-emissivity' film are a new product which competes with conventional triple-glazing units. Their potential market is therefore the market for double-glazing units made with 'low-emissivity' glass plus that for conventional triple-glazing units.

Because of the slump in the building industry, sales of both types of insulation units increased only slightly between 1983 and 1985 from 6 million m^2 to 6,3 million m^2 in Europe as a whole and from 3,6 million m^2 to 4 million m^2 in the Community. Sales of low-emissivity double-glazing units in the Community in 1985 were about 1,8 million m^2, worth 60 million ECU, or a little under 50 % of the potential market defined above.

However, energy conservation measures and an economic upturn could increase the size of the market and favour the low-emissivity coated-glass units, which are still relatively new though now becoming better known. In that case, the 60 to 70 million m^2 of double and triple glazing of all types now fitted in the 12 Member States of the Community could begin to be renewed at a much faster annual rate than at present. Producers have ample capacity to cope with such an increase in demand.

(9) There are currently two different technologies for applying insulating coatings to flat glass. The total production capacity available in the Community with the two technologies currently exceeds demand by a substantial margin. The first technology, involving treatment of the hot glass while still on the production line, was developed by Saint-Gobain and Glaverbel using two different processes, and coating capacity using this technology is in theory the same as flat-glass production capacity. In the second technology, the coating is applied in a vacuum and the finished double-glazing units must be sealed, but the technique achieves a considerably better thermal insulating coefficient and has thereby created a new market. This second technology is now used by eight main

producers in the Community, and there are three different processes. The first process, using tin, was developed by the German firm Leybold-Heraeus and capacity exists for about three million m^2; the second process, using zinc, developed by the American firm Airco has capacity for about two million m^2; while the third is that developed by Interpane which uses bismuth and for which there is one million m^2 of capacity including the plant sold to Boussois.

(10) The parties, of which Boussois is a glass producer and Interpane a processor, have supplied the following details of their sales and market shares for 1985. Boussois's consolidated turnover from all products was around 200 million ECU. As the glass-coating plant only entered service part way through 1985, its sales of this product were quite low, at two million ECU, and limited to France. Sales of insulation glass of all types by Interpane and its distributors amounted to 35 million ECU, one third being of low-emissivity coated glass and the bulk of the sales being in the Community. Altogether, sales of low-emissivity glass employing the coatings developed by Interpane accounted for around a quarter of vacuum-coated insulation-glass sales in Germany. They were exported mainly to the Benelux countries and the UK, where they accounted for about 40 % of sales. In the other Member States, their market share ranged from nothing (Spain) to 20 % (Italy). The plant sold to Boussois is the first using Interpane's coating technology outside Germany. Its present capacity is 500 000 m^2 a year, or 10 % of the sales of all types of insulation glass in France in 1985.

D. The parties' submissions

(11) In support of their application for negative clearance, the parties submitted that their collective market position, though not insignificant, did not enable them to influence supply and demand conditions to their advantage, and that therefore the constraints the contract placed on their conduct hardly fell into the category of restrictions of competition prohibited by the Treaty. All the restrictions they had accepted were essential to safeguard their interests, so that without them the contract would not have come into being and its effects of disseminating a leading technology and increasing competition within the Community between the new products made with this technology and similar existing products would not have been achieved.

(12) In the alternative, they argued that the exclusivity granted to Boussois led to benefits of a type which the Commission had already recognized as justifying application of Article 85 (3), and that the five-year duration of the exclusivity was reasonable in view of the investment undertaken by Interpane and Boussois and the nature of the transferred technology. The prohibition on Boussois manufacturing outside France was necessary with a view to the appointment of other licensees in other countries of the Community, who would only be prepared to undertake the necessary investment if they were sure that Boussois (or licensees for other territories) would not be free to begin manufacturing in their territory immediately their period of exclusivity expired, competition from imports posing less of a threat because of the difficulties of transport. It was important for Interpane to be able to recruit other licensees because the difficulties of transport made decentralized manufacture the most efficient way of exploiting the technology against the competition from other brands.

The prohibition on Boussois manufacturing in other countries, including those in which Interpane did not hold any patent, did not place it at a disadvantage by comparison with third parties because without a licence those third parties would lack the essential know-how to do so. Finally, the payment for the know-how of a fixed sum spread over several instalments had been agreed by the parties for practical reasons and was not an underhand way of exacting unjustified royalties.

E. Comments of interested parties

(13) In reply to a notice summarizing the agreement and inviting comments, which the Commission published pursuant to Article 19 (3) of Regulation No 17, interested parties wrote to clarify certain points in the description of the different techniques for applying insulating coatings to glass, and particularly to distinguish the in-line method developed by Glaverbel and Saint-Gobain from the vacuum-coating processes developed by Leybold-Heraeus, Airco and Interpane.

II. LEGAL ASSESSMENT

A. Article 85 (1)

(14) Article 85 (1) of the EEC Treaty prohibits as incompatible with the common market all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market, and in particular those which:

(a) directly or indirectly fix purchase or selling prices or any other trading conditions;

(b) limit or control production, markets, technical development, or investment;

(c) share markets or sources of supply;

(d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;

(e) make the conclusion of contracts subject to 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.

(15) Interpane and Boussois are business undertakings and the notified agreement between them is an agreement within the meaning of Article 85 (1).

(16) The following three provisions of the agreement have the object and effect of restricting competition within the common market within the meaning of Article 85 (1):

(a) The exclusivity of manufacture and sale in France granted to Boussois (see point 4, first subparagraph, and point 5) prevents, first of all, other potential licenses for the same territory for five years from the date of the contract and Interpane itself for two years from that date from manufacturing or selling in France the products covered by the agreement, although they might wish and have the capacity to do so; it thus restricts potential or actual competition in France during these periods from other potential French licensees and from the licensor. Secondly, the exclusivity prevents future fellow licensees for other territories in the Community from directly selling, actively or passively [1], in France for five years, so restricting potential competition in France from foreign fellow licensees. Insofar as the exclusivity is not limited to the contractual relationship between Interane and Boussois but also appreciably affects the position of third parties such as potential exclusive licensees for other territories, the agreement cannot on any account be regarded as an 'open' exclusive licence within the meaning of the Court's case law [2].

(b) The prohibition on Boussois manufacturing outside France (see paragraph 4, second subparagraph) restricts its potential sales in other Community countries, especially those in northern and southern Europe, a long way from its present and future manufacturing facilities in France, because the cost of transporting the products over long distances will increase its selling prices in such other countries.

(c) The prohibition on Boussois selling the products in another territory within the Community outside France for which Interpane later appoints another exclusive licensee will prevent Boussois from supplying such territories as soon as the other licensee begins marketing the products there.

(17) The agreement impinges on the rights and obligations of a German company and its French licensee with regard to the manufacture and marketing of certain products throughout the Community; it is therefore likely to affect trade between Member States. In view of the share of the market in several Member States that is held by insulation-glass units made with Interpane's technology and the prospects for the expansion of that market, the restrictions of competition resulting from the agreement and their effect on trade must be considered appreciable.

[1] The notions of active and passive competition are explained in recital 12 of Commission Regulation (EEC) No 2349/84 of 23 July 1984 on the application of Article 85 (3) of the Treaty to certain categories of patent licensing agreements (OJ L 219, 16. 8. 1984, p. 15).

[2] See Judgment of 8 June 1982 in Case 258/78 (Maize seed), ECR (1982), p. 2015.

B. Article 85 (3)

(18) Article 85 (3) allows the provisions of Article 85 (1) to be declared inapplicable in the case of:

— any agreement or category of agreements between undertakings,

— any decision or category of decisions by associations of undertakings,

— any concerted practice or category of concerted practices,

which contributes 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 does not:

(a) impose on the undertakings concerned restrictions which are not indispensible 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.

(19) The block exemption granted by Regulation (EEC) No 2349/84 applies, as well as to patent licensing agreements, also, as explained by recital 9 of the Regulation, to mixed patent and know-how licensing agreements where the patents are necessary for achieving the objects of the licensed technology and the (secret) know-how permits a better exploitation of the patents. A further condition of the application of the Regulation to territorial restrictions on the exploitation of the technology is that the licensed product must be protected by parallel patents in the territories concerned. The present case is distinguished, however, by the importance of the know-how element in the technology, which, as shown in point 2, is a package involving a certain configuration and assembly of components and features that make the technology work, all of which is described in the agreement. This licensing of a complete package in which a detailed body of know-how is the dominant element sets the present agreement apart from licences for the exploitation of a patented invention and know-how additional to the patent. In the present case, the know-how falls into two parts, one covering the production plant, and in particular its assembly, commissioning and operation, and the other covering the various types of coatings for which the plant can be used. For some of these, use of the know-how alone is required. Use of the patents is required for only one type of coating, and even this is not even partially protected by patents in five Member States accounting for a quarter of the Community's population. Furthermore, the licensee is not obliged to exploit the patents throughout the term of the contract or to pay royalties if he does not do so.

(20) The agreement is therefore not covered by Regulation (EEC) No 2349/84, and until such time as there is a block exemption regulation specifically for pure know-how agreements or mixed agreements in which the know-how component consist of a body of knowledge that is crucial for the exploitation of the licensed technology and not just a factor permitting a better exploitation of the patents, the restrictions of competition involved in the agreement require individual exemption. For this the Commission must satisfy itself that all the conditions laid down in Article 85 (3) are fulfilled. The agreement fulfils all the conditions for the following reasons.

Having regard to competitive conditions on the market concerned, the exclusivity granted to Boussois, which protects it against competition from potential fellow licensees for France or for other territories, and the prohibitions on its manufacturing outside France or selling in the territories of other exclusive licensees appointed by Interpane in the future, each produces benefits comparable to those arising from the patent licensing agreements exempted by Regulation (EEC) No 2349/84 and, like those agreements, fulfils the other conditions for exemption as shown in recitals 12 to 15 of the Regulation. In particular:

— they make Interpane, the possessor of know-how which, as shown above, is of substantial importance and not in the public domain, more willing to grant a licence for that know-how and Boussois more inclined to undertake the investment required to manufacture, use and put on the market insulating glass made with Interpane's vacuum-coating process. In this way, they help to disseminate and further develop a new product, thereby improving the production and distribution of the product and promoting technical and economic

progress in the Community. As a result of the building of a plant employing a technology that Interpane has successfully established as one of only three processes now available in the Community for vacuum deposition of insulating coatings on glass, and as a result also of the arrangements for the constant exchange of improvements to the technology, the number of production facilities in the Community and the quantity and quality of the products are increased;

— it is also reasonable to assume, particularly in view of the investment undertaken by Boussois, that consumers will enjoy a fair share of the benefits resulting from the agreement. Nor does the agreement impose restrictions that are not indispensible to the attainment of the above-mentioned objectives. Finally, the provisions of the agreement will not in normal circumstances afford the parties the possibility of eliminating competition in respect of a substantial part of the products in question, particularly as there is effective inter-brand competition on this market in the Community and the parties have not taken any steps to prevent parallel imports of their products, which are quite possible because of the involvement of processors.

All the above also applies to the protection of Boussois and other potential future licensees against even passive competition from one another, in view of the fact that the products are sold to people in the trade who are well-informed and that there are only eight suppliers of the products in the Community. In these circumstances a protection of licensees *inter se* which only covered active competition would be ineffectual as their customers would then be able to 'shop around' all the potential sources of supply in the Community, leaving the licensee completely unprotected during the initial period of launch of the product.

C. Article 8 of Regulation No 17

(21) Under Article 8 (1) of Regulation No 17, exemption may only be granted for a specified period. In view of the peculiar features of the case, and in particular the relative rapidity of technological change in the industry, which, according to the parties, makes the average life cycle of the technology only about five years and has caused them to limit their secrecy obligation and the licensee's exclusivity to this period, the Commission considers it appropriate to grant exemption until the end of the five-year period of territorial protection provided for in the contract. In view, among other things, of the size of Boussois's investment and the time it took to construct the plant, there is no reason to reduce this period on account of the fact that the first marketing of products took place in Germany a few months before the signature of the contract.

D. Clauses not falling within Article 85 (1)

(22) The Commission considers that all the other clauses of the agreement, and in particular those listed hereafter, embody obligations that will normally not fall within Article 85 (1):

(a) the obligation to communicate improvements (see first subparagraph of paragraph 6), given that it is reciprocal and non-exclusive, and that the period of the licence for such improvements is the same as that for the original know-how licensed to the licensee. As a result, at the expiry of the contract neither party will be at a disadvantage compared with the other. In particular, there is no danger for Boussois that at the end of the contract it will find itself in the situation of having to stop using the original know-how licensed to it and any improvements which have since been made to it, even by Boussois itself, and which cannot be used without the original know-how, whereas the licensor can continue using both the original know-how and the improvements, so that the parties would be unable to renegotiate the contract freely and on equal terms. Nor are the arrangements for possible payment for improvements inequitable (see end of second indent of paragraph 7);

(b) the obligation to keep the transferred know-how secret, which does not apply if third parties in the meantime obtain the same information from other sources, and which lasts as long as the average life of the technology, i.e. five years (see paragraph 6);

(c) the arrangements for Boussois's payment to Interpane for the know-how (see second indent of paragraph 7, in particular second sentence); an obligation to pay royalties or a fixed sum, including a fixed sum spread over several instalments whereby outstanding instalments are still payable after the know-how has entered the public domain, is not caught by Article 85 (1) even in the absence of patents;

(d) the obligation on Boussois to pay Interpane royalties for using its patents which, though indefinite because the contract itself has an indefinite term, only continues for as long as the patents are in force and Boussois is still using them (see points 4 and 5 and the third indent of points 7),

HAS ADOPTED THIS DECISION:

Article 1

1. Pursuant to Article 85 (3) of the EEC Treaty, the provisions of Article 85 (1) of the Treaty are hereby declared inapplicable to the agreement between the parties named in Article 3 and notified on 1 August 1984.

2. This exemption shall apply from the date of notification until 30 September 1988.

Article 2

The following obligation is attached to this Decision: Interpane shall inform the Commission of any other exclusive patent and/or know-how licensing agreements that it may sign for the same type of product within the Community during the currency of this Decision.

Article 3

This Decision is addressed to:

1. Boussois SA,
126-130, rue Jules Guesde,
F-92302 Levallois-Perret,

2. Interpane Entwicklungs- und Beratungsgesellschaft mbH & Co. KG,
Sohnreystraße 21,
D-3471 Lauenförde.

Done at Brussels, 15 December 1986.

For the Commission

Peter SUTHERLAND

Member of the Commission