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(Acts whose publication is obligatory)

COMMISSION REGULATION (EEC) No 556/89

of 30 November 1988

on the application of Article 85 (3) of the Treaty to certain categories of know-how licensing agreements

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,

Having regard to Council Regulation No 19/65/EEC of 2 March 1965 on the application of Article 85 (3) of the Treaty to certain categories of agreements and concerted practices [1], as last amended by the Act of Accession of Spain and Portugal, and in particular to Article 1 thereof,

Having published a draft of this Regulation [2],

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

Whereas :

(1) Regulation No 19/65/EEC empowers the Commission to apply Article 85 (3) of the Treaty by Regulation to certain categories of bilateral agreements and concerted practices falling within the scope of Article 85 (1) which include restrictions imposed in relation to the acquisition or use of industrial property rights, in particular patents, utility models, designs or trade marks, or to the rights arising out of contracts for assignment of, or the right to use, a method of manufacture or knowledge relating to the use or application of industrial processes.

The increasing economic importance of non-patented technical information (e. g. descriptions of manufacturing processes, recipes, formulae, designs or drawings), commonly termed 'know-how', the large number of agreements currently being concluded by undertakings including public research facilities solely for the exploitation of such information (so-called 'pure' know-how licensing agreements) and the fact that the transfer of know-how is, in practice, frequently irreversible make it necessary to provide greater legal certainty with regard to the status of such agreements under the competition rules, thus encouraging the dissemination of technical knowledge in the Community. In the light of experience acquired so far, it is possible to define a category of such know-how licensing agreements covering all or part of the common market which are capable of falling within the scope of Article 85 (1) but which can normally be regarded as satisfying the conditions laid down in Article 85 (3), where the licensed know-how is secret, substantial and identified in any appropriate form ('the know-how'). These definitional requirements are only intended to ensure that the communication of the know-how provides a valid justification for the application of the present Regulation and in particular for the exemption of obligations which are restrictive of competition.

A list of definitions for the purposes of this Regulation is set out in Article 1.

(2) As well as pure know-how agreements, mixed know-how and patent licensing agreements play an increasingly important role in the transfer of technology. It is therefore appropriate to include within the scope of this Regulation mixed agreements which are not exempted by Commission Regulation (EEC) No 2349/84 (Article 1, 2 or 4) [3] and in particular the following :

— mixed agreements in which the licensed patents are not necessary for the achievement of the objects of the licensed technology containing both patented and non-patented elements ; this may be the case where such patents do not afford effective protection

[1] OJ No 36, 6. 3. 1965, p. 533/65.
[2] OJ No C 214, 12. 8. 1987, p. 2.
[3] OJ No L 219, 16. 8. 1984, p. 15.

against the exploitation of the technology by third parties;

— mixed agreements which, regardless of whether or not the licensed patents are necessary, for the achievement of the objects of the licensed technology, contain obligations which restrict the exploitation of the relevant technology by the licensor or the licensee in Member States without patent protection, in so far and as long as such obligations are based in whole or in part on the exploitation of the licensed know-how and fulfil the other conditions set out in this Regulation.

It is also appropriate to extend the scope of this Regulation to pure or mixed agreements containing ancillary provisions relating to trade marks and other intellectual property rights where there are no obligations restrictive of competition other than those also attached to the know-how and exempted under the present Regulation.

However, such agreements, too, can only be regarded as fulfilling the conditions of Article 85 (3) for the purposes of this Regulation where the licensed technical knowledge is secret, substantial and identified.

(3) The provisions of the present Regulation are not applicable to agreements covered by Regulation (EEC) No 2349/84 on patent licensing agreements.

(4) Where such pure or mixed know-how licensing agreements contain not only obligations relating to territories within the common market but also obligations relating to non-member countries, the presence of the latter does not prevent the present Regulation from applying to the obligations relating to territories within the common market.

However, where know-how licensing agreements for non-member countries or for territories which extend beyond the frontiers of the Community have effects within the common market which may fall within the scope of Article 85 (1), such agreements should be covered by the Regulation to the same extent as would agreements for territories within the common market.

(5) It is not appropriate to include within the scope of the Regulation agreements solely for the purpose of sale, except wehre the licensor undertakes for a preliminary period before the licensee himself commences production using the licensed technology to supply the contract products for sale by the licensee. Also excluded from the scope of the Regulation are agreements relating to marketing know-how communicated in the context of franchising arrangements [1] or to know-how agreements entered into in connection with arrangements such as joint ventures or patent pools and other arrangements in which the licensing of the know-how occurs in exchange for other licences not related to improvements to or new applications of that know-how, as such agreements pose different problems which cannot at present be dealt with in one Regulation (Article 5).

(6) Exclusive licensing agreements, i. e. agreements in which the licensor undertakes not to exploit the licensed technology in the licensed territory himself or to grant further licences there, may not be in themselves incompatible with Article 85 (1) where they are concerned with the introduction and protection of a new technology in the licensed territory, by reason of the scale of the research which has been undertaken and of the increase in the level of competition, in particular interbrand competition, and in the competitiveness of the undertakings concerned resulting from the dissemination of innovation within the Community.

In so far as agreements of this kind fall in other circumstances within the scope of Article 85 (1), it is appropriate to include them in Article 1, in order that they may also benefit from the exemption.

(7) Both these and the other obligations listed in Article 1 encourage the transfer of technology and thus generally contribute to improving the production of goods and to promoting technical progress, by increasing the number of production facilities and the quality of goods produced in the common market and expanding the possibilities of further development of the licensed technology. This is true, in particular, of an obligation on the licensee to use the licensed product only in the manufacture of its own products, since it gives the licensor an incentive to disseminate the technology in various applications while reserving the separate sale of the licensed product to himself or other licensees. It is also true of obligations on the licensor and on the licensee to refrain not only from active but also from passive competition, in the licensed territory, in the case of the licensor, and in the territories reserved for the licensor or

[1] Commission Regulation (EEC) No 4087/88 of 30 November 1988 on the application of Article 85 (3) of the Treaty to categories of franchising agreements (OJ No L 359, 28. 12. 1988, p. 46).

other licensees in the case of the licensee. The users of technologically new or improved products requiring major investment are often not final consumers but intermediate industries which are well informed about prices and alternative sources of supply of the products within the Community. Hence, protection against active competition only would not afford the parties and other licensees the security they needed, especially during the initial period of exploitation of the licensed technology when they would be investing in tooling up and developing a market for the product and in effect increasing demand.

In view of the difficulty of determining the point at which know-how can be said to be no longer secret, and the frequent licensing of a continuous stream of know-how, especially where technology in the industry is rapidly evolving, it is appropriate to limit to a fixed number of years the periods of territorial protection, of the licensor and the licensee from one another, and as between licensees, which are automatically covered by the exemption. Since, as distinguished from patent licences, know-how licences are frequently negotiated after the goods or services incorporating the licensed technology have proved successful on the market, it is appropriate to take for each licensed territory the date of signature of the first licence agreement entered into for that territory by the licensor in respect of the same technology as the starting point for the permitted periods of territorial protection of the licensor and licensee from one another. As to the protection of a licensee from manufacture, use, active or passive sales by other licensees the starting point should be the date of signature of the first licence agreement entered into by the licensor within the EEC. The exemption of the territorial protection shall apply for the whole duration of such allowed periods as long as the know-how remains secret and substantial, irrespective of when the Member States in question joined the Community and provided that each of the licensees, the restricted as well as the protected one, manufactures the licensed product himself or has it manufactured.

Exemption under Article 85 (3) of longer periods of territorial protection, in particular to protect expensive and risky investment or where the parties were not already competitors before the grant of the licence, can only be granted by individual decision. On the other hand, parties are free to extend the term of their agreement to exploit any subsequent improvements and to provide for the payment of additional royalties. However, in such cases, further periods of territorial protection, starting from the date of licensing of the improvements in the EEC, may be allowed only by individual decision, in particular where the improvements to or new applications of the licensed technology are substantial and secret and not of significantly less importance than the technology initially granted or require new expensive and risky investment.

(8) However, it is appropriate in cases where the same technology is protected in some Member States by necessary patents within the meaning of recital 9 of Regulation (EEC) No 2349/84 to provide with respect to those Member States an exemption under this Regulation for the territorial protection of the licensor and licensee from one another and as between licensees against manufacture, use and active sales in each other's territory for the full life of the patents existing in such Member States.

(9) The obligations listed in Article 1 also generally fulfil the other conditions for the application of Article 85 (3). Consumers will as a rule be allowed a fair share of the benefit resulting from the improvement in the supply of goods on the market. Nor do the obligations impose restrictions which are not indispensable to the attainment of the abovementioned objectives. Finally, competition at the distribution stage is safeguarded by the possibility of parallel imports, which may not be hindered by the parties in any circumstances. The exclusivity obligations covered by the Regulation thus do not normally entail the possibility of eliminating competition in respect of a substantial part of the products in question. This also applies in the case of agreements which grant exclusive licences for a territory covering the whole of the common market where there is the possibility of parallel imports from third countries, or where there are other competing technologies on the market, since then the territorial exclusivity may lead to greater market integration and stimulate Community-wide interbrand competition.

(10) It is desirable to list in the Regulation a number of obligations that are commonly found in know-how licensing agreements but are normally not restrictive of competition and to provide that in the event that because of the particular economic or legal circumstances they should fall within Article 85 (1), they also would be covered by the exemption. This list, in Article 2, is not exhaustive.

(11) The Regulation must also specify what restrictions or provisions may not be included in know-how licensing agreements if these are to benefit from the block exemption. The restrictions, which are listed in Article 3, may fall under the prohibition of Article 85 (1), but in their case there can be no general presumption that they will lead to the positive effects required by Article 85 (3), as would be necessary for the granting of a block exemption, and consequently an exemption can be granted only on an individual basis.

(12) Agreements which are not automatically covered by the exemption because they contain provisions that are not expressly exempted by the Regulation and not expressly excluded from exemption, including those listed in Article 4 (2) of the Regulation, may nonetheless generally be presumed to be eligible for application of the block exemption. It will be possible for the Commission rapidly to establish whether this is the case for a particular agreement. Such agreements should therefore be deemed to be covered by the exemption provided for in this Regulation where they are notified to the Commission and the Commission does not oppose the application of the exemption within a specified period of time.

(13) If individual agreements exempted by this Regulation nevertheless have effects which are incompatible with Article 85 (3), the Commission may withdraw the benefit of the block exemption (Article 7).

(14) The list in Article 2 includes among others obligations on the licensee to cease using the licensed know-how after the termination of the agreement ('post-term use ban') (Article 2 (1) (3)) and to make improvements available to the licensor (grant-back clause) (Article 2 (1) (4)). A post-term use ban may be regarded as a normal feature of the licensing of know-how as otherwise the licensor would be forced to transfer his know-how in perpetuity and this could inhibit the transfer of technology. Moreover, undertakings by the licensee to grant back to the licensor a licence for improvements to the licensed know-how and/or patents are generally not restrictive of competition if the licensee is entitled by the contract to share in future experience and inventions made by the licensor and the licensee retains the right to disclose experience acquired or grant licences to third parties where to do so would not disclose the licensor's know-how.

On the other hand, a restrictive effect on competition arises where the agreement contains both a post-term use ban and an obligation on the licensee to make his improvements to the know-how available to the licensor, even on a non-exclusive and reciprocal basis, and to allow the licensor to continue using them even after the expiry of the agreement. This is so because in such a case the licensee has no possibility of inducing the licensor to authorize him to continue exploiting the originally licensed know-how, and hence the licensee's own improvements as well, after the expiry of the agreement.

(15) The list in Article 2 also includes an obligation on the licensee to keep paying royalties until the end of the agreement independently of whether or not the licensed know-how has entered into the public domain through the action of third parties (Article 2 (1) (7)). As a rule, parties do not need to be protected against the foreseeable financial consequences of an agreement freely entered into and should therefore not be restricted in their choice of the appropriate means of financing the technology transfer. This applies especially where know-how is concerned since here there can be no question of an abuse of a legal monopoly and, under the legal systems of the Member States, the licensee may have a remedy in an action under the applicable national law. Furthermore, provisions for the payment of royalties in return for the grant of a whole package of technology throughout an agreed reasonable period independently of whether or not the know-how has entered into the public domain, are generally in the interest of the licensee in that they prevent the licensor demanding a high initial payment up front with a view to diminishing his financial exposure in the event of premature disclosure. Parties should be free, in order to facilitate payment by the licensee, to spread the royalty payments for the use of the licensed technology over a period extending beyond the entry of the know-how into the public domain. Moreover, continuous payments should be allowed throughout the term of the agreement in cases where both parties are fully aware that the first sale of the product will necessarily disclose the know-how. Nevertheless, the Commission may, where it was clear from the circumstances that the licensee would have been able and willing to develop the know-how himself in a short period of time, in comparison with which the period of continuing payments is excessively long, withdraw the benefit of the exemption under Article 7 of this Regulation.

Finally, the use of methods of royalties calculation which are unrelated to the exploitation of the licensed technology or the charging of royalties on

products whose manufacture at no stage includes the use of any of the licensed patents or secret techniques would render the agreement ineligible for the block exemption (Article 3 (5)). The licensee should also be freed from his obligation to pay royalties, where the know-how becomes publicly known through the action of the licensor. However, the mere sale of the product by the licensor or an undertaking connected with him does not constitute such an action (Article 2 (1) (7) and Article 3 (5)).

(16) An obligation on the licensee to restrict his exploitation of the licensed technology to one or more technical fields of application ('fields of use') or to one or more product markets is also not caught by Article 85 (1) (Article 2 (1) 8)). This obligation is not restrictive of competition since the licensor can be regarded as having the right to transfer the know-how only for a limited purpose. Such a restriction must however not constitute a disguised means of customer sharing.

(17) Restrictions which give the licensor an unjustified competitive advantage, such as an obligation on the licensee to accept quality specifications, other licences or goods and services that the licensee does not want from the licensor, prevent the block exemption from being applicable. However, this does not apply where it can be shown that the licensee wanted such specifications, licences, goods or services for reasons of his own convenience (Article 3 (3)).

(18) Restrictions whereby the parties share customers within the same technological field of use or the same product market, either by an actual prohibition on supplying certain classes of custumer or an obligation with an equivalent effect, would also render the agreement ineligible for the block exemption (Article 3 (6)).

This does not apply to cases where the know-how licence is granted in order to provide a single customer with a second source of supply. In such a case, a prohibition on the licensee from supplying persons other than the customer concerned may be indispensable for the grant of a licence to the second supplier since the purpose of the transaction is not to create an independent supplier in the market. The same applies to limitations on the quantities the licensee may supply to the customer concerned. It is also reasonable to assume that such restrictions contribute to improving the production of goods and to promoting technical progress by furthering the dissemination of technology. However, given the present state of experience of the Commission with respect to such clauses and the risk in particular that they might deprive the second supplier of the possibility of developing his own business in the fields covered by the agreement it is appropriate to make such clauses subject to the opposition procedure (Article 4 (2)).

(19) Besides the clauses already mentioned, the list of restrictions precluding application of the block exemption in Article 3 also includes restrictions regarding the selling prices of the licensed product or the quantities to be manufactured or sold, since they limit the extent to which the licensee can exploit the licensed technology and particularly since quantity restrictions may have the same effect as export bans (Article 3 (7) and (8)). This does not apply where a licence is granted for use of the technology in specific production facilities and where both a specific know-how is communicated for the setting-up, operation and maintenance of these facilities and the licensee is allowed to increase the capacity of the facilities or to set up further facilities for its own use on normal commercial terms. On the other hand, the licensee may lawfully be prevented from using the licensor's specific know-how to set up facilities for third parties, since the purpose of the agreement is not to permit the licensee to give other producers access to the licensor's know-how while it remains secret (Article 2 (1) (12)).

(20) To protect both the licensor and the licensee from being tied into agreements whose duration may be automatically extended beyond their initial term as freely determined by the parties, through a continuous stream of improvements communicated by the licensor, it is appropriate to exclude agreements with such a clause from the block exemption (Article 3 (10)). However, the parties are free at any time to extend their contractual relationship by entering into new agreements concerning new improvements.

(21) The Regulation should apply with retroactive effect to know-how licensing agreements in existence when the Regulation comes into force where such agreements already fulfil the conditions for application of the Regulation or are modified to do so (Articles 8 to 10). Under Article 4 (3) of Regulation No 19/65/EEC, the benefit of these provisions may not be claimed in actions pending at the date of entry into force of this Regulation, nor may it be relied on as grounds for claims for damages against third parties.

(22) Agreements which come within the terms of Articles 1 and 2 and which have neither the object nor the effect of restricting competition in any other way need no longer be notified. Nevertheless, undertakings will still have the right to apply in individual cases for negative clearance under Article 2 of Council Regualtion No 17 (1) or for exemption under Article 85 (3),

HAS ADOPTED THIS REGULATION:

Article 1

(1) Pursuant to Article 85 (3) of the Treaty and subject to the provisions of this Regulation, it is hereby declared that Article 85 (1) of the Treaty shall not apply to pure know-how licensing agreements and to mixed know-how and patent licensing agreements not exempted by Regulation (EEC) No 2349/84, including those agreements containing ancillary provisions relating to trademarks or other intellectual property rights, to which only two undertakings are party and which include one or more of the following obligations:

1. an obligation on the licensor not to license other undertakings to exploit the licensed technology in the licensed territory;

2. an obligation on the licensor not to exploit the licensed technology in the licensed territory himself;

3. an obligation on the licensee not to exploit the licensed technology in territories within the common market which are reserved for the licensor;

4. an obligation on the licensee not to manufacture or use the licensed product, or use the licensed process, in territories within the common market which are licensed to other licensees;

5. an obligation on the licensee not to pursue an active policy of putting the licensed product on the market in the territories within the common market which are licensed to other licensees, and in particular not to engage in advertising specifically aimed at those territories or to establish any branch or maintain any distribution depot there;

6. an obligation on the licensee not to put the licensed product on the market in the territories licensed to other licensees within the common market;

7. an obligation on the licensee to use only the licensor's trademark or the get-up determined by the licensor to distinguish the licensed product during the term of the agreement, provided that the licensee is not prevented from identifying himself as the manufacturer of the licensed products;

8. an obligation on the licensee to limit his production of the licensed product to the quantities he requires in manufacturing his own products and to sell the licensed product only as an integral part of or a replacement part for his own products or otherwise in connection with the sale of his own products, provided that such quantities are freely determined by the licensee.

(2) The exemption provided for the obligations referred to in paragraph 1 (1) (2) and (3) shall extend for a period not exceeding for each licensed territory within the EEC 10 years from the date of signature of the first licence agreement entered into by the licensor for that territory in respect of the same technology.

The exemption provided for the obligations referred to in paragraph 1 (4) and (5) shall extend for a period not exceeding 10 years from the date of signature of the first licence agreement entered into by the licensor within the EEC in respect of the same technology.

The exemption provided for the obligation referred to in paragraph 1 (6) shall extend for a period not exceeding five years from the date of the signature of the first licence agreement entered into by the licensor within the EEC in respect of the same technology.

(3) The exemption provided for in paragraph 1 shall apply only where the parties have identified in any appropriate form the initial know-how and any subsequent improvements to it, which become available to the parties and are communicated to the other party pursuant to the terms of the agreement and for the purpose thereof, and only for as long as the know-how remains secret and substantial.

(4) In so far as the obligations referred to in paragraph 1 (1) to (5) concern territories including Member States in which the same technology is protected by necessary patents, the exemption provided for in paragraph 1 shall extend for those Member States as long as the licensed product or process is protected in those Member States by such patents, where the duration of such protection exceeds the periods specified in paragraph 2.

(5) The exemption of restrictions on putting the licensed product on the market resulting from the obligations referred to in paragraph 1 (2), (3), (5) and (6) shall apply only if the licensee manufactures or proposes to manufacture the licensed product himself or has it manufactured by a connected undertaking or by a subcontractor.

(1) OJ No 13, 21. 2. 1962, p. 204/62.

(6) The exemption provided for in paragraph 1 shall also apply where in a particular agreement the parties undertake obligations of the types referred to in that paragraph but with a more limited scope than is permitted by the paragraph.

(7) For the purposes of the present Regulation the following terms shall have the following meanings:

1. 'know-how' means a body of technical information that is secret, substantial and identified in any appropriate form;

2. the term 'secret' means that the know-how package as a body or in the precise configuration and assembly of its components is not generally known or easily accessible, so that part of its value consists in the lead-time the licensee gains when it is communicated to him; it is not limited to the narrow sense that each individual component of the know-how should be totally unknown or unobtainable outside the licensor's business;

3. the term 'substantial' means that the know-how includes information which is of importance for the whole or a significant part of (i) a manufacturing process or (ii) a product or service, or (iii) for the development thereof and excludes information which is trivial. Such know-how must thus be useful, i.e. can reasonably be expected at the date of conclusion of the agreement to be capable of improving the competitive position of the licensee, for example by helping him to enter a new market or giving him an advantage in competition with other manufacturers or providers of services who do not have access to the licensed secret know-how or other comparable secret know-how;

4. the term 'identified' means that the know-how is described or recorded in such a manner as to make it possible to verify that it fulfils the criteria of secrecy and substantiality and to ensure that the licensee is not unduly restricted in his exploitation of his own technology. To be identified the know-how can either be set out in the licence agreement or in a separate document or recorded in any other appropriate form at the latest when the know-how is transferred or shortly thereafter, provided that the separate document or other record can be made available if the need arises;

5. 'pure know-how licensing agreements' are agreements whereby one undertaking, the licensor, agrees to communicate the know-how, with or without an obligation to disclose any subsequent improvements, to another undertaking, the licensee, for exploitation in the licensed territory;

6. 'mixed know-how and patent licensing agreements' are agreements not exempted by Regulation (EEC) No 2349/84 under which a technology containing both non-patented elements and elements that are patented in one or more Member States is licensed;

7. the terms 'licensed know-how' or 'licensed technology' mean the initial and any subsequent know-how communicated directly or indirectly by the licensor to a licensee by means of pure or mixed know-how and patent licensing agreements; however, in the case of mixed know-how and patent licensing agreements the term 'licensed technology' also includes any patents for which a licence is granted besides the communication of the know-how;

8. the term 'the same technology' means the technology as licensed to the first licensee and enhanced by any improvements made thereto subsequently, irrespective of whether and to what extent such improvements are exploited by the parties or the other licensees and irrespective of whether the technology is protected by necessary patents in any Member States;

9. 'the licensed products' are goods or services the production or provision of which requires the use of the licensed technology;

10. the term 'exploitation' refers to any use of the licensed technology in particular in the production, active or passive sales in a territory even if not coupled with manufacture in that territory, or leasing of the licensed products;

11. 'the licensed territory' is the territory covering all or at least part of the common market where the licensee is entitled to exploit the licensed technology;

12. 'territory reserved for the licensor' means territories in which the licensor has not granted any licences and which he has expressly reserved for himself;

13. 'connected undertakings' means:

   (a) undertakings in which a party to the agreement, directly or indirectly;

   — owns more than half the capital or business assets, or

   — has the power to exercise more than half the voting rights, or

   — has the power to appoint more than half the members of the supervisory board, board of directors or bodies legally representing the undertaking, or

   — has the right to manage the affairs of the undertaking;

(b) undertakings which directly or indirectly have in or over a party to the agreement the rights or powers listed in (a);

(c) undertakings in which an undertaking referred to in (b) directly or indirectly has the rights or powers listed in (a);

(d) undertakings in which the parties to the agreement or undertakings connected with them jointly have the rights or powers listed in (a): such jointly controlled undertakings are considered to be connected with each of the parties to the agreement.

Article 2

(1) Article 1 shall apply notwithstanding the presence in particular of any of the following obligations, which are generally not restrictive of competition:

1. an obligation on the licensee not to divulge the know-how communicated by the licensor; the licensee may be held to this obligation after the agreement has expired;

2. an obligation on the licensee not to grant sub-licences or assign the licence;

3. an obligation on the licensee not to exploit the licensed know-how after termination of the agreement in so far and as long as the know-how is still secret;

4. an obligation on the licensee to communicate to the licensor any experience gained in exploiting the licensed technology and to grant him a non-exclusive licence in respect of improvements to or new applications of that technology, provided that:

   (a) the licensee is not prevented during or after the term of the agreement from freely using his own improvements, in so far as these are severable from the licensor's know-how, or licensing them to third parties where licensing to third parties does not disclose the know-how communicated by the licensor that is still secret; this is without prejudice to an obligation on the licensee to seek the licensor's prior approval to such licensing provided that approval may not be withheld unless there are objectively justifiable reasons to believe that licensing improvements to third parties will disclose the licensor's know-how, and

   (b) the licensor has accepted an obligation, whether exclusive or not, to communicate his own improvements to the licensee and his right to use the licensee's improvements which are not severable from the licensed know-how does not extend beyond the date on which the licensee's right to exploit the licensor's know-how comes to an end, except for termination of the agreement for breach by the licensee; this is without prejudice to an obligation on the licensee to give the licensor the option to continue to use the improvements after that date, if at the same time he relinquishes the post-term use ban or agrees, after having had an opportunity to examine the licensee's improvements, to pay appropriate royalties for their use;

5. an obligation on the licensee to observe minimum quality specifications for the licensed product or to procure goods or services from the licensor or from an undertaking designated by the licensor, in so far as such quality specifications, products or services are necessary for:

   (a) a technically satisfactory exploitation of the licensed technology, or

   (b) for ensuring that the production of the licensee conforms to the quality standards that are respected by the licensor and other licensees,

   and to allow the licensor to carry out related checks;

6. obligations:

   (a) to inform the licensor of misappropriation of the know-how or of infringements of the licensed patents, or

   (b) to take or to assist the licensor in taking legal action against such misappropriation or infringements,

   provided that these obligations are without prejudice to the licensee's right to challenge the validity of the licensed patents or to contest the secrecy of the licensed know-how except where he himself has in some way contributed to its disclosure;

7. an obligation on the licensee, in the event of the know-how becoming publicly known other than by action of the licensor, to continue paying until the end of the agreement the royalties in the amounts, for the periods and according to the methods freely determined by the parties, without prejudice to the payment of any additional damages in the event of the know-how becoming publicly known by the action of the licensee in breach of the agreement;

8. an obligation on the licensee to restrict his exploitation of the licensed technology to one or more technical fields of application covered by the licensed technology or to one or more product markets;

9. an obligation on the licensee to pay a minimum royalty or to produce a minimum quantity of the licensed product or to carry out a minimum number of operations exploiting the licensed technology;

10. an obligation on the licensor to grant the licensee any more favourable terms that the licensor may grant to another undertaking after the agreement is entered into;

11. an obligation on the licensee to mark the licensed product with the licensor's name;

12. an obligation on the licensee not to use the licensor's know-how to construct facilities for third parties; this is without prejudice to the right of the licensee to increase the capacity of its facilities or to set up additional facilities for its own use on normal commercial terms, including the payment of additional royalties.

(2) In the event that, because of particular circumstances, the obligations referred to in paragraph 1 fall within the scope of Article 85 (1), they shall also be exempted even if they are not accompanied by any of the obligations exempted by Article 1.

(3) The exemption provided for in paragraph 2 shall also apply where in an agreement the parties undertake obligations of the types referred to in paragraph 1 but with a more limited scope than is permitted by that paragraph.

Article 3

Articles 1 and 2 (2) shall not apply where:

1. the licensee is prevented from continuing to use the licensed know-how after the termination of the agreement where the know-how has meanwhile become publicly known, other than by the action of the licensee in breach of the agreement;

2. the licensee is obliged either:

   (a) to assign in whole or in part to the licensor rights to improvements to or new applications of the licensed technology;

   (b) to grant the licensor an exclusive licence for improvements to or new applications of the licensed technology which would prevent the licensee during the currency of the agreement and/or thereafter from using his own improvements in so far as these are severable from the licensor's know-how, of from licensing them to third parties, where such licensing would not disclose the licensor's know-how that is still secret; or

   (c) in the case of an agreement which also includes a post-term use ban, to grant back to the licensor, even on a non-exclusive and reciprocal basis, licences for improvements which are not severable from the licensor's know-how, if the licensor's right to use the improvements is of a longer duration than the licensee's right to use the licensor's know-how, except for termination of the agreement for breach by the licensee;

3. the licensee is obliged at the time the agreement is entered into to accept quality specifications or further licences or to procure goods or services which he does not want, unless such licenses, quality specifications, goods or services are necessary for a technically satisfactory exploitation of the licensed technology or for ensuring that the production of the licensee conforms to the quality standards that are respected by the licensor and other licensees;

4. the licensee is prohibited from contesting the secrecy of the licensed know-how or from challenging the validity of licensed patents within the common market belonging to the licensor or undertakings connected with him, without prejudice to the right of the licensor to terminate the licensing agreement in the event of such a challenge;

5. the licensee is charged royalties on goods or services which are not entirely or partially produced by means of the licensed technology or for the use of know-how which has become publicly known by the action of the licensor or an undertaking connected with him;

6. one party is restricted within the same technological field of use or within the same product market as to the customers he may serve, in particular by being prohibited from supplying certain classes of user, employing certain forms of distribution or, with the aim of sharing customers, using certain types of packaging for the products, save as provided in Article 1 (1) (7) and Article 4 (2);

7. the quantity of the licensed products one party may manufacture or sell or the number of operations exploiting the licensed technology he may carry out are subject to limitations, save as provided in Article 1 (1) (8) and Article 4 (2);

8. one party is restricted in the determination of prices, components of prices or discounts for the licensed products;

9. one party is restricted from competing with the other party, with undertakings connected with the other party or with other undertakings within the common market in respect of research and development, production or use of competing products and their distribution, without prejudice to an obligation on the licensee to use his best endeavours to exploit the licensed technology and without prejudice to the right of the licensor to terminate the exclusivity granted to the licensee and cease communicating improvements in the event of the licensee's engaging in any such competing activities and to require the licensee to prove that the licensed know-how is not used for the production of goods and services other than those licensed;

10. the initial duration of the licensing agreement is automatically prolonged by the inclusion in it of any new improvements communicated by the licensor, unless the licensee has the right to refuse such improvements or each party has the right to terminate the agreement at the expiry of the initial term of the agreement and at least every three years thereafter;

11. the licensor is required, albeit in separate agreements, for a period exceeding that permitted under Article 1 (2) not to license other undertakings to exploit the same technology in the licensed territory, or a party is required for periods exceeding those permitted under Articles 1 (2) or 1 (4) not to exploit the same technology in the territory of the other party or of other licensees;

12. one or both of the parties are required:

(a) to refuse without any objectively justified reason to meet demand from users or resellers in their respective territories who would market products in other territories within the common market;

(b) to make it difficult for users or resellers to obtain the products from other resellers within the common market, and in particular to exercise intellectual property rights or take measures so as to prevent users or resellers from obtaining outside, or from putting on the market in the licensed territory products which have been lawfully put on the market within the common market by the licensor or with his consent;

or do so as a result of a concerted practice between them.

Article 4

(1) The exemption provided for in Articles 1 and 2 shall also apply to agreements containing obligations restrictive of competition which are not covered by those Articles and do not fall within the scope of Article 3, on condition that the agreements in question are notified to the Commission in accordance with the provisions of Commission Regulation No 27 [1] and that the Commission does not oppose such exemption within a period of six months.

(2) Paragraph 1 shall in particular apply to an obligation on the licensee to supply only a limited quantity of the licensed product to a particular customer, where the know-how licence is granted at the request of such a customer in order to provide him with a second source of supply within a licensed territory.

This provision shall also apply where the customer is the licensee and the licence, in order to provide a second source of supply, provides for the customer to make licensed products or have them made by a sub-contractor.

(3) The period of six months shall run from the date on which the notification is received by the Commission. Where, however, the notification is made by registered post, the period shall run from the date shown on the postmark of the place of posting.

(4) Paragraphs 1 and 2 shall apply only if:

(a) express reference is made to this Article in the notification or in a communication accompanying it; and

(b) the information furnished with the notification is complete and in accordance with the facts.

(5) The benefit of paragraphs 1 and 2 may be claimed for agreements notified before the entry into force of this Regulation by submitting a communication to the Commission referring expressly to this Article and to the notification. Paragraphs 3 and 4 (b) shall apply *mutatis mutandis*.

(6) The Commission may oppose the exemption. It shall oppose exemption if it receives a request to do so from a Member State within three months of the transmission to the Member State of the notification referred to in paragraph 1 or of the communication referred to in paragraph 5. This request must be justified on the basis of considerations relating to the competition rules of the Treaty.

[1] OJ No 35, 10. 5. 1962, p. 1118/62.

(7) The Commission may withdraw the opposition to the exemption at any time. However, where the opposition was raised at the request of a Member State and this request is maintained, it may be withdrawn only after consultation of the Advisory Committee on Restrictive Practices and Dominant Positions.

(8) If the opposition is withdrawn because the undertakings concerned have shown that the conditions of Article 85 (3) are fulfilled, the exemption shall apply from the date of notification.

(9) If the opposition is withdrawn because the undertakings concerned have amended the agreement so that the conditions of Article 85 (3) are fulfilled, the exemption shall apply from the date on which the amendments take effect.

(10) If the Commission opposes exemption and the opposition is not withdrawn, the effects of the notification shall be governed by the provisions of Regulation No 17.

Article 5

(1) This Regulation shall not apply to:

1. agreements between members of a patent or know-how pool which relate to the pooled technologies;

2. know-how licensing agreements between competing undertakings which hold interests in a joint venture, or between one of them and the joint venture, if the licensing agreements relate to the activities of the joint venture;

3. agreements under which one party grants the other a know-how licence and the other party, albeit in separate agreements or through connected undertakings, grants the first party a patent, trademark or know-how licence or exclusive sales rights, where the parties are competitors in relation to the products covered by those agreements;

4. agreements including the licensing of intellectual property rights other than patents (in particular trademarks, copyright and design rights) or the licensing of software except where these rights or the software are of assistance in achieving the object of the licensed technology and there are no obligations restrictive of competition other than those also attached to the licensed know-how and exempted under the present Regulation.

(2) However, this Regulation shall apply to reciprocal licences of the types referred to in paragraph 1 (3) where the parties are not subject to any territorial restriction within the common market on the manufacture, use or putting on the market of the products covered by the agreements or on the use of the licensed technologies.

Article 6

This Regulation shall also apply to:

1. pure know-how agreements or mixed agreements where the licensor is not the developer of the know-how or the patentee but is authorized by the developer or the patentee to grant a licence or a sub-licence;

2. assignments of know-how or of know-how and patents where the risk associated with exploitation remains with the assignor, in particular where the sum payable in consideration of the assignment is dependent upon the turnover attained by the assignee in respect of products made using the know-how or the patents, the quantity of such products manufactured or the number of operations carried out employing the know-how or the patents;

3. pure know-how agreements or mixed agreements in which rights or obligations of the licensor or the licensee are assumed by undertakings connected with them.

Article 7

The Commission may withdraw the benefit of this Regulation, pursuant to Article 7 of Regulation No 19/65/EEC, where it finds in a particular case that an agreement exempted by this Regulation nevertheless has certain effects which are incompatible with the conditions laid down in Article 85 (3) of the Treaty, and in particular where:

1. such effects arise from an arbitration award;

2. the effect of the agreement is to prevent the licensed products from being exposed to effective competition in the licensed territory from identical products or products considered by users as equivalent in view of their characteristics, price and intended use;

3. the licensor does not have the right to terminate the exclusivity granted to the licensee at the latest five years from the date the agreement was entered into and at least annually thereafter if, without legitimate reason, the licensee fails to exploit the licensed technology or to do so adequately;

4. without prejudice to Article 1 (1) (6), the licensee refuses, without objectively valid reason, to meet unsolicited demand from users or resellers in the territory of other licensees;

5. one or both of the parties:

   (a) without objectively justified reason, refuse to meet demand from users or resellers in their respective territories who would market the products in other territories within the common market; or

   (b) make it difficult for users or resellers to obtain the products from other resellers within the common

market, and in particular where they exercise intellectual property rights or take measures so as to prevent resellers or users from obtaining outside, or from putting on the market in the licensed territory products which have been lawfully put on the market within the common market by the licensor or with his consent;

6. the operation of the post-term use ban referred to in Article 2 (1) (3) prevents the licensee from working an expired patent which can be worked by all other manufacturers;

7. the period for which the licensee is obliged to continue paying royalties after the know-how has become publicly known by the action of third parties, as referred to in Article 2 (1) (7), substantially exceeds the lead time acquired because of the head-start in production and marketing and this obligation is detrimental to competition in the market;

8. the parties were already competitors before the grant of the licence and obligations on the licensee to produce a minimum quantity or to use his best endeavours as referred to in Article 2 (1) (9) and Article 3 (9) have the effect of preventing the licensee from using competing technologies.

Article 8

(1) As regards agreements existing on 13 March 1962 and notified before 1 February 1963 and agreements, whether notified or not, to which Article 4 (2) (2) (b) of Regulation No 17 applies, the declaration of inapplicability of Article 85 (1) of the Treaty contained in this Regulation shall have retroactive effect from the time at which the conditions for application of this Regulation were fulfilled.

(2) As regards all other agreements notified before this Regulation entered into force, the declaration of inapplicability of Article 85 (1) of the Treaty contained in this Regulation shall have retroactive effect from the time at which the conditions for application of this Regulation were fulfilled, or from the date of notification, whichever is the later.

Article 9

If agreements existing on 13 March 1962 and notified before 1 February 1963 or agreements to which Article 4 (2) (2) (b) of Regulation No 17 applies and notified before 1 January 1967 are amended before 1 July 1989 so as to fulfil the conditions for application of this Regulation, and if the amendment is communicated to the Commission before 1 October 1989 the prohibition in Article 85 (1) of the Treaty shall not apply in respect of the period prior to the amendment. The communication shall take effect from the time of its receipt by the Commission. Where the communication is sent by registered post, it shall take effect from the date shown on the postmark of the place of posting.

Article 10

(1) As regards agreements to which Article 85 of the Treaty applies as a result of the accession of the United Kingdom, Ireland and Denmark, Articles 8 and 9 shall apply except that the relevant dates shall be 1 January 1973 instead of 13 March 1962 and 1 July 1973 instead of 1 February 1963 and 1 January 1967.

(2) As regards agreements to which Article 85 of the Treaty applies as a result of the accession of Greece, Articles 8 and 9 shall apply except that the relevant dates shall be 1 January 1981 instead of 13 March 1962 and 1 July 1981 instead of 1 February 1963 and 1 January 1967.

(3) As regards agreements to which Article 85 of the Treaty applies as a result of the accession of Spain and Portugal, Articles 8 and 9 shall apply except that the relevant dates shall be 1 January 1986 instead of 13 March 1962 and 1 July 1986 instead of 1 February 1963 and 1 January 1967.

Article 11

(1) Information acquired pursuant to Article 4 shall be used only for the purposes of the Regulation.

(2) The Commission and the authorities of the Member States, their officials and other servants shall not disclose information acquired by them pursuant to this Regulation of the kind covered by the obligation of professional secrecy.

(3) The provisions of paragraphs 1 and 2 shall not prevent publication of general information or surveys which do not contain information relating to particular undertakings or associations of undertakings.

Article 12

This Regulation shall enter into force on 1 April 1989.

It shall apply until 31 December 1999.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 30 November 1988.

For the Commission
Peter SUTHERLAND
Member of the Commission