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Panel Discussion

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PANEL DISCUSSION

AUDIENCE MEMBER: I have a question for Professor Korah regarding the grant of territorial licenses. It is quite common, for example, in the recording industry for a sound recording copyright holder to grant a license for a particular territory to a record company in that territory to manufacture records and sell them only in that territory. Are you saying that if that licensee under the license then begins to sell outside the territory and the licensor then sues the licensee for going beyond the scope of the license, that that limited territory would likely violate Article 85(1)?

PROFESSOR KORAH: The Commission did take that view in the informal decision in *GEMA*.[1] A license to press disks in one Member State was treated as a license to do so throughout the Common Market, subject to a ban on making in and exporting to other Member States, which infringed Article 85(1) and was, therefore, void. If a purchaser from you had promised not to sell the disk, then I think it would be clear that any restriction on his or her exporting would be caught by 85(1), and you couldn't rely on your copyright in the country of import to keep it out.

The *Coditel* judgments[2] have already been discussed today, and I don't know quite how far they go. Both judgments involved the performing rights in a film. The Community Court looked to the practice of the industry and the way that distributors pay for film production. In *Coditel I* the Court held that the specific subject matter of the performing rights was such that the rules for free movement of services did not prevent the exclusive copyright licensee in Belgium from suing on the copyright to prevent Coditel, a cable television company in Belgium, from picking up and rediffusing the transmission from Germany, a territory licensed to another firm.

The *Coditel* cases go to the edge of the law. I would be concerned about extending them beyond films. The exercise of copy-

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1. Press Release IP(85), Feb. 6, 1985, [1985] 2 C.M.L.R. 1, Bull. E.C. 2-1985, p. 29.

2. S.A. Compagnie Général pour la Diffusion de la Télévision v. Ciné Vog Films, Case 62/79, [1980] E.C.R. 881, [1981] 2 C.M.L.R. 362; Coditel S.A. v. Ciné-Vog Films S.A., Case 262/81, [1982] E.C.R. 3381, [1983] 1 C.M.L.R. 49.

right would ensure absolute territorial protection but has been allowed only in connection with performing rights. In *Warner Bros. v. Christiansen*,[3] however, the Court extended the judgments in Coditel to rental rights in a disk. So it is arguable that it might be prepared to extend them further to a license to make and sell.

There is one other case, and that is the *Maize Seed* case.[4] Under the treaties relating to plant breeders' rights, you lose your rights unless the seed is distinct, uniform, and stable. In those circumstances, the Court again allowed export bans because of the need to ensure careful handling.

Your case is between *Coditel* and *Centrafarm v. Sterling*,[5] and I would hate to guess. My impression is that the Court is becoming more receptive to the need to encourage investment and to look into the practices of the trade. So my answer to you today would be more positive than it would have been in 1976 or so, but it's not that positive.

AUDIENCE MEMBER: Professor Korah, could you look into your crystal ball and tell us the direction you see the Court taking in the *Magill* area?

PROFESSOR KORAH: I cannot understand the judgment of the Court of First Instance. Mr. Myrick's paper is excellent. I really have very little to add to what he said there.

It seems to me that if the Court of First Instance wanted to confirm the Commission's decision that the exercise of copyright was abusive the best reasoning would have been that, although it's for national law to decide the scope of copyright, there are limits. In trademark cases, there are some indications of limits. The Court itself, in *Terranova*,[6] an old case, suggested that the very broad

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3. Warner Bros. v. Christiansen, Case 158/86, [1988] E.C.R. 2605, [1990] 3 C.M.L.R. 684.

4. Erauw-Jacquéry Sprl v. La Hesbignonne Société Coopérative, Case 27/87, [1988] E.C.R. 1919, [1988] 4 C.M.L.R. 576.

5. Centrafarm BV v. Sterling Drug Inc., Case 15/74, [1974] E.C.R. 1147, [1974] 2 C.M.L.R. 480.

6. Terrapin (Overseas) Ltd. v. Terranova Industrie C.A. Kapfere & Co., Case 119/75, [1976] E.C.R. 1039, [1976] 2 C.M.L.R. 482.

ideas of confusion under German law might be going too far. But I suspect that it was a compromise passage. It's not very clear what the Court was saying. Much more clearly, the Advocate-General, Francis Jacobs, in the second *Hag*[7] case, said that the German ideas of confusion of trademarks might be going too far.

I think that if I had drafted the judgment and wanted to uphold the decision in *Magill*, I would have taken that route. The Court has never said that all exercise of intellectual property rights is subject to Article 86. That seems utterly inconsistent—well, almost utterly inconsistent—with *Volvo*[8] and *Renault*.[9] I certainly hope that the Court changes the grounds of their judgment; otherwise it's terrifying.

DR. VERSTRYNGE: I want to add something on *Magill*. I think the Court very well could have avoided the problem if they had stuck to strict copyright interpretation, saying that the essence of copyright covers the prevention of the expression, not the underlying ideas; and that, therefore, the listing of television programs has no expression, no originality, is not protected by copyright—in essence leaving the whole terrain of the *Magill* case to Article 86. That would have been very correct both from the copyright and the antitrust points of view.

PROFESSOR KORAH: The only trouble with that is it will be a Community idea of copyright. I think that an Irish court and an English court—not the highest courts—have held that publication of the guide was an infringement of copyright. So your solution would override national law. I think we are in agreement.

AUDIENCE MEMBER: Professor Korah, did I understand you to say that you think that the Commission could change its approach to know-how licensing in 1994 and that it would become less restrictive or more enforceable?

PROFESSOR KORAH: No. I don't remember what I said, but

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7. SA CNL Sucal NV v. Hag GF AG, Case C-10/89, [1990] 3 C.M.L.R. 571.

8. Volvo AB v. Erik Veng UK Ltd., Case 238/87, [1988] E.C.R. 6211, [1989] 4 C.M.L.R. 122.

9. Consorzio Italiano della Componentistica di Ricambio per Autoveicoli v. Regie Nationale des Usines Renault, Case 53/87, [1988] E.C.R. 6039, [1990] 4 C.M.L.R. 265.

what I think is that the Know-how Regulation[10] is much more liberal than that for patent licenses. Mr. Guttuso has, of course, a hierarchy to report to; but, nevertheless, he has very liberal ideas and he got quite a lot of them through the Know-how Regulation. He now is in charge of doing something about the expiring Patent Regulation.[11]

What he was minded to do last January when I saw him was that he would let the Patent Regulation expire and alter the definitions in the Know-how Regulation so that it includes pure patent licenses. There would also have to be some transitional provisions, but not many. I think most people will be very happy with that.

There are about two or three things that you can do under the Patent Regulation that you cannot do under the Know-how Regulation. Under the Patent Regulation, the periods for territorial protection can extend beyond these originally allowed if improvements are added to the license; that's not possible under the Know-how Regulation. Although if there is further substantial, secret, and recorded know-how, a further license may be negotiated with additional periods of territorial protection. Even under the Patent Regulation, you've got to give each party an annual chance to renegotiate. But over all, you nearly always have more choice when using the Know-how Regulation.

AUDIENCE MEMBER: At the time the Software Directive[12] was being discussed, a question was raised about whether the provision which limits the rights of parties to contract regarding the reproduction right[13] was consistent with the EC law and whether it would stand the test of a court case. Is it consistent with EC law?

PROFESSOR KORAH: If you were litigating under the law of

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10. Commission Regulation 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, O.J. L 61/1 (1989).

11. Commission Regulation No. 2349/84 of 23 July 1984 on the Application of Article 85(3) of the Treaty to Certain Categories of Patent Licensing Agreements, O.J. L 219/15 (1989).

12. Council Directive of 14 May 1991 on the Legal Protection of Computer Programs, 91/250/EEC, O.J. L 122/42 (1991).

13. *Id.* art. 5.

a Member State, the Directive would be part of the public policy of that Member State. I believe a national court within the Community would have to follow the Software Directive. Moreover, when the EEA comes into force, that would be part of the *Acquis Communautaire*, and so it would apply much more broadly than in the twelve. If you were suing in America, I think that's a question I should push back to you.

PROFESSOR GOEBEL: I think what you're raising is not so much whether the Court would in any way challenge the clause of the Software Directive now, but whether it was appropriate to put it into the Directive in the first place.

It goes back to my comments about what the harmonization program is all about. It supposedly is to be conducted, under Article 100a, to remove barriers to the internal market, and, in particular, to the free movement of goods and services. It occasionally might be supplemented by Article 235, the implied powers clause, but, generally speaking, the Commission and the Council haven't felt that that was necessary. Nonetheless, a certain amount of what has been proposed and adopted as legislation, and is being proposed, goes a bit beyond that. It incorporates what I call sociocultural ideas.

I think it's quite clear in the Rental Directive,[14] where one of the recitals refers to the economic interests of authors that are going to be promoted by the Rental Directive, and the recovery of investments and so on. It goes quite beyond the simple removal of barriers to goods.

The contrary view, which has been advocated certainly by the common law lawyers, is that you don't really need to adopt some of these points of view in order to remove the barriers to trade. Private contractual arrangements can do this just as well; leave the private sector to decide. That comes up in this whole issue about *droit moral* also, as well as in rental rights and in the Software Directive.

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14. Council Directive of 19 November 1992 on Rental Right and Lending Right and on Certain Rights Related to Copyright in the Field of Intellectual Property, 92/100/EEC, O.J. L 346/61 (1992).

The practical state of affairs, though, is that most of the continental countries have a different approach. They'd much rather abide by statutory method; and hence, they are, I think, from a political point of view, more inclined to go along with the idea that this is appropriate to add to these directives, that you should not only simply remove the barriers to trade, but you should also look to a broader social and cultural horizon.

The Maastricht Treaty[15] might have reinforced that view to some degree because it does add cultural measures as an appropriate area of Treaty concern in Article 128. On the other hand, it also introduces subsidiarity. The last line of the subsidiarity section of Article 3B of the Maastricht Treaty refers to proportionality; any legislation must be reasonably designed to achieve the ends attained. You will have in the Maastricht Treaty two arguments that go in different directions on whether or not the type of clause you're referring to is appropriate. Whether the court would ever strike down such a clause is, however, highly doubtful. I would agree with that.

AUDIENCE MEMBER: Professor Korah, assume that a company that is exporting technology to an EC Member State that does not rise to the level of patent protection but would come within the American concept of trade secret, normally exports some sort of proprietary information along with the technology that cannot be disclosed without the consent of the exporting company. Would that violate Article 85(1)?

PROFESSOR KORAH: No. I think that's about the one bit of comfort I can give you. The Commission, from the beginning, has accepted that secrecy of secret know-how is not contrary to Article 85(1). There are provisions in the "white list" of the Know-how—and, indeed, of the Patent—Regulation. One has to read the white list of provisions in the light of the recitals. The recital says that the clauses in Article 2 very rarely infringe Article 85(1), but they are exempted just in case they are caught.

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15. Treaty on European Union, Feb. 7, 1992, O.J. C 224/1 (1992), [1992] 1 C.M.L.R. 719.

So, even if you have something like a software license which can't be brought within the Regulation, one can argue from the recitals to the Regulation that the secrecy of the software is inviolate, or at least the provisions in the contract that protect it, or the provisions in equity that protect it, are not contrary to 85(1).

AUDIENCE MEMBER: There has been a lot of *Magill*-bashing both in the press and during the seminar, but it seems to be distinguishingly animated by some of the harmonization directives such as the Software Directive. Is that a fair reading?

DR. VERSTRYNGE: The *Magill* case is a complicated case, and it is difficult to talk about it because we don't know what the result will be. The *Magill* case is an antitrust case, not an intellectual property case. The main focus of the Commission was Article 86, and I think that under Article 86 the position of the Commission was correct; and I think will now be approved by the Court of Justice even if there isn't an agreement with the full Court. I think that under Article 86 the result is correct.

The dispute seems to originate from the reasoning which the Court of First Instance used to reach that result. It is clear that the boundary between the approach in the first clause is a boundary which is not exactly delineated in the actual case. We have the impression—and I would agree with Dr. Korah on this—that in the design case the Court said that exclusive licensing was part of the essence of the right. Whereas in the *Magill* case there were some valid concerns that intellectual property could keep a downstream competitor from competing.

It is clear that you are right in pointing out that the way the Court interprets copyright in *Magill* will have impact—might have impact—on things such as the exact way we delimited the protection in software, or indeed, in the design of other rights across the board because it will come from the avenue of Article 86 not from the avenue of intellectual property.

It's an important case and an important decision. I will say no more because it is not decided yet. But it's fair to read that it has potential influence on many issues on the Software, the Database, and other Directives.