

## II

(Acts whose publication is not obligatory)

## COMMISSION

## COMMISSION DECISION

of 18 July 1975

relating to a proceeding under Article 85 of the EEC Treaty (IV/21.353 — Kabel-metal-Luchaire)

(Only the French and German texts are authentic)

(75/494/EEC)

THE COMMISSION OF THE EUROPEAN  
COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 85 thereof;

Having regard to Regulation No 17<sup>(1)</sup> of 6 February 1962, and in particular Articles 4, 6 and 8 thereof;

Having regard to the notification made on 2 February 1963 of the patent and know-how licensing agreement which Kabel- und Metallwerke Neumeyer AG, a company with its registered office at Nuremberg, Germany, which later became Kabel- und Metallwerke Gutehoffnungshütte AG, with its registered office at Hanover (hereinafter called 'Kabelmetal'), concluded on 19 June 1958 with Ets Luchaire SA, Paris, France (hereinafter called 'Luchaire');

Having regard to the summary of the notification published, as required by Article 19 (3) of Regulation No 17, in *Official Journal of the European Communities* No C 157 of 14 December 1974;

Having regard to the Opinion delivered on 24 April 1975 by the Advisory Committee on Restrictive Practices and Dominant Positions pursuant to Article 10 of Regulation No 17;

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

## I.

1. Kabelmetal has developed from the cold-extrusion process a whole range of special techniques for the machining of steel parts.

At present the manufacturing techniques used by Kabelmetal are based on secret processes and practical experience (know-how) and on a large number of patents in all EEC countries other than Ireland, Denmark and Luxembourg. These patents, of varying importance, do not directly affect the basic extrusion process, which in itself may be freely used by any firm, but relate specifically to the manufacture and fitting together of the tools for the shaping of the parts, the phosphatization and lubrication of the parts, and in general to improved methods, in particular those used to obtain parts with special shapes.

The various parts manufactured on the basis of techniques used by Kabelmetal include pistons, shock absorbers, hollow axles, spindles, extinguishers, brake parts, parts of furniture, cog wheels, etc. Among the major users of the products thus obtained are the motor industry, the electrical industry, the extinguisher-manufacturing industry and the mechanical-engineering industry in general.

2. By the terms of the licensing and technical assistance agreement concluded on 19 June 1958, as amended on 4 March 1960, 10 November 1960, 16 January 1962, 31 December 1965 and 13 March 1974, Kabelmetal granted Luchaire an exclusive licence for

the manufacture in France of the abovementioned products using its secret and patented manufacturing techniques (current or future), the exclusive right to sell these products in certain non-member countries (Spain and Portugal) and a non-exclusive licence to sell these products in all the countries of the common market.

The parties agreed to exchange all relevant information concerning the application of the licensed techniques. Kabelmetal specifically undertook to give the licensee all necessary technical assistance for the duration of the agreement, in particular to help train technicians, work out production planning, design tooling and determine the types of steels to be used. The licensee undertook to grant Kabelmetal a non-exclusive licence in respect of any patent relating to such improvements of processes as should be discovered by the licensee, so that Kabelmetal might not only use them for its own production but also authorize any other licensee who should give the same undertaking to use them. Luchaire also undertook to keep secret Kabelmetal's know-how: it would communicate such know-how only to its authorized representatives and employees and take all reasonable steps to ensure that they too should keep it secret.

In consideration of the licence, Luchaire undertook to pay Kabelmetal royalties, originally calculated by reference to the purchase price of the materials used, and subsequently changed to a lump sum, paid in instalments. Once the agreement has expired, Luchaire may continue to make use without payment of royalties of techniques received prior to 31 December 1972, while the use of techniques received after this date will be subject to the payment of royalties the amount of which is still to be fixed.

The parties undertake for the duration of the agreement not to sell, either directly or indirectly, products manufactured using Kabelmetal's techniques in certain countries outside the EEC, that is to say for Kabelmetal in Spain and Portugal, and for Luchaire outside the EEC and these two countries. However, this undertaking does not apply to imports into these countries of machines or assemblies which incorporate parts manufactured under the agreement.

Kabelmetal undertakes not to grant any licence in respect of its techniques on terms which are more favourable than those applying to Luchaire to any other person, company or firm anywhere in the world.

The agreement is to be performed in accordance with French law; any dispute between the parties over the

agreement must be settled in accordance with the conciliation and arbitration rules of the Paris International Chamber of Commerce.

As originally drafted, the agreement contained an obligation on the licensee to transfer to Kabelmetal ownership of such improvements, whether patentable or not, as the licensee might make in conjunction with Kabelmetal; a further obligation not to sell the products in question within the EEC, except in the territory of specified Member States, and an obligation not to contest the validity of the licensor's patented processes. At the Commission's request, however, the parties deleted these obligations from the agreement with effect from 13 March 1974.

The agreement expires on 31 December 1977.

3. The following factors also emerged during investigation of the case: essentially, the cold-extrusion process involves the plastic deformation in a press, without pre-heating either of the part or of the tooling (punches and die), of a rough blank, usually of metal, into a solid or hollow part. The essential distinguishing characteristic of the cold-extrusion process is that it makes it possible to work with metals at ambient temperature. This normally has certain advantages over the 'traditional' deep-drawing processes in that it improves the mechanical properties of the parts (strength, fibre structure, etc.) — as a result of cold hardening — as well as saving material and additional machining. In general, it can be said that it is better to use cold-extrusion techniques to manufacture parts which require the removal of a large quantity of material in successive operations, provided that the number of parts to be produced justifies the use of expensive equipment. It should be noted that the investment costs for the installation of one production unit per extrusion, with a sufficient number of presses and tools, total several million units of account.

The extrusion process has been used since the end of the last century on soft metals and in the manufacture of armaments such as brass cartridge cases. From 1934 onwards it was extended to steel as a result of inventions made by Kabel- und Metallwerke Neumeyer AG and protected by secret patents. After the Second World War the process was confiscated by the Allies and thus came to be used widely in Europe and in the USA for the manufacture of many different parts and was put to many different uses. Although the cold-extrusion process in general has thus been in use for more than thirty years, there exists a whole range of possible techniques now used by various firms in the mechanical-engineering industry.

Kabelmetal, with all its know-how and its patents, holds the key to the use of cold-extrusion techniques specially developed for manufacturing steel parts with particularly awkward dimensions and shapes. Luchaire profits directly from Kabelmetal's development work by turning to Kabelmetal whenever it has any special problems concerning the manufacture of new parts and new tools and equipment requiring fresh investment.

The products covered by the agreement are generally manufactured on the basis of technical specifications and part designs submitted by customers before an order is placed. Detailed technical research is often required in order, principally, to reduce the number of non-standardized shapes, such as large variations of section, grooves and necks. There is no wholesale or retail trade in most of these products, because they are generally delivered direct by Kabelmetal itself or its licensee to manufacturers who incorporate them into their own products.

Apart from some deliveries made in Belgium, where under the original version of the agreement of 19 June 1958 Luchaire had a non-exclusive sales licence, Luchaire has not as yet been supplying firms within the EEC, other than those established in France. Undertakings in other Community countries (i.e. Italy, the United Kingdom, Belgium and the Netherlands) have been supplied direct by Kabelmetal.

It is impossible to determine exactly the licensee's share of the market, since the products in question are put to many different uses and may be manufactured both by producers using different cold-extrusion techniques, including six undertakings established in France, and by those using rival deep-drawing techniques. Nevertheless, the information available to the Commission suggests that Luchaire must account for about 20 % of the production of such parts in France in 1974. The other 80 % was manufactured by competitors and by users themselves (mainly the large car manufacturers or their subcontractors).

Rival techniques for obtaining the same parts as those manufactured by cold-extrusion include the tradi-

tional techniques of forging and sintering, machining by metal removal and casting.

It should also be pointed out that at present Luchaire is the only licensee within the EEC for the products manufactured on the basis of Kabelmetal techniques.

4. No observations were received by the Commission from third parties following the publication of the summary of the notification.

## II.

5. Article 85(1) of the Treaty prohibits as incompatible with the common market all agreements between undertakings 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.

6. By the terms of its agreement with Luchaire, Kabelmetal undertook to grant Luchaire an exclusive licence for the manufacture, in a specified part of the territory of the common market, of parts obtained by cold-extrusion using its patented inventions and know-how.

A patent confers on the holder the exclusive right to use the protected invention; know-how, as long as it is kept secret, makes it possible for the person possessing it to make sole use of the invention, or of the technical and economic information which is its subject. The holder of a patent or know-how may, by licensing agreements, authorize the use of the patented invention in a specific part of the common market covered by the patent, or pass on the invention or secret information to any firm interested in using it.

If the patent-holder, however, undertakes to restrict the use of his inventions to one single firm in a specified territory, he is no longer able to make agreements

with other applicants for licences; such an undertaking on the part of the holder is not of the essence of the patent; such an exclusive licence covering industrial property rights and know-how may be a restriction of competition and therefore prohibited by Article 85(1).

In the case in point, as has been shown above, the techniques in respect of which Kabelmetal has granted licences are important techniques for the manufacture of rough parts and the number of strictly competing and comparable processes, like the number of manufacturers using them, is relatively small. Luchaire holds a substantial share of the market for these articles in the EEC, and this share is all the greater as the remainder is not exclusively produced by competitors but also by the users themselves. Kabelmetal for its part has a considerable turnover in Germany. This being so, the exclusive manufacturing licence granted by Kabelmetal, apart from restricting Kabelmetal's freedom, seriously affects the position of others — notably many metallurgical undertakings with their registered offices in France — who might wish to apply the techniques in question, since they are prevented from using these techniques within the common market.

The exclusive licence granted to Luchaire, therefore, appreciably restricts competition within the common market.

7. The exclusive manufacturing licence for France granted by Kabelmetal to the licensee prevents Kabelmetal from granting further licences to other firms which would enable them to use its patented inventions and know-how on French territory and, consequently, put them in a position to export from France to other parts of the common market.

This restriction must therefore be regarded as liable to affect trade between Member States since it is likely to endanger, directly or indirectly, freedom of trade between Member States in such a way as to hamper attainment of the objectives of a single international market.

The agreement in question therefore falls within the scope of Article 85(1) of the Treaty.

8. The other provisions of the agreement between Kabelmetal and Luchaire are not caught by Article 85(1), because they do not have as their object or effect a substantial restriction of competition within the common market. This is true in particular of the following :

(i) Kabelmetal's undertaking not to grant any licence in respect of its techniques to any firm in any part of the world on terms more favourable than those applying to Luchaire (most-favoured-licensee clause). The licensor's undertaking to extend to the original licensee any more favourable terms subsequently granted to other licensees would not in general dissuade the licensor from granting further licences to third parties. In specific cases, however, particularly where the market situation was such that the only way to find other licensees was to grant them more favourable terms than those granted to the first licensee, this obligation could be an obstacle to the granting of further licences and therefore constitute an appreciable restriction of competition. In this specific case, however, none of the facts point to such a restriction.

(ii) the prohibition on exports by the parties to countries outside the common market, since in the case in point this would not substantially affect either competition within the common market or trade between Member States, because the products in question are not suitable for marketing through intermediaries and are therefore unlikely to be reimported into the EEC and subsequently sold from one Member State to another.

(iii) Luchaire's obligation to grant Kabelmetal, and through Kabelmetal other possible licensees, non-exclusive licences in respect of such improvements as Luchaire itself may have made to the techniques in question. This restricts Luchaire's freedom to make contractual dispositions in respect of such improvements, for although Luchaire remains free in theory to grant licences for improvements to other firms, which would not normally have access to Kabelmetal's basic processes, it cannot now refuse to grant such licences to competing firms using the same processes, which are therefore directly interested in any improvement. Luchaire's obligation to permit the granting of licences to its competitors, thus losing any competitive advantage which might result from the said improvements, would tend to discourage any effort which the company

might normally make to obtain such an advantage. Such an effect may restrict competition, particularly in an oligopolistic market structure. In the market in question, as Luchaire is at present the only licensee in the common market and as it is unlikely that further licensees who could effectively compete with Luchaire will be appointed before the contract expires, the obligation in question cannot be regarded as having an appreciable effect on conditions in the EEC market.

- (iv) Luchaire's undertaking to keep secret the know-how made available to it by Kabelmetal, since the very essence of technical know-how, which is a collection of industrial processes unprotected by the law on industrial property, is secrecy. This element of secrecy is an essential precondition so that the owner of the technical know-how can pass it on to other firms and is therefore also an essential prerequisite for exploiting the know-how until such time as it becomes public knowledge.
- (v) Luchaire's undertaking to pay royalties if it uses — once the contract has expired — the secret techniques received after a specified date during the lifetime of the contract, since this obligation does not prevent the licensee from using the know-how after the contract has expired even if it has to pay royalties to do so.

### III.

9. Under Article 85(3), the provisions of Article 85(1) may be declared inapplicable in the case of any agreement between undertakings 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 indispensable to the attainment of these objectives;
- (b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

10. Kabelmetal's undertaking to grant Luchaire exclusive rights contributes to promoting economic progress, since it made possible the licensing agreement in question by guaranteeing Luchaire a sufficient return on its investments by virtue of the terri-

torial advantages it derives from the exclusion of any other firm which might be interested in manufacturing on the basis of the licensor's techniques within the territory for which the licence is valid. This provision has therefore enabled another manufacturer within the EEC to use improved techniques for machining steel parts — techniques which, compared with the traditional deep-drawing processes, make possible considerable savings in raw material and the production of high-quality finished products.

The obligation also contributes to promoting technical progress and to improving the production of parts manufactured according to the licensor's techniques in that the agreement made possible by the obligation permits the licensee to ask for Kabelmetal's technical assistance in designing new parts and new tools and equipment, and thus encourages joint improvement of the licensed techniques.

11. Users, notably electrical-equipment and motor-vehicle manufacturers and their customers, obtain a fair share of the benefits of the economic and technical progress mentioned above, for as a result of this agreement they have at their disposal in the common market goods tailored to their needs, in unusual shapes and dimensions. Most users in France can, thanks to the close proximity of Kabelmetal's licensee, be sure of obtaining efficient technical information and assistance in finding which of the parts they require can be made to higher technical specifications or at lower prices, as well as regular supplies. Competition between rival products is sufficient to guarantee users a share in the benefits in question.

12. Luchaire's exclusive licence for a specific territory may, in respect of the use of Kabelmetal's secret and protected techniques, be considered indispensable to attainment of the desirable objectives set out in the foregoing paragraphs. Given the investments required to apply Kabelmetal's techniques and to promote sales of products manufactured by extrusion processes, which when the agreement came into force were not as yet widely used and had to compete with many other processes to which users were already accustomed, Kabelmetal would have been unable to get any interested firm in the EEC to apply the techniques it possessed at that time, or indeed any new development involving fresh investment, had it not given an undertaking that other firms would be unable to compete with it directly by manufacturing the products in question using the same protected or

secret techniques in the territory covered by the licensing agreement. The protection which this territorial advantage gives against the risk of insufficient use of production capacity that has had to be created could not be attained by measures which would restrict competition to a lesser degree.

13. Although Luchaire occupies an important position in the EEC, the agreement in question does not give it power to eliminate competition in a large part of the relevant product market. It should be noted here that other cold-extrusion techniques and other deep-drawing processes are used by several firms within the common market. Added to this is the fact that Kabelmetal's licensee is free to sell the relevant products within the common market outside the territory for which it holds an exclusive manufacturing licence and is especially responsible.

14. As matters now stand, the licensing agreement between Kabelmetal and Luchaire satisfies all the tests for a decision granting exemption under Article 85 (3).

#### IV.

15. As originally drafted, the licensing agreement between Kabelmetal and Luchaire did not satisfy the tests of Article 85 (3), because it contained a general obligation on the licensee not to export to other EEC countries the articles manufactured using Kabelmetal's techniques, the obligation to transfer to Kabelmetal ownership of jointly developed improvements and the obligation not to contest the validity of the licensor's patents. These obligations constituted substantial restrictions of competition and could not be regarded as being of the essence of the licensed patent rights or as contributing to the improvement of production or distribution of goods or to promoting technical or economic progress.

At the Commission's request, these obligations preventing application of Article 85 (3) were on 13 March 1974 deleted from the agreement.

Pursuant to Article 6 (1) of Regulation No 17, the decision granting exemption under Article 85 (3) may therefore have effect from the date on which the agreement was amended, namely 13 March 1974.

16. For purposes of determining pursuant to Article 8 (1) of Regulation No 17 the duration of the validity of the decision, account should be taken of the fact that the restrictions of competition found do not prevent the free movement of the goods in question

between Member States of the EEC. Since the agreement in question is to lapse very soon, before the expiry of the Kabelmetal patents to which it relates, it would be advisable to provide that the decision under Article 85 (3) will lapse on the same date as the agreement.

17. In order that it may be verified that the amended agreement as applied in practice does not exceed the bounds of the decision declaring inapplicable the prohibition in Article 85 (1), measures should be taken to ensure that the Commission is informed of judgments given under the arbitration clause, since these might contain interpretations of the agreement which do not take account of the scope of this decision, which might in consequence have to be amended.

#### V.

18. The agreement in question does not satisfy the tests of Article 7 (1) and (2) of Regulation No 17. The agreement was already in existence at the date of entry into force of Regulation No 17 but was not notified by the date specified in Article 5 (1) of the said Regulation and did not fall within subparagraph (2) (b) of Article 4 (2) of the Regulation since its effect is not simply to impose restrictions on the exercise of the rights of the user of industrial property rights.

Consequently, the prohibition in Article 85 (1) applies to the whole period between 13 March 1962, the date of entry into force of Regulation No 17, and the date of entry into force of the decision declaring Article 85 (1) inapplicable to the agreement in question,

HAS ADOPTED THIS DECISION:

#### *Article 1*

The provisions of Article 85 (1) of the Treaty establishing the European Economic Community are, pursuant to Article 85 (3) thereof, declared inapplicable to the patent and know-how licensing agreement concluded on 19 June 1958 by Kabelmetal and Luchaire, as amended on 13 March 1974.

#### *Article 2*

The abovementioned undertakings shall communicate to the Commission without delay any judgment given under the arbitration clause.

*Article 3*

— Ets Luchaire SA, Paris, France.

This Decision shall have effect from 13 March 1974 to 31 December 1977.

Done at Brussels, 18 July 1975.

*Article 4*

This Decision is addressed to the following undertakings:

— Kabel- und Metallwerke Gutehoffnungshütte AG, Hanover, Germany, and

*For the Commission*

*The President*

François-Xavier ORTOLI

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