Field-of-Use Restrictions as Precompetitive Elements in Patent and Know-How Licensing Agreements in the United States and the European Communities

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Field-of-Use Restrictions as Procompetitive Elements in Patent and Know-How Licensing Agreements in the United States and the European Communities*

Thomas C. Meyers**

I. INTRODUCTION

Antitrust laws1 and patent laws2 are sometimes assumed to serve opposite purposes.3 However, both antitrust and patent have as their economic focal point the maximization of wealth by enabling the production of consumer goods at the lowest price.4 Both antitrust and patent

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2 For the purpose of this article, the term "patent laws" refers generally to the body of world intellectual property law relating to patents.


4 Rule, The Administration's View: Antitrust Analysis After the Nine No-No's, 55 ANTITRUST
laws also seek output expansion - antitrust by prohibiting monopolization; and patent by making available technology that would otherwise be kept out of the public domain.5

Still, some courts and commentators persist in thinking that the patent system is somehow antithetical to sound antitrust policy.6 In no instance is the tension between patent and antitrust law greater than in the area of patent licensing.7 In both the United States and the European Communities8, a patentee can refuse to license and not be subject to antitrust scrutiny.9 However, once the patentee licenses the invention, the antitrust laws apply to any restrictive aspects of the license agreement.10 Thus, restrictions on what a licensee may do with the patented technology or know-how11 that is the subject of the license can raise antitrust concerns. Such concerns are seldom justified except in situations in which the license restriction has the effect of 1) restricting competition among technologies that are economic substitutes, 2) excluding new technologies from the market, or 3) actually facilitating other anticompetitive ends.12

The courts of both the United States and the European Communities have upheld the legality of various licensing restrictions.13 One such

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5 These topics are considered in detail infra at text accompanying notes 18-40.
8 There are three European Communities: the European Economic Community, established by the EEC Treaty; the European Coal and Steel Community, established by the ECSC Treaty; and the European Atomic Energy Community, established by the Euratom Treaty. Unless otherwise noted, this article refers only to the European Economic Community. However, the European Communities are increasingly being considered as a single European Community. For instance, the ECSC will likely be completely absorbed by the EEC.
11 “Know-how” comprises the technical information that is often necessary to effectively use a patented invention. Thus, many licenses confer rights to both patented technology and unpatented know-how. However, it is possible that the subject matter of a license could be only the patented technology or only the unpatented know-how. See also infra note 53.
12 See Rule, supra note 4, at 369.
13 See infra text accompanying notes 72-126.
restriction, the "field-of-use" restriction, is the subject of this article. A field-of-use restriction prohibits a licensee from realizing the benefits of the license in certain technical fields.\(^1\)

Field-of-use restrictions are usually written as restricting use to a particular field rather than listing prohibited fields. For example, a license might restrict the use of a pharmaceutical compound to only veterinary applications, thus subjecting the licensee to liability if he or she uses the licensed subject matter in a human medicine application or in any other application.

Although not the subject of as much litigation and commentary as other restrictions\(^1\), field-of-use restrictions serve an important function in licensing. For example, a field-of-use restriction might allow a licensor to keep a monopoly in one field while obtaining the benefits of licensing (i.e., royalty payments) in another field. Also, a field-of-use restriction might provide incentive for investment in a technology by firms that could not risk the start-up costs if an established firm were already in the field. These and other advantages of the field-of-use restriction will be considered below.

This article first sets forth an economic justification for the legality of field-of-use restrictions, concluding that such restrictions are usually pro-competitive. The article then analyzes the relevant law in both the United States and the European Communities to determine the ways in which these two bodies of law are similar or different, and the extent to which the courts, the Commission, and various agencies have recognized the pro-competitive effects of field-of-use restrictions. The article concludes that the legal structure governing licensing agreements in the European Communities provides more predictable and useful guidance in drafting transnational licensing agreements.

II. THE IMPACT OF FIELD-OF-USE RESTRICTIONS ON COMPETITION

The holder of a patent is in the enviable position of being a price searcher exempt from the antitrust laws.\(^1\) Faced with a declining demand curve, the patentee will search for a price for the patented subject

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\(^{14}\) "Technical fields" is an ill-defined term of art that will be considered infra at text accompanying notes 82-84.


\(^{16}\) This is true only as long as the patent is valuable in the sense that there exists a market for the patent and that no unpatented substitutes exist that force the patentee to license on the competitive market. Thus, the legal monopoly will usually have its highest economic value when competition for the patented good is lowest. See generally F. SCHERER, INDUSTRIAL MARKET STRUCTURE AND
matter such that an increment of production adds as much to revenue as it does to cost. Thus, a patent monopolist will restrict output to obtain the maximum price that the demand curve will allow. The trade-off for the dead weight loss caused by the patentee’s behavior is that society benefits by disclosure of the invention and promotion of technological advancement. In other words, the social surplus lost by allowing monopoly pricing is recovered by the social value in providing incentives for creativity and the subsequent disclosure of the fruits of the creative effort.

However, when the behavior of the patent monopolist restricts competition outside the scope of the patent, there is additional loss of social surplus that is not offset by the greater social value of promoting discovery and disclosure. In that case, the antitrust and competition laws are implicated. The licensing activity of the patentee should be analyzed in this light. If licensing activity either promotes competition or does not restrict competition in a field-of-use outside that covered by the patent, the activity should be allowed - absent other restrictions. It is from this perspective that the competitive effects of field-of-use restrictions will be analyzed in the following discussion.

A. Procompetitive Aspects of Field-of-Use Restrictions

A licensor might wish to include use restrictions in his or her licenses for a number of reasons. An example will illustrate this point. Suppose that one wishes to license patented material which has, in the simplest case, two distinct uses for which there is a market. For one of the uses there are relatively inexpensive economic substitutes but for the other use there is no viable substitute. The monopoly power commanded by the second of these uses (the high-demand use) is greater than that commanded by the use for which there are readily-available substitutes (the low-demand use). Thus, the patent holder can afford to act more like a monopolist in the case in which he or she is marketing the high-demand use. Ideally, this means that if the patent holder licenses the invention to a user who wishes to put the invention to the high-demand use, the patent holder/licensor can charge a higher royalty than in

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18 See e.g., Bleeke & Rahl, The Value of Territorial and Field-of-Use Restrictions in International Licensing of Unpatented Know-How: An Empirical Study, 1 Nw. J. INT’L. L. & BUS. 450, 454 (1979) (“Given the complexity of many modern processes and the different fields where such processes often may be applied, it is natural that field-of-use restrictions will be sought . . .”).
19 I.e., the elasticity of demand is high.
20 I.e., the elasticity of demand is low.
the case of a license granted to a user who intends only to put the patent to the low-demand use.\textsuperscript{21}

However, without a field-of-use restriction in either the license for the low-demand use or the high-demand use, the result will be less competition in the market for the low-demand use. The rationale for this stems from the fact that without the ability to use a field-of-use restriction, the licensor will be faced with three choices. First, the licensor could license to all users at the royalty rate for the low-demand use. That rate will essentially be dictated by the competitive price in the low-demand market. In other words, given that readily-available economic substitutes exist for the low-demand use, the royalty rate that low-demand users are willing to pay will be determined, in part, by the price of the available substitutes and not by restrictions in the number of licenses granted for the low-demand use. Therefore, the licensor of the low-demand use must operate as a price taker due to the effective competition that exists in the market for that use. Second, the licensor could charge all users the royalty rate for the high-demand use. That rate will be the monopoly rate due to the lack of available substitutes for goods applicable to the high-demand use. Thus, at the high-demand rate, the licensor is a price searcher and will restrict output in order to get the highest royalty rate. Finally, the licensor could engage in a form of price discrimination and charge the monopoly rate to high-demand users and the competitive rate to low-demand users.

The first option is not tenable because the licensor would lose monopoly profits that could be made from the high-demand users. Thus, no patentee whose desire it is to maximize profits will accept the first option.\textsuperscript{22} Likewise, the third option presents the problem that the licensor may not be an effective price discriminator. Furthermore, a licensee, absent a contractual provision, may say it values the patented product only at the low-demand price and then proceed to put the product to the high-demand use.\textsuperscript{23} Thus, of the options outlined above, the licensor should charge the monopoly royalty price for all licenses of the patent.\textsuperscript{24} This is so because the licensor would rather make the monopoly profits available

\textsuperscript{21} This, of course, is true only if one assumes that, even absent a field-of-use restriction, low-demand users will only use the patented device for the low-demand use and high-demand users will only put the patent to the high-demand use (i.e., no user takes a license under the pretense of putting the patent to the low-demand use and then subsequently switches to the high-demand use).

\textsuperscript{22} Option one does not diminish social surplus because the producer surplus that the patentee would have obtained at the monopoly price is transferred directly to consumer surplus.

\textsuperscript{23} See supra note 21 and accompanying text.

\textsuperscript{24} This will be subject to the assumption that a market exist for the high-demand use - an assumption made implicitly above.
for the high-demand use and forego the low-demand market altogether than license at the competitive price in the low-demand market. This would allow high-demand users to obtain a license at a royalty rate that is much lower than the rate at which the high-demand user values the patent.\(^{25}\) Given the choice, and the protection of the patent laws, a profit-maximizing licensor will likely choose to appropriate the monopoly profits available from high-demand users.

Licensing at the monopoly price, however, will have the effect of pricing the invention out of the low-demand market because exclusively low-demand users will turn to the available substitutes. Even high-demand/low-demand users of the invention may find it cheaper to use substitutes for the invention in the low-demand use. Therefore, the lack of an available field-of-use restriction will actually serve to decrease competition in the low-demand market.

In the foregoing example, it would make sense to allow a field-of-use restriction with price differentiation.\(^{26}\) In such a system, competition would increase at both the high-demand and low-demand uses. At the high-demand use, the level of output of the licensed products would be more competitive and the end products made from the patented material would be available in a marketplace where they would not otherwise have been.\(^{27}\) The market for the low-demand use would also be more competitive because the number of economic substitutes for the low-demand use would be increased by the presence of the patented material in the low-demand market, thus driving price to a competitive equilibrium.

As a concrete example of the above, consider the recent discovery of the intriguing new molecules called “Buckyballs” which can be easily manipulated for numerous commercial uses including lubricants, batteries, drugs, and fuels.\(^{28}\) Suppose that, because of their numerous potential uses, Buckyballs are patented and the patentee wishes to license them for commercial development. Further, suppose that Buckyballs are highly valuable as lubricants - in fact, so valuable that they would completely

\(^{25}\) Of course, the patent holder does not have to license everyone. However, absent a field-of-use restriction, it may be difficult to know with any degree of certainty the use to which a licensee will ultimately put the invention.

\(^{26}\) Price differentiation, as used here, is different than either price discrimination as contemplated under the Robinson-Patman Act or price discrimination in the economic sense. Differentiating between users in completely different fields in terms of the royalty rate charged raises neither traditional economic concerns nor the antitrust concerns expressed in the Robinson-Patman Act.

\(^{27}\) Obviously, if the patent holder withheld the patented material from the market, the material itself as well as any end products generated from or by the material would not be put to their most efficient use (assuming that it is cheaper for the patent holder to license than to retain the monopoly on production).

\(^{28}\) See Buckyballs Give Researchers a Big Bounce, Wall St. J., Apr. 2, 1991, at B1, col. 3.
replace conventional lubricants on the competitive market. However, suppose Buckyballs were not as valuable as components of batteries in that they would not compete any better than their economic substitutes in the competitive battery market. If Buckyballs were only licensed to firms that produced lubricants, the licensor could charge a royalty commensurate with the high value of the lubricant to the lubricant manufacturer. However, if the licensor of Buckyballs grants a license to a manufacturer of batteries, that manufacturer might have an incentive to enter the market for lubricants. If the battery manufacturer does this, it will have appropriated from the licensor profits which the licensor might have made by licensing at the higher rate to a lubricant manufacturer. A licensor presented with such a dilemma will be discouraged from licensing everyone. However, a field-of-use restriction in the latter situation would alleviate the problem by making it possible for the licensor to realize maximum profits in both fields. This will not only create an incentive to license (i.e. promote the development and dissemination of technology) but will also have a pro-competitive effect in the low-demand (here, the battery) industry.

Similar effects on price and competition occur when the licensor wishes to reserve for itself one of several fields to which a patented invention may apply or when the licensor does not wish anyone to exploit one of the fields. In either case, if the licensor does grant licenses, the royalty price will increase to cover the licensor's opportunity cost of not being able to reserve one or more fields. Thus, if a patent is applicable in two different technical fields and the licensor wishes to license only one of the fields, with no field-of-use restriction the licensor would be faced with the choice of not licensing (due to a desire not to license one of the fields) or of licensing to a licensee who may exploit both fields. In the former case, one of the fields is not served (assuming that the licensor is unwilling to or incapable of manufacturing in that field); in the latter case, the licensor will charge a higher royalty, reflected in higher consumer prices to cover the lost monopoly profits which the licensor would have made in his or her chosen field. A field-of-use restriction would eliminate both of these inefficient alternatives.

The foregoing analysis is supported empirically by a study com-

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29 This lubricant property may actually be in doubt due to the fact that real Buckyballs cannot withstand the heat that is often generated in situations in which lubricants are needed. Id.
30 This is so because if the licensee used the Buckyballs for one of the less-valued uses, the licensor would not lose any money.
31 This assumes that start-up costs are not prohibitive in light of the profits the battery manufacturer expects to make.
32 See infra text accompanying notes 82-84.
pleted by Bleeke and Rahl. Bleeke and Rahl report that if the United States prohibited field-of-use restrictions in international know-how licensing agreements, many firms would increase their price for "technologies with wide applications." Other firms indicated that their future licenses would "reflect the potential loss of control of an asset [the firm] spent effort and money developing." Over fifty percent of the firms surveyed said that they would either increase royalty rates or not license know-how at all if field-of-use restrictions were outlawed. Thus, there is practical support for the theoretical basis supporting field-of-use restrictions offered above.

B. Field-of-Use and Incentives to Enter the Market

Another reason for allowing field-of-use restrictions is that doing so might facilitate the entry of a firm into a field in which it might not otherwise be economical for the firm to enter. For instance, the holder of a drug patent who wishes to license the use or manufacture of the drug, useful in both the human and veterinary medical fields, might have several choices as to whom he or she will grant a license. The patent holder could grant a license to: 1) a firm that will use the drug solely in the human medical field, 2) a firm that will use the drug solely in the veterinary medical field, or 3) a firm that will use the drug in both fields. If one assumes that there exist firms of each type described above, and in both fields there are start-up costs which are not readily recoverable by price, competition is best served if the licensor is allowed to use a field-of-use restriction in his or her licenses.

If a firm must expend capital to enter a market, it may be less willing to enter the market if another firm already exists in the market which has a low marginal cost of producing the market good. This is the rationale given by some for the grant of an exclusive license along with field-of-use restrictions. However, that rationale only applies when one or more established firms exist in the potential market. If no firms are manufacturing, using, or selling the patented product, then competition would be served best by licensing a number of firms in each field-of-use.

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33 See Bleeke & Rahl, supra note 18.
34 Id. at 478.
35 Id.
36 Id. at 480. The number of firms not licensing or charging higher royalties was even greater in the hypothetical case in which territorial restrictions were prohibited.
37 The ability of a licensor to restrict fields may also lead to technological innovation by the licensor in the form of improvements.
(i.e. the exclusivity provision should not be used). Each of the firms will have roughly equivalent start-up costs; therefore, no firm will be dissuaded from entering the market due to the superiority of an already-existing firm. As described below, the situation is different when firms exist that are capable of entering the market immediately.

If the drug licensor described above grants licenses only to firms that engage in the human medical field or only to firms in the veterinary medical field but never to firms that engage in both fields, a field-of-use restriction is not necessary. In that case, the start-up cost for the veterinary firm to enter the human market, and for the human firm to enter the veterinary market, would be equal and there would be no impairment of competition. On the other hand, if the licensor first licensed a firm that was capable of using the invention in either the veterinary field or in the human field, the incentive for a firm to sink start-up costs into one field or the other would be comparatively low because of the inherent disadvantages to competing with the established firm.

Without a use restriction in the license to the firm capable of using the invention in both fields, a firm that wishes to use the invention in only one field will be deterred from entering that market. For example, suppose Firm A has the facilities necessary both to produce a patented drug for use in veterinary medicine and to meet the standards for human use. Now suppose that Firm B wishes to begin producing the same patented drug for use exclusively in the human medical field. Start-up costs in the human field are high and no economic substitutes for the patented drug exist. If Firm A is granted a license with no use restriction, Firm B will have little incentive to enter the human medical field because its start-up costs will serve as an effective barrier to entry. However, if Firm A is granted a license with a restriction to use the drug only in the veterinary field, Firm B will not be deterred from entering the human medical field because, even if there are several licensees, they will all be on equal footing in entering the field.

C. The Patentee’s Right to Full Exploitation of its Patent Rights

Both European and United States courts hold that a patentee is usually under no obligation to license his or her invention. By granting the patent, the Government provides the patentee with an exclusive right to

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39 A different situation presents itself when the potential for rent seeking exists. See infra text accompanying notes 46-49.
40 This also assumes that start-up costs are the same in both fields.
41 This is subject to the qualifications mentioned supra at note 9; see generally Marks, supra note 7.
make, use, or sell the invention as well as the potential for monopoly power in exchange for public disclosure of the invention.\textsuperscript{42} Such a system promotes "the Progress of Science and useful Arts"\textsuperscript{43} and provides incentive for technological advancement. It makes sense that if an inventor is under no obligation to license and, in fact, the invention can remain dormant for the term of the patent\textsuperscript{44}, the inventor (or its assignee) should be able to grant a restrictive license as long as doing so does not impair competition.

Thus, an inventor could restrict the field-of-use of the invention such that the inventor retains monopoly power over one use and conveys market power over another use through a license. Doing so restricts competition in the field-of-use retained by the inventor; but such a restriction of competition is what the inventor was entitled to in the first place (assuming a patent has issued). The conveyance of the other field-of-use creates competition in a field in which competition would have been less, absent the conveyance.\textsuperscript{45}

This is not to say that simply because an inventor is given a monopoly over his or her invention that the law should allow the inventor to restrict the invention's use \textit{ad librium}. Rather, any restriction that promotes competition in a given field (and does not illegally impair competition in another field) should be valid under the competition laws. Thus, if a licensor's choice is between licensing with a use restriction to enhance competition in a given field, or withholding a license due to a desire to maintain monopoly power in another field, the law should encourage the former.

D. Exclusive Licenses

A potentially different problem arises when the licensor conveys an exclusive license with a field-of-use restriction. In that case, competition is not created vis-a-vis the patented subject matter due to the exclusivity clause. However, since a patentee may assign the entire right to make, use, or sell the invention, he or she should be able to alienate part of that right in many situations. This is the so-called inherency doctrine adopted by the United States Supreme Court in \textit{General Talking Pictures}

\textsuperscript{42} See supra text accompanying notes 16-17.
\textsuperscript{43} U.S. Const. art. I, § 8, cl. 8.
\textsuperscript{44} The patent term in the United States is 17 years. In the European Communities, the term varies according to national law, but can be as long as 20 years.
v. Western Electric Co. Thus, under the inherency doctrine, an exclusive license with a use restriction is no more a cause for concern than the case described above for use restrictions in a non-exclusive license - albeit for a different reason.

Exclusive dealing arrangements between licensors and licensees can also alleviate the risks of sunk costs to investors in patented technology. If a licensee must sink an initial capital investment into use of a patented technology, the licensee assumes the risk that the licensor will hold it hostage subject to the collection of additional rents. For example, suppose that a manufacturer designs an end product to incorporate a specialized patented device, for which the manufacturer obtains a license and which greatly increases the value of the end product. If the end product cannot be adapted to use a substitute device, the manufacturer/licensee is subject to being held up by the licensor for additional royalties. The manufacturer/licensee will pay the additional royalties to the extent that doing so is less expensive than modifying the end product or scrapping the entire manufacturing process.

The licensor described above is in the advantageous position of being able to extract additional royalties because of the sunk costs that the licensee has put into specializing its product for the patented device, and because the licensor can turn to other potential licensees. An exclusive license not only provides incentive for firms to enter a market, but also prevents rent-seeking by an opportunistic licensor.

The benefits of exclusivity are expressly recognized in the European Communities. In Recital 6 of Regulation 556/89, the Commission states that "[e]xclusive 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) . . . . ." The Regulation proceeds to specifically recognize the benefits of exclusivity to industry in Recital 7.

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46 304 U.S. 175 (1937), aff'd on reh'g, 305 U.S. 124 (1938); see infra text accompanying notes 99-110.
48 Regulation 556/89, supra note 10, at Recital 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. . . .
and to consumers in Recital 9. Thus, exclusivity may be a tool for both increased competition within a market and a means of facilitating market entry.

III. FIELD-OF-USE IN THE EUROPEAN COMMUNITIES

A. General Applicability of Regulations 2349/84 and 556/89

The legality of patent license agreements in the European Communities is governed primarily by two regulations implementing Article 85 of the Treaty of Rome. The so-called group exemption, Commission Regulation No. 2349/84 [hereinafter the Patent Regulation], applies Article 85(3) of the Treaty of Rome to patent licensing agreements. The more recent Commission Regulation 556/89 [hereinafter the Know-How Regulation] also applies Article 85(3) to certain know-how and mixed patent/know-how licensing agreements. The Know-How Regulation deems that "... Article 85(1) of the Treaty shall not apply to pure

49 Id. at Recital 9:

The obligations listed in Article 1 also generally fulfill the other conditions for the application of Article 85(3). Consumers will as a rule be allowed a fair share of the benefits resulting from the improvement in the supply of goods on the market. ...

50 Article 85(1) of the Treaty of Rome, supra note 1, lists activities that are incompatible with Common Market competition policy. Article 85(1) states:

The following shall be prohibited as incompatible with the Common Market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restrictions or distortion of competition within the common market, and in particular those which:

(a) directly or indirectly fix purchase or selling prices or any other trading conditions;
(b) limit or control production, markets, technical development, or investments;
(c) share markets or sources of supply;
(d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
(e) make the conclusions of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

51 Article 85(3) of the Treaty of Rome, supra note 1, states:

The provisions of paragraph 1 may, however, be declared inapplicable in the case of:

- any agreement or category of agreements between undertakings,
- any decision or category of decisions by associations of undertakings, and
- any concerted practice or category of concerted practices:
which contribute to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which 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.

52 See Regulation 2349/84, supra note 10, at Preamble.

53 "Know-how" is defined as "non-patented technical information (e.g. descriptions of manufacturing processes, recipes, formulae, designs or drawings). ..." Regulation 556/89, supra note 10, at art. 1.

54 See Regulation 556/89, supra note 10, at Preamble; see also id. at art. 1(7)(1).
know-how licensing agreements and to mixed know-how and patent licensing agreements not exempted by Regulation 2349/84."55 Thus, the Know-How Regulation applies to any patent license that provides know-how in addition to supplying the subject-matter of the patent.56

In some cases, the Know-How Regulation goes even further than the Patent Regulation in terms of the scope of the exemption.57 Thus, the Know-How Regulation could serve to exempt some patent licenses which would not come under the exemptions of the Patent Regulation.58 In the definitional section of the Know-How Regulation59, mixed know-how and patent licensing agreements are defined as "agreements not exempted by Regulation 2349/84 under which a technology containing both non-patented elements and elements that are patented in one or more Member States is licensed."60 The importance of mixed know-how/patent licensing agreements is underscored in Recital 2 of the Know-How Regulation, which states "[a]s well as pure know-how agreements, mixed know-how and patent licensing agreements play an increasingly important role in the transfer of technology."61 Recital 2 further states that the Know-How Regulation includes within its scope "mixed agreements which are not exempted by Commission Regulation 2349/84."62

Thus, even a license provision that falls under the blacklist63 of the Patent Regulation may, in some cases, qualify for an exemption under the Know-How Regulation. For example, both the Patent Regulation and the Know-How Regulation include in their respective blacklist (i.e., disqualify for exemption) a license agreement in which a limitation is placed on the quantity of licensed product a licensee can produce or limi-

55 Id. at art. 1(1).
56 See V. KORAH, KNOW-HOW LICENSING AGREEMENTS AND THE EEC COMPETITION RULES REGULATION 556/89 85 (1989) ("[Th]e know-how exemption applies to a mixed licence that comes within the definition of a patent licence under the patent regulation."). Regulation 556/89 applies not only to know-how licenses, but also to licenses that cover patents coupled with know-how relevant to the patent. In some respects, such licenses may be treated more liberally than pure patent licenses.
57 Id. at 88.
58 This assumes, of course, that the license in question is a mixed patent/know-how license.
59 Regulation 556/89, supra note 10, at art. 1(7).
60 Id. at art. 1(7)(6).
61 Id. at Recital 2; see also Blecke & Rahl, supra note 18 and accompanying text. The Blecke and Rahl study supports the view stated in the Regulation.
62 Regulation 556/89, supra note 10, at Recital 2 (emphasis added). The same language is found in Regulation 556/89 at art. 1(7)(6) (definition section).
63 The "blacklist" is a list of license provisions to which articles 1 and 2(2) of the regulations do not apply (i.e. such provisions are not exempt under Article 85(3) and may subject the parties to liability). Both Regulations 2349/84 and 556/89 contain a blacklist.
tions on the number of operations exploiting the licensed technology. However, the Know-How Regulation, but not the Patent Regulation, allows an exception for a quantity limitation when the limitation is specifically directed “to the quantities [the licensee] requires in manufacturing his own products and to sell the licensed product only as an integral part . . . of his own products . . . .” The result is that one can avoid the prohibition of quantity limitations in certain situations if the license covers both the patent and the know-how relating to the patent.

Conversely, the Patent Regulation provides broader exemption coverage, for example, in the case in which a licensor attempts to restrict exploitation of the patent to the life of the license agreement. Such an arrangement comes under the white list of the Patent Regulation, but is not addressed by the Know-How Regulation. Assuming that a license contains both patent and know-how, the licensor and licensee may choose under which regulation to bring the license. Professor Korah notes that it is almost always the case that the Know-How Regulation is more permissive than the Patent Regulation. However, that conclusion is not absolute given the ambiguity of certain provisions in both Regulations. It is unclear how the Court of Justice or the Commission would view a given license provision under the two regulations and there is little case law to provide guidance. Therefore, it may be important that the parties to a license draft the license in such a way as to bring it under

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64 Compare Regulation 556/89 with Regulation 2349/84.
65 Regulation 556/89, supra note 10, at art. 1(1)(8).
66 Professor Korah notes another example of the breadth of the Know-How Regulation which is contained in Recital 2 of that regulation. The Know-How Regulation includes as its subject matter “mixed agreements not exempted by the patent regulation.” The Recital then provides two examples of mixed agreements, the second of which would be blacklisted under Article 3 of the Patent Regulation. See Regulation 556/89, supra note 10, at Recital 2; V. Korah, supra note 56, at 90.
67 Regulation 2349/84, supra note 10, at art. 2(1)(4). The “white list” is a list of licensing provisions that do not implicate Article 1 of the regulation and are not generally considered restrictive of competition. See, e.g., id. at art. 2(1).
68 This means that the licensor would have to apply for an individual exemption under the Know-How Regulation.
69 V. Korah, supra note 56, at 89, n.4. Professor Korah provides three examples of when the Patent Regulation is more permissive: 1) when the parties wish to extend territorial protection under the license by the addition of know-how (the Patent Regulation does not blacklist such an agreement when the parties each have an opportunity to rescind the agreement annually); 2) when the parties desire protection from passive sales (art. 1(1)(6) of both Regulations) and the license was granted before the goods were first put on the market; and 3) when a leader must perform too much processing for the agreement to come under Regulation 1983/83, and the agreement may come under the Patent Regulation but not the Know-How Regulation.
70 See, e.g., text accompanying note 82.
71 Both the Patent Regulation and the Know-How Regulation apply only to agreements undertaken by no more than two parties. See Regulation 2349/84, supra note 10, at Preamble. However, unlimited repetitions of two-party agreements are allowable as long as each is limited to two parties.
the appropriate regulation. However, one cannot apply broad general-
izations with any certainty at this time and it would be advisable to look
carefully at both regulations before drafting a license agreement for use
in the European Community. Indeed, as will be shown below, differences
in the way in which the two regulations treat field-of-use are important
considerations for licensor and licensee alike.

B. Application of the Regulations to Field-of-Use Restrictions

Both the Patent Regulation and the Know-How Regulation contain
provisions which deal with the field-of-use restriction, and the provisions
in both regulations are found in the white list. The provisions are
worded identically with one exception. Article 2 of the Patent Regula-
tion states, in pertinent part:

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:

3. an obligation on the licensee to restrict the exploitation of the li-
censed invention to one or more technical fields of application covered by
the licensed patent.

The Know-How Regulation differs in that it contains not only the afore-
mentioned language, but also additional wording to the effect that re-
stricting use of the technology to "one or more product markets" is also
exempt. The Know-How Regulation states, in pertinent part:

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:

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

The meaning of "technical fields" in both regulations is unclear, as
is the meaning of "product markets" in the Know-How Regulation. As
mentioned above, the addition of "product markets" to the Know-How
Regulation may give that regulation greater breadth than that of the Pat-

72 For the provisions contained in the Patent Regulation, see Regulation 2349/84, supra note 10,
at art. 2(1)(3); for the provisions contained in the Know-How Regulation, see Regulation 556/89,
supra note 10, at art. 2(1)(8). See also supra note 67.
73 Regulation 2349/84, supra note 10, at art. 2(1)(3).
74 Regulation 556/89, supra note 10, at art. 2(1)(8).
75 Id. (emphasis added).
ent Regulation. Due to the consequences of this important distinction, the application of the two regulations will be dealt with separately here.

1. Application of Regulation 2349/84 (The Patent Regulation) to Field-of-Use Restrictions

In drafting the Patent Regulation, the Commission was concerned that field-of-use restrictions might lead to customer allocation. Therefore, it applied the full force of Article 85(1) of the Treaty of Rome to licenses that have the effect of restricting the customers with whom a licensee may deal. This point is made clear in the blacklist, which states that, notwithstanding articles 1 and 2(2), one party may not be restricted as to the customers it serves, "in particular by 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 2(1)(3). Thus, a restriction on the field-of-use to which a licensee may put the patent is valid as long as doing so cannot be taken as a means of dividing customers.

Exactly where the Commission intends to draw the line between a valid field-of-use restriction and an invalid customer allocation is unclear. Any license that restricts fields will, de facto, divide customers. However, it appears that merely restricting fields, and thereby the customers available to the licensee, is not what the Commission contemplates in applying the blacklist provision of article 3(1)(7). It is only when the purported field-of-use restriction is a guise for an anticompetitive provision that article 3(1)(7) applies. For example, in Windsurfing, Int'l. v. EC Commission, the Commission rejected a field-of-use restriction in a license for a sailing rig. In that case, Windsurfing licensed the rig but attempted to limit it to use with a specific type of sailing board. The Commission viewed the license restriction as more of a tying arrangement and therefore not a valid field-of-use restriction. This case

76 See supra text accompanying note 56-60.
77 The Patent Regulation entered into force on 1 January 1985 and is due to expire on 31 December 1994. Given that the patent life is up to 20 years in many Member States, certain licensing agreements now in force and others entered into between the present and 1994 will outlast the Patent Regulation (unless that regulation is renewed). Thus, it may be advisable to make a provision (such as a severance clause) for the expiration of the regulation.
78 See V. KORAH, PATENT LICENSING AND EEC COMPETITION RULES REGULATION 2349/84 50 (1985).
79 See Regulation 2349/84, supra note 10, at art. 3(1)(7).
80 Id.
presents an example of a use restriction that is actually a guise for an anticompetitive goal.

While the process whereby the Commission characterizes a restriction as either a valid field-of-use restriction or an attempt to divide customers is unclear, even more unclear is the meaning of the phrase “technical fields of application” as used in the Patent Regulation. It may be that since the exemption does not apply to exclusive product markets, it was the intention of the Commission that “one or more technical fields” should refer to qualitatively different uses of the invention in substantially non-overlapping markets. If this is the case, the licensor should be allowed to divide the fields between clearly separate applications of the patented subject matter as a technology-promoting incentive and for the economic benefits discussed above.

2. Application of Regulation 556/89 (The Know-How Regulation) to Field-of-Use Restrictions

As previously mentioned, the exemption for field-of-use restrictions in the Know-How Regulation may be broader than the exemption contained in the Patent Regulation. This is due to language in the Know-How Regulation, not present in the Patent Regulation, that exempts not only restrictions as to “technical fields of application,” but also restrictions as to specific product markets. The basis for the latter addition to the Know-How Regulation is provided in Recital 16:

An obligation on the licensee to restrict his exploitation of the licensed technology to one or more technical fields of application 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.

Although the definition of “product market” is not precise, the presence of the additional language in the Know-How Regulation probably provides greater latitude for the licensor in controlling the disposition of the licensed product in most instances. Know-how, unlike a patent on a particular product, can conceivably be applied to a range of production

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82 See supra text accompanying note 73.
83 This is the case with the Patent Regulation. See supra text accompanying note 78.
84 See supra text accompanying notes 18-32.
85 See supra text accompanying notes 56-71.
86 Regulation 556/89, supra note 10, at art. 2(1)(8).
87 Id. at Recital 16. As to the last sentence regarding customer sharing, see supra text accompanying notes 77-80.
88 There is no explicit definition of “product market” in the Regulation.
processes. For example, know-how regarding the use of an ionic field for the separation of proteins by different molecular weights might also be applied to the different and more lucrative field of separating DNA necessary to take "DNA fingerprints."

C. Economic and Social Consequences of "Product Market" Restrictions

Not allowing a licensor to restrict use in specific product markets has the same adverse economic and social consequences as set forth above for disallowing field-of-use restrictions. The result will be that certain markets will not be served at all and that customers in the markets that are served by the patented subject matter or know-how will pay a higher price.

The likelihood of this market discrepancy is greatest in the area of know-how. Given the wide range of uses to which know-how can be applied, the problem of free-riding is even more acute than in the case of pure patent licensing. If a licensee should be required to pay for what it gets, then the licensor should be able to charge a royalty which is based on the proposed uses to which the licensee wishes to put the knowledge obtained from the licensor. If the licensor is not allowed to restrict fields, licensees will either get a windfall or they will be required to pay for uses that they do not want (a windfall for the licensor). Allowing a restriction of product markets facilitates the proper allocation of cost.

D. Conclusions Regarding the Application of the Regulations

While neither the Commission nor the Court of Justice has yet to squarely address the issue of defining terms in the Regulations, there is hope that both bodies will recognize the practical exigencies of administration of the Regulations. However, "[s]ince 'technical fields of application' is not a term of art and there is yet no case law, it will continue to be difficult or impossible to advise firmly whether particular clauses fall into the white or black list." Therefore, it may be prudent to include language in the field-of-use clause that clearly indicates that the division pertains to "technical fields of application" and not to customer allocation (or other blacklisted activities).

89 See supra text accompanying notes 18-40.
90 See supra text accompanying notes 18-36.
91 The problem is the same as that in the high-demand/low-demand case described for patented technology. See supra text accompanying notes 18-36.
92 V. KORAH, supra note 56, at 155.
93 However, the licensor cannot attempt to control the activities of a purchaser of the licensee.
Under the Know-How Regulation, licensors may be able to engage in more restrictive practices. In cases in which that is true, it is prudent to invoke the Know-How Regulation by licensing, in addition to the patented product, the know-how necessary for use of the patent. By doing so, a licensor can maximize his or her right to restrict use of the invention. The licensor is aided in this endeavor by the latitude usually given to characterization of an agreement under the competition laws of the European Communities.

IV. FIELD-OF-USE RESTRICTIONS UNDER UNITED STATES ANTITRUST LAW

Licensing agreements in the United States are governed by the applicable antitrust laws and the court decisions interpreting them.\(^9\)\(^4\) As in the European Communities, the United States courts have generally approved of field-of-use restrictions in patent licenses.\(^9\)\(^5\) However, there are numerous potential differences between the law in the European Communities and that in the United States. For example, it is unclear whether United States courts define field-of-use to mean the same thing that "technical fields of application"\(^9\)\(^6\) means in the European Communities. The United States courts also have not squarely addressed what distinctions, if any, exist between the restriction of field-of-use and the restriction of product markets in the context of licensing.\(^9\)\(^7\) Finally, courts in the United States have spent little time dealing with customer restrictions in the patent context. However, vertical customer restrictions outside the area of patent licensing fall under the rule of reason.\(^9\)\(^8\) Thus, it is possible that such restrictions in patent licensing agreements would also be analyzed under the rule of reason.

A. United States Judicial Attitude Toward Field-of-Use Restrictions

The seminal case addressing the validity of field-of-use restrictions

\(^{94}\) In the United States, the right to license one's invention is a common-law right not provided for in the patent statute. See Bendix Corp. v. Balax, Inc., 421 F.2d 809 (7th Cir.), cert. denied, 399 U.S. 911 (1970); L.L. Brown Co. v. Hydroloid, Inc., 32 F. Supp. 857 (1939), aff'd, 118 F.2d 674 (1941).


\(^{96}\) See supra text accompanying notes 82-84.

\(^{97}\) See supra text accompanying notes 75-81.

in patent license agreements is *General Talking Pictures Corp. v. Western Electric Company.* In that case, the licensor granted a particular licensee the right to manufacture and sell patented amplifiers which were suitable for use in either the home or commercial motion picture fields. The license agreement contained a clause restricting the licensee to sales for use in the private home as opposed to sales to commercial users. The licensee, however, sold some amplifiers manufactured by it to the General Talking Pictures Corp., knowing that General Talking Pictures would use the amplifiers in a commercial theater.

The United States Supreme Court, in an opinion by Justice Brandeis, held that when an invention is capable of use in different fields, a licensor of the invention may lawfully restrict the license to manufacture and sale of the patented invention for use in only one or some of several distinct fields in which it is useful. The holding in *General Talking Pictures* stands today as the rule regarding field-of-use restrictions in patent licenses. However, Justice Brandeis' holding allowing the field-of-use restriction was not justified by an increase in competition or social surplus. Rather, the opinion referred to the fact that since the amplifiers were made and sold outside the scope of the license the effect is precisely the same as if no license whatsoever had been granted to Transformer Company. And as Pictures Corporation knew the facts, it is in no better position than if it had manufactured the amplifiers itself without a license. It is liable because it used the invention without license to do so. Thus, Justice Brandeis argued more from the position that since the patentee has the right to exclude the entire invention from public use, the patentee has the less-inclusive right to exclude the invention from a particular public use.

United States courts have followed *General Talking Pictures* in that they have upheld field-of-use restrictions such as those pertaining to the class of customers to which a licensee could sell and restrictions on the type of design of objects on which a patented process could be used. However, courts have distinguished *General Talking Pictures* in situa-

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99 304 U.S. 175, aff'd on reh'g, 305 U.S. 124 (1938); see also supra note 95 and accompanying text.

100 *General Talking Pictures*, 305 U.S. at 127.

101 *General Talking Pictures* is also interesting because the licensor's subsidiary manufactured the amplifiers for commercial use. Thus, the licensor and licensee would have been competitors had it not been for the field-of-use restriction.

102 *General Talking Pictures*, 305 U.S. at 127.


tions in which the licensor attempted to extend the patent monopoly.106 Also, courts have refused to extend the rationale to individuals who purchase from the licensee.107 While these and other decisions108 still appear to be good law, their rationale, based on the per se illegality of vertical restraints, may have been undercut by the Supreme Court’s holding in Continental T.V. v. GTE Sylvania109 that all non-price vertical restraints should be analyzed under the rule of reason.110

B. Status of Field-of-Use Restrictions

During the early 1970s, the United States Justice Department sought to challenge the continued validity of the field-of-use restriction111 by filing a number of civil actions specifically challenging such restrictions112. For example, in United States v. Ciba-Geigy Corporation,113 the Justice Department argued that a restriction on a manufacturing licensee preventing it from selling a patented drug in bulk was a per se violation of Section 1 of the Sherman Act.114 The Justice Department again argued for the per se illegality of use restrictions in United States v. Studiengesellschaft Kohle.115 The Government’s hostility toward licensing restrictions culminated with the proclamation of the nine No-No’s in 1975.116 While the nine No-No’s were eventually rescinded117, the court’s continued acceptance of the Justice Department’s former views is still an issue (at least in private suits).118


108 See, e.g., A & E Plastik Pak Co. v. Monsanto Co., 396 F.2d 710 (9th Cir. 1968); Hazeltine Research v. Admiral Corp., 183 F.2d 953 (7th Cir.), cert. denied, 340 U.S. 896 (1950).


110 See Marks, supra note 7, at 982.

111 Donnem, The Antitrust Attack on Restrictive Patent License Provisions (address given Sept. 25, 1969), reprinted in 5 Trade Reg. Rep. (CCH) 0,111, at 55,154 (stating that nothing in the patent laws gives the licensor the inherent right to use field-of-use restrictions in its licenses).

112 See Adelman & Juenger, supra note 45, at 273.


114 Id. (the Justice Department did not prevail on this point).


116 The nine No-No’s were a statement of Justice Department policy regarding certain patent licensing restrictions. See Rule, supra note 4, at 365, n.1.

117 Id. at 365, n.2.

118 Id. at 366.
In general, the Justice Department now supports the perspective, outlined above\(^{119}\), that many licensing restrictions are actually pro-competitive\(^{120}\). Commentator Rule regards patent rights in the same way as property rights in general: "The antitrust laws . . . only condemn patent licensing that either restricts competition among technologies that are economic substitutes, or excludes technologies from the market, or is a sham designed to coordinate the pricing of products only remotely related to the patent."\(^{121}\) Thus, it appears that licensors will not be subject to Justice Department scrutiny unless a field-of-use provision can be construed as a guise for an anticompetitive restriction. A license should not endeavor to restrain price in competing technologies owned by the licensor\(^{122}\), nor should the license contain provisions that facilitate collusion among competing technologies or exclude certain technologies from the marketplace\(^{123}\). However, "[i]t will be rare, indeed, that a restriction will so enable a patent owner to 'corner' an input market that new technologies will be excluded from the market."\(^{124}\) The comment of Rule's successor, James F. Rill, that "[j]oint ventures will be encouraged or not encouraged because they make economic sense,"\(^{125}\) perhaps indicates the current Administration's general sensitivity to the economic benefits of some restrictive practices.\(^{126}\)

V. CONCLUSIONS: COMMON GROUND BETWEEN THE UNITED STATES AND THE EUROPEAN COMMUNITIES?

Field-of-use restrictions represent valid means of promoting the legitimate exploitation of patented technology. Such restrictions make it possible for the invention to be introduced into several markets simulta-

\(^{119}\) See supra text accompanying notes 18-36.

\(^{120}\) See generally Antitrust Enforcement Guidelines for International Operations, United States Department of Justice Guidelines 22-27 (Nov. 10, 1988) [hereinafter Justice Department Guidelines].

\(^{121}\) Rule, supra note 4, at 369.

\(^{122}\) Such restrictions would likely be analyzed as horizontal restraints and would only be problematic if the parties involved have substantial market power. A discussion of this is beyond the scope of this article. However, the Justice Department might analyze such a situation in a manner similar to that used in assessing joint ventures.

\(^{123}\) See Justice Department Guidelines, supra note 120.

\(^{124}\) Rule, supra note 4, at 371-72.


\(^{126}\) See 53 Fed. Cont. Rep. (BNA) 409 in which Rill lauds pro-competitive joint ventures. However, it should be noted that joint ventures have traditionally been treated leniently by the United States for foreign investment purposes. The same may not be true for treatment of licensing agreements. However, the point is made to provide some indication of the current Administration's sensitivity to procompetitive activities.
neously while preserving the licensor's opportunity to obtain full and fair profits.\(^{127}\) Use restrictions also facilitate market entry and, when written in conjunction with exclusivity provisions, inhibit uneconomical rent seeking by either party.\(^{128}\)

These propositions are reflected in the general attitude in both the United States and in the European Economic Community that field-of-use restrictions in technology license agreements are not a \textit{per se} violation of the competition laws.\(^{129}\) However, the development of the law has taken a different course under the two systems.\(^{130}\) The law relating to field-of-use in the United States developed out of a judicial concern that the full integrity of a patentee's rights to exclusive use of the invention be maintained.\(^{131}\) The law in the European Communities came about through the implementation of the Commission regulations, which are more directly concerned with promoting economic benefit and controlling restraint of trade.\(^{132}\) While the law may have developed differently in the two systems, both systems recognize the value of allowing licensing restrictions that have a favorable effect on competition.

However, the different basis for the development of the law under the two systems may have a profound effect on the way in which field-of-use restrictions are regarded in the future. For example, United States antitrust law is governed by general statutory schemes that leave it to the courts to fill in the details. On the contrary, law in the European Communities develops through the promulgation of more specific regulations and by caselaw, thereby establishing a uniform law for the Common Market. Thus, the European Commission is primarily responsible for making policy in order that litigation of the individual case may be avoided, whereas United States judges are primarily responsible for applying the law to the facts of the specific case before them under vague statutory directives.

The European Commission must promulgate law to deal with the bulk of Community policy, taking care not to upset the balance of international trade and not to offend the Member States too much. The result is that the law of the European Communities is more predictable and provides more initial guidance than the law of the United States.

The practical impact of this dichotomy is perhaps best illustrated by an example which compares the way in which a typical field-of-use re-

\(^{127}\) Id.
\(^{128}\) See supra text accompanying notes 46-49.
\(^{129}\) See supra text accompanying notes 77-93 and 94-126.
\(^{130}\) Compare supra text accompanying notes 77-93 with text accompanying notes 94-126.
\(^{131}\) See General Talking Pictures, supra note 99 and accompanying discussion.
\(^{132}\) See supra text accompanying notes 50-71.
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Striction might be treated in the United States under the doctrine of General Talking Pictures\textsuperscript{133} versus the way in which the European Community might deal with the restriction under the regulations. Consider again the discovery of Buckyballs discussed above.\textsuperscript{134} Suppose that Buckyballs are granted a product patent and the patentee wishes to license them in the United States. Further, suppose that the patentee wishes to restrict certain licensees to use of the Buckyballs only as components of batteries, while restricting others to the more lucrative field of lubricants. The resulting license to the lubricant manufacture contains a field-of-use restriction whereby the licensee is restricted to the use of Buckyballs as additives in the process of producing lubricants.

If the above-mentioned provision were examined by a United States court in response to a charge that the restriction violates the antitrust laws, it is likely that the doctrine of General Talking Pictures would apply and the field-of-use restriction would be upheld. The general proposition that a field-of-use restriction is legal would apply because the restriction is within the scope of the patentee's larger right to the whole invention. If a court were to analyze the economic consequences of the restriction, it would likely restrict its analysis to the facts of the case before it. Thus, different cases might yield different results; the outcome may also depend on the court which hears the case. However, it is generally true that a United States court will uphold an unambiguous field-of-use restriction.

Now, suppose that the same licensor wishes to use the above license provision as part of a license for the invention in the European Communities. Depending on whether the license contained a grant of know-how in addition to the grant to manufacture, use, or sell Buckyballs as additives in lubricants, the Patent Regulation and/or the Know-How Regulation might apply. In either case, it is likely that the division of fields, as written, would fall under the protection of the regulations as a pro-competitive field-of-use restriction. A clearly drafted, unambiguous license may never come up before the Commission. Indeed, the purpose of the regulations in general is to reduce litigation of frequently-encountered issues.

However, even more certainty could be had in this case by re-writing the field-of-use restriction in such a way as to parallel the language in the regulations. For example, the European license could specifically define the "technical fields of application" and/or "product markets" involved, stating that they are distinct. Further, the license could be

\textsuperscript{133} See supra note 99.
\textsuperscript{134} See supra text accompanying note 28.
written to specifically forbid a division of customers. In other words, it may be possible to mold a license provision in such a way that it conforms directly to the regulations - something that cannot be done in the United States. As to whether such a tailor-made license would be acceptable in the United States, it would again depend, to an extent, on the court.

If the foregoing is true, it should be European Community law and not United States law that provides the framework for the drafting of license restrictions in the international context. There appears to be much more predictability in the European Community regulations than in the United States law as it has developed in the courts. The regulations are usually drafted with a specific social or economic policy goal in mind that is intended to have effect in the entire Community and to provide guidance to businesses subject to the regulations. In contrast, United States common law sometimes develops on a regional level and can often be limited to the facts of the particular case in which the issue has been previously raised.

In considering field-of-use restrictions specifically, it is evident that the law has developed in a different manner under the two systems. As mentioned, the Commission was concerned with the economic welfare of the Community, and the Patent and Know-How Regulations were adopted out of that concern. The United States attitude toward patents has been primarily one that sees the patent as a property right. The European Community regulations and their underlying rationale are analogous to a situation in which the United States Congress would pass legislation specifically dealing with the legality of various license restrictions. If Congress passed such legislation, it would be much simpler for parties to a license to rely, ex ante, on the legislation in writing a license that would be less likely to be challenged. Since the European Community has, in essence, done exactly this via the regulations, it is the regulations and not the more ambiguous United States common law that should be the driving force behind international agreements.

There also exist differences in enforcement that may affect the use of specific licensing provisions. For example, while the rule-of-reason approach in the United States is uncertain, it is balanced by its availability as a defense and the relatively high cost of private enforcement. In the

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135 See, e.g., Rule, supra note 4, at 367; see also supra discussion of General Talking Pictures accompanying notes 95-103.

136 However, a provision that is ambiguous may come under scrutiny in both the European Communities and in the United States as both systems are aware of and condemn practices such as division of customers and other anti-competitive practices. See, e.g., Marks, supra note 7, at 981.
European Communities, on the other hand, the regulations provide more certainty but also less of a defense to a charge that a specific provision is anti-competitive. Thus, in Europe one may be well advised to draft a field of use restriction with particularity as to the "technical field(s)" in which the manufacture, use, or sale of the invention is limited; whereas in the United States, one might be able to legally draft a more expansive provision due to the more amorphous guidelines set forth by United States courts. However, as stated previously, a license provision for use in both the United States and the European Communities might best be drafted from the solid ground of the regulations.