

Official Journal

of the European Communities

ISSN 0378-6978

L 229

Volume 26

20 August 1983

English edition

Legislation

Contents

I *Acts whose publication is obligatory*

.....

II *Acts whose publication is not obligatory*

Commission

83/400/EEC:

- ★ **Commission Decision of 11 July 1983 relating to a proceeding under Article 85 of the EEC Treaty (IV/29.395 — Windsurfing International) 1**

Acts whose titles are printed in light type are those relating to day-to-day management of agricultural matters, and are generally valid for a limited period.
The titles of all other Acts are printed in bold type and preceded by an asterisk.

II

(Acts whose publication is not obligatory)

COMMISSION

COMMISSION DECISION

of 11 July 1983

relating to a proceeding under Article 85 of the EEC Treaty (IV/29.395 — Windsurfing International)

(Only the German and English texts are authentic)

(83/400/EEC)

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,

Having regard to Council Regulation No 17 of 6 February 1962⁽¹⁾, first Regulation implementing Articles 85 and 86 of the Treaty, as last amended by the Act of Accession of Greece, and in particular Articles 3 (1), 4 and 15 (2) thereof,

Having regard to the complaints lodged with the Commission pursuant to Article 3 (1) of Regulation No 17 by the undertakings IMA AG, Arbon, Tabur Marine SA, Paris, Dufour SA, Paris, and Tabur Marine (Great Britain) Ltd, Slough; SC France, Marseille, Surfer's Paradise GmbH, Rosenheim, Cowabanga Sportartikel, Munich, European Surfing Company BV, Amersfoort, Alpina Plast AG, Eichberg, Kunststofftechnik Peter Degler GmbH and SC-Products Surfgerät- und Zubehör-Handels Ges. mbH, both of Grassau; Seal Marine Ltd, Liskeard, and Surf Sales Ltd, St Leonards-on-Sea; Point Sportgeräte GmbH, Point

AG and Exa Point Marine Vertrieb GmbH, all of Munich, Sodim Paris, Brakeborough Ltd, Headley Down (Nr. Bordon), Daher France, Marseille, and Skipper International, Hennebont; Crit. SA, Saint-Ouen, and Open Surf, Saint-Rémy-les-Chevreuses and Helmut Kertscher & Co., Hamburg,

Having regard to the Commission Decision of 7 June 1982 to initiate proceedings in this case,

Having given the undertakings concerned the opportunity to make known their views on the objections raised by the Commission, pursuant to Article 19 (1) of Regulation No 17 and Regulation No 99/63/EEC of 25 July 1963 concerning the hearing as laid down in Article 19 (1) and (2) of Council Regulation No 17⁽²⁾, and having regard to the written comments of the undertakings Windsurfing International Inc., Ostermann, Akutec, Klepper and Windsurfing Central and having regard to the oral hearing of the undertakings Windsurfing International Inc. and Windsurfing Central on 20 September 1982,

Having regard to the opinion delivered by the Advisory Committee on Restrictive Practices and Dominant Positions on 23 March 1983;

⁽¹⁾ OJ No 13, 21. 2. 1962, p. 204/62.

⁽²⁾ OJ No 127, 20. 8. 1969, p. 2268/63.

Whereas:

A. THE FACTS

The facts may be summarized as follows:

I. THE PRODUCT

Sailboards were developed with the idea of enabling surfboards, which have been known for a long time, to be used as wind-propelled watercraft in waters not having the necessary amount of surf. Sailboards consist of a board-shaped foam-filled plastic hull with a daggerboard inserted through its centre and a sail rig which is attached to the hull and can be angled and rotated in all directions. The sail rig consists essentially of a mast, a mast pivot, a sail and a pair of curved booms, and is referred to below as a 'rig'.

As a result of the further development of this new product, there are nowadays differences between boards in respect of the material used for the foam filling and for the outer surface, the type of construction (one-piece or in parts that can be assembled) and the types of application, which are dependent on the shape (all-round boards, regatta boards, fun boards or boards for heavy surf). Sail sizes also vary according to the type of use (regatta sails, normal sails and storm sails). In April 1980 an industrial standard DIN-7873 was introduced in Germany which lays down the safety requirements for sailboards within the meaning of the Appliance Safety Law (BGBI, Part I, 1968, No 42).

Individual parts of the rigs as well as complete rigs and hulls can frequently be combined with one another irrespective of their origin. All the individual components of the product are marketed separately as replacement parts. The manufacturing costs and prices for hulls are on average between 50 and 100 % more than those for rigs. It also happens that amateur enthusiasts who have access to the necessary specifications and building instructions through specialist magazines, construct do-it-yourself boards for their own use.

II. THE UNDERTAKINGS CONCERNED

1. Windsurfing International Inc. ('WSI'), Torrance, California, USA, is a company founded as a family firm by Hoyle Schweitzer, a key figure in the development of the sailboard. The company has worldwide operations.

Its turnover in 1980 was ... ⁽¹⁾, which was achieved partly from sales of sailboards and partly through income from licensing contracts for their manufacture. Until recently, WSI did not manufacture any sailboards in Europe. Its direct activities here were confined to administering and exploiting its industrial property rights, responsibility for which was largely placed in the hands of Axel Hansmann, a Munich patent lawyer.

The 'Windsurfer' sailboard model developed by WSI was first distributed in Europe by the firm Koninklijke Textielfabrieken Nijverdal Ten Cate NV through its subsidiary Ten Cate Sports BV ('Ten Cate'). By an agreement dated 1 January 1973, WSI granted to Ten Cate the exclusive right to manufacture and market the 'Windsurfer' for Europe in accordance with technical know-how to be furnished by WSI on a continuing basis. Furthermore, by this agreement, the word marks 'Windsurfer' and 'Windsurfing' as well as a design mark showing the abstract shape of a sail (a so-called 'logo'), all registered in Germany and France, were assigned to Ten Cate. Ten Cate was obliged to use them and also to apply for registration of them in other European countries. On termination of the agreement, all registered trade marks are to be reassigned to WSI.

In addition, Ten Cate was initially — at least *de facto* — the exclusive licensee with respect to any industrial property rights that might be obtained for the transferred technical know-how or parts of it in various European countries and was entitled, in agreement with WSI, to grant sublicences. Accordingly, Ten Cate, as sublicensor, concluded with Ostermann in 1976 (see point 2 below) and with Shark in 1977 (see point 3 below) sublicense contracts for the exploitation of German patent No 19 14 602.4-22 which had been applied for at that time and of other European patent applications. By amendments to these agreements dated 6 July 1978, WSI itself took over the position of licensor. All further licensing agreements were concluded directly by WSI. A special agreement concluded between WSI and Ten Cate on 9 August 1979 specifically laid down that WSI alone had the right to conclude further licensing agreements.

Since 21 April 1982, a new contractual relationship has existed between Ten Cate and WSI: under this agreement, the two firms are first to form a joint

⁽¹⁾ Pursuant to Article 21 (2) of Regulation No 17, turnover figures are not published in the Official Journal.

undertaking 'Windsurfing International Europe BV', with WSI acquiring all the shares held by Ten Cate by the end of 1984. WSI intends to build up its own production and marketing of sailboards in Europe through this firm. Ten Cate is to receive a non-exclusive licence in respect of WSI's industrial property rights and will no longer be permitted to use the trade marks mentioned. The contractual relationship between WSI and Ten Cate is not the subject of this Decision.

2. Windglider Fred Ostermann GmbH ('Ostermann'), Altforweiler, Germany, is engaged solely in the manufacture and marketing of sailboards and of the relevant ancillary equipment. It has been doing so since 1976, on the basis of the licensing agreement concluded initially with Ten Cate and subsequently assigned to WSI. Ostermann's turnover in sailboards was as follows:

1978	DM
1979	DM
1980	DM

Apart from the hulls, some of which are manufactured by the firm itself, Ostermann purchases elsewhere all the other elements of sailboards, complete or for assembly. Ostermann's models include one marketed under the name of 'Windglider'. By a decision of the competent sport associations, this sailboard has been provisionally chosen as the Olympic regatta class board. Windsurfing is to be included in the 1984 Olympic Games.

At the beginning of 1982, Ostermann was taken over by the French group Bic Marine SA. This group includes the firm Dufour, which is currently reckoned to be the largest manufacturer of sailboards in the world.

3. Shark Wassersportgeräte GmbH ('Shark'), Bassum, Germany, is a wholly-owned subsidiary of Kolbus Kunststoffwerke GmbH. Initially, from 30 March 1977, it was a sublicensee of Ten Cate. Since 6 July 1978, there has been a direct licensing agreement with WSI. Shark's total turnover in sailboards was as follows:

1978	DM
1979	DM
1980	DM

Shark procures all its hulls, masts, mast heels and curved booms from the parent company Kolbus, which also supplies Ten Cate and other licensees. Like most of its competitors, Shark purchases its sails from a manufacturer in Hong Kong. Shark has so far manufactured mainly boards that can be assembled, known as 'Systemboards'. Its output is still relatively limited.

4. Akutec Angewandte Kunststofftechnik GmbH ('Akutec'), Munich, Germany is a plastics-processing firm. It manufactures and distributes sailboards on the basis of a licensing agreement concluded with WSI on 1 July 1978. Its sales of sailboards were as follows:

1978	DM
1979	DM
1980	DM

Until 1980, Akutec procured all its parts from subcontractors. Recently, the firm has also begun manufacturing hulls and booms itself. Akutec's models all bear the name 'HiFly'.

5. S.A.N. Warenvertriebsgesellschaft mbH ('S.A.N.'), Neckarsulm, Germany, is a wholly-owned subsidiary of Binder Kunststofftechnik GmbH. S.A.N. has been a licensee of WSI since 1 January 1979. Its sales of sailboards were as follows:

1978	DM
1979	DM
1980	DM

S.A.N. does not have any manufacturing facilities of its own. All its components are purchased or are made by other manufacturers to S.A.N.'s specifications.

6. Klepper Beteiligungs GmbH & Co. Bootsbau KG ('Klepper'), Rosenheim, Germany, belongs to Klepper Beteiligungs-GmbH & Co., which, in addition to boat and yacht building, is engaged in the manufacture of gymnastic and sports equipment and clothing. Klepper obtained a licence from WSI with effect from 1 January 1979, though it had already begun building and distributing sailboards earlier. Its sales of sailboards were as follows:

1978	DM
1979	DM
1980	DM

Klepper manufactures mast heels, booms and sails itself, but it purchases the masts and has the hulls manufactured to order. Klepper's models bear the letter 'S'.

7. Marker Surf GmbH ('Marker'), Garmisch-Partenkirchen, Germany, is a wholly-owned subsidiary of Marker GmbH, whose main activity is the manufacture of ski bindings. The licensing agreement between WSI and Marker was concluded on 21 August 1980. Marker had not yet begun selling sailboards in 1980. Since 1981, Marker has been assembling sailboards from parts which it has purchased or which

have been manufactured to order according to its specifications, and marketing them under the name 'Mark 1'.

8. Windsurfing Central GmbH ('WSC'), Rodgau, Germany, is a trading firm which specializes in the distribution of sailboards and accessories. It is an independent firm which acts as Ten Cate's sole importer in Germany. It supplies some 400 retail outlets in Germany. Its sales of sailboards amounted to around DM ... in 1980. WSC now also distributes windsurfing equipment manufactured by other firms.

Licensing contracts which WSI has concluded with other firms since the end of 1981/beginning of 1982 are not the subject of this Decision.

III. THE MARKET IN SAILBOARDS

The relatively new European sailboard market is a very buoyant market. In recent years it has been marked by

considerable growth rates (though these have differed widely from one Member State to another) and by rapidly changing market positions of the numerous suppliers. WSI's German patent concerning a 'rig for a sailboard' (details under IV.1) and even more extensive patent protection for sailboards in the United Kingdom (referred to as UK patent below) have significantly influenced competition. In the absence of more precise statistical data, the figures given below are no more than estimates, although they do adequately reflect the proportions involved.

1. Around one-third of total European output of sailboards is sold in Germany; up to the beginning of 1980, about 70 000 had been sold. In 1980, at least a further 80 000 sailboards were sold on the German market.

In 1979 and 1980, the combined market share of all the licensees in Germany was around 70 %. According to Ten Cate's estimates, the numbers of sailboards sold and the relevant percentages were approximately as follows:

Firm	1979		1980	
	Numbers sold	%	Numbers sold	%
Ostermann	ca. 12 000	30	ca. 20 000	25
Ten Cate (WSC)	ca. 6 000	20	ca. 12 000	15
S.A.N.	ca. 4 500	11	ca. 12 000	15
Akutech	ca. 3 500	9	ca. 5 600	7
Klepper	ca. 2 500	7	ca. 3 200	4
Shark	—	—	ca. 3 200	4
Total licensees	28 500	77	56 000	70
Market volume	35 000	100	80 000	100

The relative market positions of the various licensees have since changed considerably. However, their total market share of 70 % in Germany has been maintained and has probably risen even further owing to more rigorous application of patent protection against non-licensed suppliers, some of whom confine themselves to offering boards without rigs or supply the German market from manufacturing and marketing establishments outside Germany but near the frontier.

2. The total numbers of sailboards sold in other Member States in 1980 were approximately as follows:

France	ca. 85 000
Netherlands	ca. 40 000
Italy	ca. 10 000

United Kingdom	5 000
Belgium	3 000

The above figures show that, apart from Germany, the most important sales areas in the Community are the Netherlands and France. The licensees have estimated their market share in the European Community (excluding Germany) in 1980 at some 35 %. Out of a total of 40 manufacturers, the major competitors of the licensees in the Member States in which no patent protection exists are Mistral, Dufour (Bic Marine), Skipper International and Sainval (all France) and Sordelli (Italy).

The licensees have estimated their share of the Dutch market in 1980 at some 40 % and that of the French market at some 15 to 20 %. According to other

information, their share of the French market was somewhat lower, as follows:

	Sailboards	%
Ten Cate	6 000	ca. 7
S.A.N.	2 400	ca. 3
Ostermann	1 500	ca. 1,8
Akutech	500	ca. 0,5
Klepper	170	ca. 0,2
Total licensees		ca. 12,5

In 1979 and 1980, the licensees' exports to other Member States accounted for between 45 and 50 % of their total sales (with variations according to the firm in question).

IV. THE AGREEMENTS BETWEEN WSI AND THE GERMAN LICENSEES

1. Subject of the licensing agreements

The subject of the licensing agreements is the German patent No 19 14 602.4-22 and the United Kingdom patent No 1.258.317 (together with supplementary patent No 1.551.426).

- (a) Invoking the priority arising from the application filed in the United States on 27 March 1968, Hoyle Schweitzer and the co-inventor James Drake applied for a patent for the Federal Republic of Germany on 21 March 1969. The original patent claims referred to a 'wind-propelled vehicle' (application filed on 21 March 1969) or a 'sailboard with a sail-bearing mast' (amended application filed on 18 July 1973). Having expressed reservations as to the claims formulated in these patent applications on state-of-the-art grounds, the German Patent Office, in a notice dated 21 August 1973, held out the prospect of a patent being granted for the combination of a sailboard with a mast that could be moved in all directions and a main boom in the form of an oval-shaped two-part split boom. As a result, WSI submitted, on 7 and 9 January 1974, amended claims which again referred to a 'sailboard' and stated that the aim of the invention was to design a sailboard in such a way that it did not exhibit the manoeuvring defects common to existing designs based on the hitherto current state-of-the-art. However, the Patent Office did not agree to the claims, but proposed instead, in a notice dated 24 January 1974, a principal claim which referred

to a 'rig for a sailboard'. It accordingly also altered the content of the patent description to the effect that the aim of the invention was to 'design the rig for the sailboard in such a way that the user can also sail relatively close to the wind with the sailboard while still being able to remove the sail or rig easily so as to enable the board to withstand strong gusts without being overturned or upset'. The manner in which this was to be achieved was characterized by the fact 'that the foot of the mast is fixed to the sailboard by means of a joint allowing it to be angled and rotated freely in all directions, and that, as spars for holding and trimming the sail or rig, two opposed outward curving main booms in the nature of a split gaff are used to whose ends the sail is attached and between which it is passed loosely, with the underleech of the sail running from the ends diagonally down to the mast and the two main booms being fixed to the mast above the tack of the sail'.

WSI agreed with this amended wording. It was accordingly laid open to public inspection on 27 June 1974 in patent class B63H (ship propulsion and steering equipment), subclass 9/00 (wind-propelled elements; specifications). By a decision of 31 March 1978, the German Patent Office granted the patent in a form not substantially different from the specification laid open to public inspection. The aim of the invention was now defined as follows: 'To design a rig for a sailboard in such a way that it is possible for the user to turn and set the sail easily, even under difficult sailing conditions, in the various positions necessary for the desired manoeuvre and without the mast becoming separated from the board — this despite the fact that the foot of the mast can be angled and rotated freely in all directions in relation to the board'. The patent description stated it to be significant amongst other things, that the proposed arrangement made the rig manoeuvrable in a way that, in contrast to existing manual sail arrangements, allowed tacking very close to the wind and stable handling even in strong gusts or in disturbed coastal waters. During the course of this proceeding, the Commission has examined the certificates of acceptance of the German Patent Office.

A large number of parties appealed against the decision of acceptance on state-of-the-art grounds, and the Bundespatentgericht gave a ruling by decision of 28 November 1979. In the decision, the appeals were in substance dismissed and the principal claim of the patent was replaced, in line

with the applicant's alternative claim II of 13 November 1979, by the following wording: 'Rig for a sailboard, with a sail held taut between a mast and a curved spar, with the instayed rig, which is fixed to the sailboard by means of a joint that can be angled and rotated freely in all directions, being held by the user by the spar and thus being trimmed relative to the sailboard and wind, and with the sail being secured to the spar only at its ends, the underleech of the sail running from the ends diagonally down to the mast and the spar being attached to the mast above the tack of the sail, characterized by the fact that the sail (...) is held by its foreleech (...) to the mast (...) and that, as a spar for holding and trimming the sail or rig, a split boom consisting of two opposed outward-curving main booms (...) is provided, between which the sail (...) is passed loosely.' In its decision, the Federal Patent Court stated that the essential feature of the invention was the two opposed outward-curving booms.

The German patent was the subject of numerous actions for infringement brought by WSI against various firms. In its judgment of 10 December 1983 ⁽¹⁾ (file No X ZR 70/80) in the case brought against a manufacturer of sails which were particularly suited for use in sailboard rigs, the Bundesgerichtshof referred, in stating the facts of the case, to the mast that can be angled and rotated freely in all directions, the sail and the outward-curving booms as elements in combination. WSI also endeavoured, through a further suit filed against an importer of boards before the Landgericht München I, to get the Court to prohibit the distribution of boards in Germany on the grounds that this represented at least an indirect patent infringement since the board formed part of the patent-protected combination. Invoking the abovementioned judgment of the Bundesgerichtshof, the Landgericht München I, in its judgment of 2 March 1982, dismissed this complaint partly on the grounds that the patent in no way involved a 'rig with a sailboard' but only a 'rig for a sailboard'. WSI's appeal against this judgment was rejected by a judgment of the Oberlandesgericht München of 13 January 1983 (file No 6 U 2244/82).

- (b) In the United Kingdom, the patent protection for WSI arises from a main patent No 1.258.317 — filed on 28 February 1969, invoking the United States priority already mentioned and published on

30 December 1971 — and from a supplementary patent No 1.551.426 — filed on 8 November 1976 with additions in 1977 and published in full on 30 August 1979.

Claim No 1 in patent No 1.258.317 reads as follows: 'A wind-propelled vehicle comprising body means, an unstayed spar connected to said body means through a joint which will provide universal-type movement of the spar in the absence of support thereof by a user of the vehicle, a sail attached along one edge thereof to the spar, and a pair of arcuate booms, first ends of the booms being connected together and laterally connected on said spar, second ends of the booms being connected together and having means thereon connected to the sail such that said sail is held taut between the booms'. The further claims 2 to 7 clarify individual elements of claim 1, in particular that the vehicle may be a watercraft which is also equipped with a leeboard.

Patent No 1.551.426 extends the patent claim chiefly to vehicles of the type just mentioned in which the two booms are not curved opposite each other but — by means of the necessary joints — form a right angle, a triangle or other shapes. Substructure specifications are included only where provision is made for an opening for inserting an adjustable leeboard (claim No 16).

In an action for infringement brought by WSI before the High Court in London, the patents were revoked by the Court following a counterclaim by the defendant on the grounds of lack of novelty and absence of an inventive step (*Windsurfing International Inc. v. Tabur Marine (Great Britain) Ltd* — Judgment of 7 April 1982 — Whitford, J.). An appeal has been lodged against this judgment.

In view of the uncertainty surrounding the United Kingdom patent, the Commission has not included the United Kingdom market in this proceeding.

2. Contents of the agreements

With differences of drafting from case to case, the agreements have hitherto provided essentially for the following:

- (a) The licensed product was specified as being a complete sailboard consisting of the rig and a precisely-defined type of board manufactured by the licensee; the specifications of the board were set out in an annex as an integral part of the agreement. WSI granted each licensee a non-exclusive licence

⁽¹⁾ Reported in 'Gewerblicher Rechtsschutz und Urheberrecht', 1982, p. 165.

for the manufacture, use and distribution of the complete product so defined under the abovementioned German patent. The licence under the United Kingdom patent was limited to the right to distribute the product.

The agreement with Shark, which did not expressly cover the United Kingdom patent, contained no precise definition of a given board model in the above sense and also referred only to a 'rig for a sailboard' as the subject of the licence. However, Shark was prohibited from manufacturing, supplying and distributing rigs otherwise than 'in connection with sailboards consisting of several parts'.

It was also stipulated in the agreements that any change by the licensee in the board type defined as part of the licensed product or any combination by the licensee of the rig covered by the patent with other board types required WSI's authorization. WSI stated that it proposed not to withhold its authorization unreasonably, provided that the intended changes did not detract from the quality of the licensed product. A further condition was that any new board should not be prejudicial to the 'rights of Ten Cate' (as stated in the agreement with Akutec) or the 'rights of other licensees' (as stated in the agreements with S.A.N., Klepper and Marker). Ostermann was absolutely prohibited from manufacturing polyethylene boards.

- (b) As in the case of the agreement with Shark, the agreements with S.A.N., Klepper and Marker also specifically stipulated that the licensee could manufacture items or parts thereof only for use in the complete licensed product defined in the agreement and could supply them only in connection with that product.
- (c) The *royalty* agreed was a specific percentage of the net selling price of the licensed product specified in each agreement, i.e. of the *complete* sailboard. In some cases (Akutec, S.A.N. and Klepper), it was also stipulated that a royalty of the same amount was payable on net income from rentals of the relevant sailboard.
- (d) As to the *territorial* limits of the licence, the agreements contained differing provisions.

The agreement with Ostermann provided for a right to manufacture and market throughout Europe. Shark's right to manufacture was limited to the territory of the Federal Republic of Germany.

Akutec's manufacturing licence was expressly restricted to the place where the manufacturing

plant of the licensee was situated at the time the agreement was concluded. The same applied — following amending agreements of December 1980 — to the agreements with S.A.N., Klepper and Marker. Any change in the place of manufacture entitled WSI to terminate the agreement immediately.

The agreements with S.A.N., Klepper and Marker had originally granted a right of manufacture for the whole of the Federal Republic of Germany, while at the same time permitting these licensees to manufacture individual components of the licensed product outside the licensed territory so long as they were brought back into the licensed territory and assembled there. However, it was stipulated that the direct marketing outside the licensed territory of individual components manufactured outside it, and any transfer of the entire production establishment outside the licensed territory, would be regarded as entitling WSI to terminate the agreement immediately.

- (e) The licensees were obliged to affix to the *hull* of each of the sailboards in their range a notice indicating that it was licensed by WSI or by Hoyle Schweitzer (the agreements with Ostermann and Shark originally stipulated that the notice must indicate that the board was licensed by Ten Cate).
- (f) The licensees undertook not to use the word marks 'Windsurfer' and 'Windsurfing' — hitherto used by Ten Cate in Europe — or the 'logo' design mark and to acknowledge them as valid trade marks.
- (g) The agreements with Ostermann and Shark contained the requirement that licensees should not challenge the licensed patents.

Since the end of 1981/beginning of 1982, WSI has concluded new agreements with all the licensees mentioned above. In these agreements, the said obligations have been removed or modified. These new agreements are not the subject of this Decision, but the Commission reserves the right to examine them subsequently in the light of Articles 85 and 86 of the EEC Treaty.

3. The agreements in practice

The following further facts emerge from the documents which the Commission has available as a result of its investigations:

- (a) WSI's key criterion for granting licences and approval for licensees' new boards was that the various types of board should be sufficiently 'distant' from each other. Accordingly, it was continually

pointed out in the numerous exchanges of correspondence to which the Commission has had access that 'only products and not firms were licensed' by WSI. In this context 'products' meant the boards of sailboards. WSI also arranged for licensees to submit their new models, before they were finally approved by itself, to other licensees for their opinion, without, however, granting the latter a formal right of approval. Thus, certain types of board were in fact rejected because, in WSI's opinion, they were too similar to existing boards produced by other licensees. By contrast, quality or safety requirements played no part in the approval of the various boards. Nor did WSI exercise any sort of control over licensees' day-to-day production in this regard.

- (b) In addition to the numerous actions for patent infringement brought by WSI as already mentioned, WSI arranged for its German patent lawyer to send a number of letters to German manufacturers and also to dealers warning them that actions for patent infringement would be brought if, for example, they marketed non-licensed boards or supplied rigs separately. Furthermore, WSI repeatedly sent circulars to licensees warning against the danger of outsiders penetrating the market if these were supplied with rigs. Some licensees expressly agreed with this. As recently as October 1981, WSI warned several licensees, including Akutec, that their licensing agreements would be terminated if they were to supply rigs separately except where needed as replacement parts.

Independent manufacturers or importers of boards who inquired of various licensees about the supply of rigs only were therefore turned down by most licensees. Where they answered such inquiries at all, licensees referred sometimes to the structure of their range, which contained no separate rigs, sometimes to their own requirements, which accounted for their entire capacity, and sometimes to the danger of patent infringement which they claimed existed. At WSI's instigation, the licensees also agreed at a joint meeting in Munich on 9 October 1980 that, in advertisements and exhibitions, they would in future show only complete sailboards.

V. SALES POLICY OF A NUMBER OF GERMAN LICENSEES AND OF SOLE IMPORTERS IN VARIOUS MEMBER STATES

1. Distribution of Ostermann products ('Windglider')

For the purposes of this procedure, the Commission investigated sales of these products in the Netherlands, Belgium and Germany.

(a) *Distribution outside Germany*

- (aa) In the Netherlands, Ostermann's sole importer is Thijs, Middelburg. It was not possible to establish whether there was a written agreement. However, the Commission has in its possession a draft import agreement for 1980 originating from Thijs in which Thijs undertakes 'to sell only in Holland the goods procured from Windglider. Supplies to other countries are subject to prior approval by Ostermann. Thijs undertakes to conclude with its customers only agreements which prohibit those customers from selling boards directly or indirectly abroad'.

This provision, if no others, was put into effect by the parties. Thus Thijs refused to supply a Dutch retailer who had turned to Thijs to meet a large order from Germany. From various exchanges of telex between Ostermann and Thijs, it is evident that, in other instances too, Ostermann together with Thijs was on the alert to ensure that sailboards supplied in the Netherlands remained there and, in the event of deliveries outside the Netherlands, cautioned the relevant dealers. Surveillance relied partly on a 'board card system' introduced in 1981: as stipulated in the instructions sent by Ostermann 'to all general importers', a carbon copy of the 'control card' was to be kept by Ostermann, one copy was to go to the importer and one copy, with the name and address of the final consumer, was to be kept by the retailer. Thijs was required to pass on the necessary instructions to the Dutch retailers.

- (bb) In Belgium Ostermann orally granted d'Ieteren, Braine-le-Château, exclusive distribution rights. Here, too, there was an understanding between the parties that supplies outside the allotted territory should not be permitted. This can be seen for example, from the communication from d'Ieteren to Ostermann dated 9 April 1981 reporting that d'Ieteren and

Thijs had assured each other that within their respective territories they would enforce export bans even at retail level.

(b) *Domestic sales*

In Germany Ostermann sells its products direct to retailers called 'specialist dealers', although the term 'specialist dealer' is not defined. Until 1982, Ostermann had concluded 'partnership agreements' with these dealers which required the retailer to supply goods covered by the agreements only to final consumers. Goods could not be supplied to domestic and foreign retailers, even to other 'partners' of Ostermann.

2. Distribution of Akutec products ('HiFly')

For the purpose of this procedure, the Commission investigated sales of these products in the Netherlands, Belgium, Italy and Germany.

(a) *Distribution outside Germany*

Akutec has appointed sole importers (known as 'agents') for the Netherlands (Horwa BV, Oosterhout; since 1981, the firm Taselaar BV, Zwijndrecht), for Belgium (Ertisport NV, Destelbergen) and for Italy (RaFly, Spinea/Venice).

A standard agreement concluded with these firms contained a clause prohibiting the 'agent' from effecting re-imports into the country of the manufacturer or carrying out sales outside his allotted territory on pain of a penalty.

(b) *Domestic sales*

Akutec products are distributed in Germany through a network of several independent 'stock depots'. These depots supply the goods only to dealers included in a 'customer list' kept jointly with Akutec. Until 1982, dealers wishing to be admitted to the list had to undertake not to pass on to other retailers goods supplied by Akutec, unless Akutec had first expressly agreed to such a delivery. Dealers then received a 'dealer's pass' entitling them to obtain goods from the Akutec depot. Any infringement of the ban on horizontal supplies would result in expulsion from the group of authorized dealers. In 1980, Akutec had also introduced a numbering control system which, according to a circular sent to dealers by Akutec, was designed to trace and eliminate horizontal supplies and re-imports.

3. Distribution of Klepper products

Klepper distributes sailboards outside Germany through sole importers on the basis of agreements, each of which contained, until 1982, a supplementary clause prohibiting importers from exporting the goods. This clause was worded as follows: 'Re-imports into Germany and imports into countries other than ... (the territory covered by the agreement) shall require our express approval'.

Such agreements existed with Telstar in Harderwijk, Netherlands and Citabel Sports in Luxembourg until 1982. The very same agreements existed from 1979 to 1981 with Intersurf in Sterzing, Italy and Media Loisirs in Strasbourg, France.

4. Distribution of Shark products ('Systemboard')

Between January 1978 and December 1980, a distribution agreement existed between Shark and the Dutch importer Renka Sport BV, Almelo, which included the following clause: 'Renka undertakes not to supply or offer for sale Shark products outside Holland. Exception from this shall require prior approval by Shark'.

5. Distribution of Ten Cate products by WSC ('Windsurfer')

WSC has organized distribution in Germany on the basis of what are called 'partnership agreements' with retailers. The aim of these agreements, as stated in paragraph 1 of each of them, has hitherto been to maintain an 'orderly distribution system'. Paragraph 3 required the dealer 'not in any circumstances to sell the products supplied by WSC to dealers, but only to final consumers'.

All the abovementioned distribution restrictions were — as far as they still existed — abandoned by the parties concerned during the course of the Commission's investigations.

B. LEGAL ASSESSMENT

I. APPLICABILITY OF ARTICLE 85 (1) OF THE EEC TREATY

Article 85 (1) of the EEC Treaty prohibits as incompatible with the common market all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their

object or effect the prevention, restriction or distortion of competition within the common market.

All the parties concerned are undertakings within the meaning of the above provision.

1. The agreements between WSI and the German licensees

(a) The restriction of the right to exploit the licensed invention to certain types of board laid down in the agreements, on which alone patented rigs could be mounted, and the obligation on the licensees to submit for the licensor's prior approval any new board types on which they intended to use the rigs constituted a restriction of the licensees' entrepreneurial freedom of action, prohibited under Article 85 (1) of the EEC Treaty.

(aa) The scope of the patent protection — even if that protection covered the hull in Germany as well — could not by itself in any way justify these restrictions, since they constituted restrictions on use within the same technical field of application — namely the construction of sailboards for use on water.

(bb) Further, WSI's assertion of the right to exercise control over boards with a view to ensuring their quality and safety did not arise, at any rate on the basis of the facts investigated here, from the specific subject matter of the licensed patent rights, so that this restriction on the licensees is not excluded from the scope of Article 85 (1) of the EEC Treaty. Such a right could be recognized as forming part of the specific subject matter of the patent right only if the licensor's quality and safety requirements were limited to a product in fact covered by the patent protection or to a protected part thereof, if they were also intended to ensure no more than that the technical instructions as described in the patent and used by the licensee may be carried into effect and if they were agreed upon in advance and on the basis of objectively verifiable criteria.

There is no need at this point to go into the actual extent of the protection afforded by the licensed patents, in particular German Patent No 19 14 602.4-22, since the requirement of prior approval contained in the agreements in

respect of possible quality and safety requirements was in any case worded so vaguely that, instead of meeting the abovementioned criteria, it left licensees' model policy largely in the licensor's hands. During the course of the Commission's enquiries, WSI did submit a list of a number of technical criteria which, according to WSI's statements, were applied in exercising control over boards. Quite apart from the question of whether this list would satisfy the abovementioned principles, it should be noted that it was not contained in the agreements examined here and was thus not binding between the contracting parties. While a licensee would also in theory have been able to contest before a court WSI's refusal to sanction a board as being 'unreasonable', this was scarcely ever contemplated in practice in order to avoid straining relations with the licensor. Moreover, such action would have considerably delayed the licensee's introduction of new models onto the market and would thus have restricted his entrepreneurial freedom.

Where WSI — again independently of the extent of the patent protection — refers to the need to monitor quality and safety owing to the product liability requirements to which it is subject as a licensor in the USA, this has no bearing on the circumstances investigated here in view of the different legal situations in the Community Member States. Furthermore, it should be pointed out that WSI did not continually monitor its licensees' production.

(cc) If, therefore, the requirement of prior approval imposed by WSI in respect of quality and safety requirements does not escape the scope of Article 85 (1) of the EEC Treaty because they are too vague, this applies all the more to the right which WSI claims in the same connection, through prior control over new models, to prevent slavish imitation of boards already on the market.

Protection against slavish imitation does not form part of the specific subject matter of any industrial property right, but is a protection developed by the courts of many countries against passing off of products by competitors. Even if one starts from the principle that Article 85 (1) of the EEC Treaty is intended to protect only forms of fair competition, it must be borne in mind that actually defining the

limits of slavish imitation in individual cases is a difficult exercise and is to a significant extent at the discretion of the court in question. If the licensor himself, through an appropriate clause in the agreement, sets himself up as the sole arbiter in place of the court for any cases of doubt that might arise, there is a danger that he will use this discretion solely in his own favour and thus restrict his licensees in their competitive freedom to an extent that goes beyond the limits of unfair competition.

In particular, this allows a licensor to limit competition from the licensees against himself and competition amongst the licensees by using 'selective' approval to ensure that his licensees' products are isolated one from another. That this possibility was in the present instance also deliberately exploited by WSI in agreement with the licensees is indicated by the 'consultations' held with individual licensees in connection with the authorization of new board types (see A.IV.3 above). Safety requirements or quality aspects were barely touched on, whereas the possible competitive disadvantages consequent on the approval of new boards were discussed in detail.

There was thus no legal justification for regarding the abovementioned restriction on licensees as outside the scope of Article 85 (1) of the EEC Treaty.

- (b) The requirement that licensees — apart from meeting replacement part needs — should supply individual components (i.e. in particular rigs) covered by the licensed German patent No 19 14 602.4-22 only *in conjunction with* the board types approved by the licensor, that is to say only as complete sailboards, also constituted a restriction of competition prohibited under Article 85 (1) of the EEC Treaty. It restricted the licensees in their freedom to decide whether they wanted to act on the market as manufacturers and distributors only of boards of their own production or also as suppliers of rigs separately to third parties. Furthermore, manufacturers and distributors of other sailboards were prevented from supplying such boards to licensees or completing their own range by rigs of the licensees.

- (aa) Though this requirement was expressly stipulated only in the agreements with Shark,

S.A.N., Klepper and Marker, it was also indirectly provided for in the other agreements, since under those agreements the licensee was granted distribution rights *only* in respect of the relevant licensed product laid down by the licensor according to the board type approved by it and defined as a *complete* sailboard. Where WSI contests this interpretation of the agreements, it bases itself on isolated sections without taking into account the text of the agreements as a whole. Furthermore, WSI's own behaviour and that of its representatives clearly show that WSI itself interpreted the agreements in the manner described above and also indicated this to the licensees. Thus, there were numerous occasions on which pressure was brought to bear on the licensees — including those, such as Akutec, in whose contracts the abovementioned prohibition was not specifically contained — to the effect that they should not, beyond providing spare parts, supply rigs separately (see A.IV.3 above).

Despite enquiries from third parties, the licensees have therefore largely refrained from supplying rigs separately. WSI seeks to explain this by claiming that these were autonomous decisions of each independent licensee, deriving from their own interest to reserve rigs, in accordance with their own capacity, only for boards of their own manufacture for the purpose of their own sales of complete sailboards. It must be pointed out that, in view of the existing specific or at least indirect contractual obligations on licensees, these decisions could not have been entirely autonomous. Moreover, these decisions were prompted by the numerous additional 'exhortations' addressed to all licensees, which carried the underlying threat that their licensing agreements might at any time be terminated. Furthermore, as regards the licensees' economic self-interest, WSI's statement is refuted by the fact that the production of rigs on the one hand and of boards on the other is technically completely unrelated and that many licensees do not manufacture rigs at all for themselves but buy them from various specialized subcontractors. Accordingly, the separate supply of rigs might be of substantial economic interest to them, so that to prevent such supplies constituted an appreciable restriction of competition.

- (bb) The abovementioned restriction was also not covered by the specific subject matter of the German patent and is therefore still caught by

Article 85 (1) of the EEC Treaty, since the patent protection extends in Germany only to the rig.

The patent in question is a combination patent. In order to be covered by the scope of the patent, therefore, the board would have to be part of the protected combination. The combination elements mentioned in the patent claims — the patent claims are the primary basis for determining the scope of the protection (see Article 84 of the European Patent Convention) — concern only elements of a rig which, as a result of their particular arrangement and interaction, produce a given new effect. Where reference is also made in the patent claims to the board, this is clearly only for the purpose of describing the general technical framework within which this effect is produced.

Even when account is taken of the patent description and the corresponding drawings, the result is no different. Parts of a combination to which the invention idea does not directly relate do not belong to a protected combination, even though their use may be stipulated or absolutely indispensable. The aim referred to in the patent description and the proposed solution (see A.IV.A above) relate simply to a new rigging system for floating boards. The idea protected by the patent in question is limited to this. This is also shown by the details of the state-of-the-art given in the patent description; according to these at the time of the patent grant several hand-sailing devices were already known for use, among other things, on surfboards. Patent protection can only be considered, however, where an idea goes beyond the known state-of-the-art. Even if one were to go beyond the currently applicable interpretation rule in Article 14 of the German Patents Law (see also Article 69 of the European Patent Convention) and extend the scope of the patent protection to elements in which only the general idea underlying the patented invention, in line with principles of interpretation used by the German courts hitherto, is reflected, the result would be no different since the idea is restricted to a new rigging system to which the board as such does not belong.

This interpretation is confirmed by the outcome of the proceedings for grant before the

German Patent Office. The fact that the Patent Office has limited the patent claim to the rig is clearly reflected in the alteration of the original principal claim to a 'rig for a sailboard' and in the new wording of the patent aim and its solution in the patent description. This was also made sufficiently clear to the patent applicant by the German Patent Office. This interpretation is further confirmed in the judgments already pronounced by German courts on this issue, and particularly in the abovementioned judgment of the Bundesgerichtshof of 10 December 1981, where, in the presentation of the facts of the case, the board is not mentioned as an element of the protected combination. In view of this clear state of affairs, it is not necessary to await the final outcome of the action for patent infringement brought against an importer of boards by WSI and referred to by it as a 'test case' (see A.IV.3b above), quite apart from the fact that even a judgment favourable to WSI would in no way determine the scope of the patent *erga omnes*.

It follows from the above that it may also be left open whether Article 85 (1) would in fact cease to apply if the German patent were to include the board.

- (cc) Nor, finally, could the requirement that the licensees were to supply rigs only in conjunction with approved board types be derived from the specific subject matter of a patent right on 'indirect patent infringement' grounds. This is an action which a patentee can bring against third parties in order to prevent them 'from offering or supplying to a person, other than a party entitled to exploit the patented invention, with means relating to an essential element of that invention, for putting it into effect therein when the third party knows, or it is obvious in the circumstances, that these means are suitable and intended for putting that invention into effect' (see section 10 (1) of the German Patents Law as at 16 December 1980, BGBl 1981, Part I, p. 1).

In view of the scope of the patent claim in Germany, it is doubtful whether boards are 'means' within the meaning of the above provision. At any rate, no right would ensue to prevent licensees from marketing rigs otherwise than in conjunction with such 'means', since the licensees are all 'persons entitled to exploit

the patented invention' within the meaning of this provision. For the same reason, such a right of prohibition could not be invoked against non-licensed manufacturers of boards for sailboards, at any rate where they restrict themselves to manufacturing such boards alone and supply these boards only to licensees for the purpose of combining them with patent protected rigs or purchase from them rigs for the purpose of combining them with their boards.

- (c) The abovementioned restriction of competition was repeated in the method of calculating royalties, as laid down in the agreements, on the basis of the net selling price of the *complete* sailboard supplied by the licensee. This obligation too — where it concerned sailboards manufactured under German patent No 19 14 602.4-22 — fell in the circumstances of the present case, under Article 85 (1) of the EEC Treaty.

If the calculation of royalties, when payable on the basis of individual sales, is not linked to the products covered by the licensed invention there is a danger of the licensee's production, as compared with that of competitors, having to bear costs for which the licensee is not compensated through the advantages conferred by exploitation of the patent. As already explained above, the German patent does not include the board. Of course it may for practical reasons be necessary in many cases not to take the individual items covered by the licensed patent as the basis for calculating the royalties, but to refer instead to a product at a more advanced stage of the manufacturing process, into which the patented item is incorporated and in conjunction with which it is marketed. The reasons for this may be, for example, that the number of items manufactured or consumed or their value are difficult to establish separately in a complex production process, or that there is for the patented item on its own no separate demand which the licensee would be prevented from satisfying through such a method of calculation. Under such circumstances, this kind of calculation may be regarded as neutral under the competition rules; but this is not necessarily the case simply because a mode of calculation is 'usual commercial practice', as WSI states.

However, such circumstances as outlined above did not exist in the present case: The production of the rigs and their individual parts on the one hand and the boards on the other is not technically related: The licensees obtain their supplies to a large extent from subcontractors of various kinds, who charge for each element separately. Even though it is only

through the combination of board and rig that a final product ready for use is arrived at, the combination is so easy for everyone to carry out that there is brisk demand for each part, whether from manufacturers of other board types, from wholesalers or retailers or from final consumers. Owing to the growing popularity of windsurfing it is very likely that such demand will expand even more since an increasing number of experienced sportsmen is going to want to acquire different types of boards for various events that may all, nevertheless, be equipped with the same rig.

Whereas there were no objective technical reasons to support this method of calculating royalties, it prevented the licensees from acting in the separate markets for boards and rigs.

First, the method of royalty payments as described above meant that WSI claimed royalties for each of the principal parts of a sailboard, in other words the board and the rig, supplied by a licensee. That meant that the licensees were obliged to pay royalties even where they only sold the board alone, which is not covered by the German patent.

Furthermore, where one of the principal parts, namely a board or a rig, was sold separately, the royalties had to be calculated on the basis of the fictitious price of a complete sailboard. In particular, in the case of a sale of a rig alone, the burden of such royalties, taking into consideration the lower price of a rig in comparison with a board, would constitute an enormous increase in the costs. Although identical or similar costs might have occurred if WSI had managed to impose a proportionally higher level of royalties based on the sale price of a rig alone, as long as the sole basis for calculating royalties was the complete sailboard, the licensees were incited to apportion the costs of the royalties between the board and the rig. Consequently, the sale of rigs alone was not economically viable, for the proceeds that one could obtain by such a sale would have had to cover royalties calculated on the basis of the sale price of a much dearer product. Added to this was the difficulty in practice for the licensees of determining which of the different models of their range of sailboards should have been the basis for a fictitious calculation according to the cost of a complete sailboard. In the circumstances, the aforementioned method of calculating royalties tended to prevent the licensees from selling rigs alone and this independently from the express contractual prohibition aiming at the same objective. The

outcome was that, on the one hand, other producers of boards were prevented from completing their products with the patented rigs and, on the other, the licensees were persuaded to sell boards and rigs as *a combination* only, even though there is a demand for the two parts separately.

- (d) Article 85 (1) of the EEC Treaty also applies to the restriction whereby the manufacturing licence for German patent No 19 14 602.4-22 which relates to the complete sailboard, was limited to a specific manufacturing plant in the Federal Republic of Germany, given the fact that any change in the place of manufacture on the part of the licensee (with the exception of Ostermann and Shark) entitled WSI to terminate the agreement immediately.

Because of the constant threat that the licensor might terminate the agreement, each licensee was in practice obliged not to manufacture boards and rigs anywhere else other than in the stipulated place of manufacture. He thereby relinquished the opportunity open to any third party of taking up the manufacture of sailboards in areas of the common market in which the licensor did not enjoy patent protection and of distributing them there without having to bear the costs of the royalty payable for exploitation of the patent. Such was the unmistakable purpose and resultant effect of the version of the agreements between WSI and S.A.N, Klepper and Marker which applied until the end of 1980. Although this was then replaced by a less clear wording which was already contained in the other licensing agreements, this in no way meant that a *de facto* restriction did not or did no longer exist. It remained a condition that any change in the place of manufacture on the part of the licensee could lead WSI to terminate the agreement, irrespective of whether the production were transferred wholly or only partly outside the licensed territory.

Consequently, in the case under discussion, WSI obtained royalties for all the sailboards sold by the licensees throughout the common market, since they could not in fact be manufactured outside the licensed territory. It is true that the manufacture of a patented product is exclusively reserved for the patentee, so that the obligation to pay royalties for manufacture within the area in which a patent is valid is covered by its specific subject matter. However, it is not part of the specific subject matter of the patent right if the patentee so formulates the conditions of the licence as to make it impossible, at least in practice, for the licensee to engage in royalty-free manufacture in areas not covered by the patent and thus indirectly to secure for the patentee

a 'reward' for his invention even in places where he does not enjoy any patent protection at all.

Therefore, this restriction was neither covered by the Commission Notice on Patent Licensing Agreements (*Official Journal of the European Communities* No 139 of 24 December 1962, p. 2922/82) where the Commission stated that, on the basis of the facts known to it at that time, the prohibition laid down in Article 85 (1) of the EEC Treaty did not apply *inter alia* to a territorial restriction of the licensee which would limit the license to a specific factory (*loc. cit.* point 4 (b)). In any event, this statement covers only territories where patent protection was effectively granted. The further question relating to whether the prohibition on the licensees to transfer their production plant *within* the territory where a valid patent exists, also falls under Article 85 (1) of the EEC Treaty can be left open for the purposes of this proceeding ⁽¹⁾.

- (e) The obligation that the licensees affix to boards manufactured and marketed in Germany a notice stating that they were 'licensed by Hoyle Schweitzer' or were 'licensed by WSI' was also an infringement of Article 85 (1) of the EEC Treaty. This is because such a notice gave the impression that each licensee's board was manufactured on the basis of certain industrial property rights or at least in accordance with certain technical know-how made available by the licensor. However, the opposite was the case. The licensees were thus restricted in representing themselves as technically independent, at least as far as the board was concerned, and in consolidating the reputation of their firms through the respective board types developed by themselves independently.
- (f) The fact that the agreements require the German licensees to recognize as valid trade marks the word marks 'Windsurfer' and 'Windsurfing' and the 'logo' design mark that Ten Cate has hitherto used in Europe for its sailboards also infringed Article 85 (1) of the EEC Treaty.

⁽¹⁾ See Fourth Report on Competition Policy (1974), points 22 *et seq.*; Fifth Report on Competition Policy (1975), point 11, where the Commission, the establishment of the internal market having basically been accomplished, has already moved away from the view that territorial restrictions in patent licensing agreements are in principle harmless for the purpose of Article 85 (1) of the EEC Treaty. See also the Commission's announcement given in the *Official Journal of the European Communities* No C 58, 3. 3. 1979, p. 11, of its intention to withdraw the abovementioned Notice.

In the present case, WSI and Ten Cate have themselves intimated that considerable doubts exist as to whether these trade marks are sufficiently distinctive in character and whether in particular the terms 'Windsurfer' and 'Windsurfing' have not in current language become a common name for the sport and item of sporting equipment in question. Such circumstances would, however, militate against their registration or maintenance as valid trade marks under the laws of all the Member States ⁽¹⁾.

In relinquishing by contract the possibility of bringing these circumstances into play, the licensee renounced the opportunity of using names or symbols that might indicate generally, and without reference to a specific undertaking, a particular sport in a striking way to a broad public. Such a possibility might have represented an important element in their competitive behaviour, particularly in advertising. Conversely, WSI could gain an unjustified competitive advantage if it succeeded in monopolizing the use of any such name or symbol for itself. The obligation of the licensees not to challenge the trade marks was advantageous in this context. Whether a no-challenge clause concerning a trade mark also falls under Article 85 (1) of the EEC Treaty when it is part of an agreement concerning the licensing of this very trade mark can be left undecided for the purposes of this proceeding. In any event, the conclusion of a licensing agreement concerning patents only must not be used in order to induce the patent licensee to acknowledge the validity of trade marks belonging to the licensor or third parties and thus to deny him the opportunity of clarifying whether use of the relevant marks is open to all competitors.

- (g) The obligation imposed on Ostermann and Shark not to challenge the licensed patent also constituted an infringement of Article 85 (1) of the EEC Treaty. This no-challenge clause denied the licensees in the present case the opportunity, open to any third party, of removing an obstacle — which was essential bearing in mind the importance of the patents on the economical level as well — to their economic activity by means of proceedings attacking the patent's validity. Such a restriction is also of

importance where a patent is granted by a patent office only after examination of the invention for novelty and inventive step, for despite such an examination, as regards the question of patentability, the opposition of firms interested in the refusal of the patent or any possible actions for invalidity must still be permitted.

Even if it is only through information made available to him by the licensor that a licensee is put in a position to challenge the patent, the interest of the public in a basically free competition system and therefore in the removal of a monopoly perhaps wrongly granted to the licensee must still prevail over the special relationship which exists between the partners to a licensing agreement.

- (h) The abovementioned clauses were, individually and taken as a whole, likely to affect trade between Member States. The effect of the restrictions as described in B.I.1 (a) to (c) was to render trade in boards and rigs between Germany and the other Member States at least substantially more difficult. The limitation of the licence to certain board-types restricted the possible demand of the licensees for boards of other manufacturers from other Member States. These manufacturers were impeded from adding rigs to their boards so as to form a complete sailboard unit by the ban on the separate sale of the former, which was safeguarded and enforced by the mode of calculating the royalties, and were thus obstructed in their marketing efforts in the Federal Republic of Germany. The same was true for importers of boards from other Member States. The fixing of the place of manufacture (see B.I.1 (d) above) forced the licensees concerned to serve the markets of other Member States only from the Federal Republic of Germany; otherwise they might have served these markets from other places where production would not have borne the burden of royalties. The obligation to affix a licence notice on the board (see B.I.1 (e) above) and the obligation to acknowledge the licensor's trade mark (see B.I.1 (f) above) impeded the licensees' scope for developing their businesses throughout the Community. The no-challenge clause imposed on Ostermann and Shark (see B.I.1 (g) above) reinforced the licensor's patent right not only *vis-à-vis* the relevant licensees, but also *vis-à-vis* all competitors throughout the Community.

Bearing in mind that the licensees together with Ten Cate (WSC) hold a strong position in the German market, and the exceptional economic importance of the patent in question, these restrictions on trade were appreciable.

⁽¹⁾ See also Articles 2 (1) and 14 (2) of the proposal for a first Council Directive to approximate the laws of the Member States relating to trade marks, OJ No C 351, 31. 12. 1980, p. 1, and Article 6 (1) of the proposal for a Council Regulation on Community trade marks, OJ No C 351, 31. 12. 1980, p. 5.

2. Restrictions of competition in distribution

(a) Exclusive dealing agreements, particularly when concluded between firms from different Member States, may be caught by Article 85 (1) of the EEC Treaty because of the obligation imposed on the supplier to supply the relevant goods within a specified territory only to the sole importer and because of the territorial restrictions imposed on the sole importer regarding sales of the relevant goods. The exclusive dealing agreements concluded between various parties in the case under consideration are as such, however, not the subject of these proceedings, in so far as they are covered by exemptions under Article 1 (1) and (2) of Commission Regulation No 67/67/EEC ⁽¹⁾.

(aa) However, the following agreements also contained a ban preventing the sole importer not only from pursuing any active sales policy outside his allotted territory (see Article 2 (1) (b) of Regulation No 67/67/EEC), but also from furnishing any supplies whatsoever:

1. the agreements between Akutec on the one hand and Horwa (until 1981), then Taselaar (Netherlands), Ertisport (Belgium) and RaFly (Italy) on the other;
2. the agreements between Ostermann on the one hand and Thijs (Netherlands) and d'Ieteren (Belgium) on the other, between Klepper on the one hand and Telstar (Netherlands), Intersurf (Italy), Media Loisirs (France) and Citabel Sports (Luxembourg) on the other; and between Shark on the one hand and Renka Sport (Netherlands) on the other.

In the agreements included under (1), these restrictions appear from the actual wording of the standard agreement. In the agreements included under (2), it is merely stipulated that the supplier's approval must be obtained for supplies outside the agreed territory; however, this sort of approval requirement interferes with the sole importer's potential sales strategy. It thus constitutes a restriction of competition within the meaning of Article 85 (1) of the EEC Treaty. The absolute ban on supplies from the allotted territory of the possibility of refusing

to approve such supplies makes it possible to isolate the individual sales territories completely from one another. These agreements were thus designed to affect trade between Member States in a way which was no longer covered by Regulation No 67/67/EEC.

(bb) Akutec, Ostermann, Klepper and Shark together occupy a substantial position on the German market (accounting for approximately 40 % of that market). Their individual positions are also significant. While the market shares of the individual firms differ considerably, none of these market shares is so small as to mean that the isolation of the German market achieved though the reimport bans has not been appreciable.

The products of Akutec, Ostermann, Klepper and Shark are well established in other Member States; this applies particularly to the important French and Dutch markets (see A.III.2 above). Even though their market shares are not equally large everywhere and they could not be determined with certainty because of the relative newness of the market in windsurfing equipment and its resulting fluctuations, exports to Community countries do at all events represent an important business factor for all undertakings concerned. Accordingly, the fact that the agreements were intended to prevent the sole importers altogether from supplying other Community sales territories directly must also be seen as an appreciable restriction of competition.

(b) In standardized supply agreements, Akutec (using the 'dealer's pass') and WSC and Ostermann (using the 'partnership agreements') had obliged retailers in Germany to sell their products only to final consumers.

(aa) These obligations prevented the retailers from selling to other retailers and constituted, at least in so far as this prohibition concerned sales to retailers in other Member States, an infringement of Article 85 (1) of the EEC Treaty.

(bb) In the present case, these agreements also affected trade between Member States and were appreciable: the sailboards manufactured by Akutec and Ostermann, and those of Ten Cate distributed in Germany by WSC are marketed in many Member States of the Community. Their products are well represented on the French and Dutch markets in particular (see A.III.2 above). Dealers in

(1) OJ No 57, 25. 3. 1967, p. 849/67.

these areas might in principle have been interested in obtaining these products from dealers on the German market, on which in the period under investigation Ten Cate (WSC) and Ostermann had a substantial market share (15 % and 25 % respectively) and Akutec a significant share (7 %). Account must also be taken of the fact that, because these three firms as a whole had adopted the same approach, almost half of the supply available on the German market was withheld from potential trade between Member States.

II. APPLICABILITY OF ARTICLE 85 (3) OF THE EEC TREATY

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.

None of the agreements and concerted practices examined here have been notified to the Commission, so that in principle, under Article 4 (1) of Regulation No 17, application of Article 85 (3) of the EEC Treaty cannot, for formal reasons, be considered.

1. The patent licensing agreements also do not fall under Article 4 (2) (b) of Regulation No 17. This applies to the obligation not to supply rigs manufactured under the German patent except with previously approved board types, since this obligation restricts licensees not only in relation to the exercise of the licensed right, but furthermore impedes their liberty to decide whether and to what extent they will act as a competitor on the market for boards, which are not covered by the German patent. Although markets for rigs and boards are related in that rigs only form a final product ready for use when combined with boards or other types of base, both markets are nevertheless distinguishable as regards demand. In the same way the contractual obligations relating to the calculation of royalties on the basis of the selling

price of a complete sailboard as well as the obligation to affix a notice about the licence on the board went beyond the limits of those restrictions not needing notification under Article 4 (2) (b).

This Article is also inapplicable to the obligation to acknowledge as valid the trade marks of the WSI/Ten Cate as these rights are not licensed to the licensees. Nor is this Article applicable to the obligation imposed on Ostermann and Shark not to challenge the licensed rights, since this obligation is not aimed at restricting the licensees in their exercise of the licensed patent rights but at denying to them the opportunity of attacking the very existence of the licensed rights.

Furthermore, there is no basis to believe that the conditions of Article 85 (3) of the EEC Treaty would have been met:

- The restrictions of the licences to certain board types and the need to obtain approval for new boards had purely restrictive direct effects on the production and distribution of goods. Quality and safety requirements in respect of the licensed product which go beyond the specific subject matter of the patent right may certainly lead, in particular cases, to an improvement in the production of goods and benefit the consumer. In principle, therefore, it cannot be denied that the licensor may also have an interest in the observance of such standards. Even where he does not encounter the consumer in the licensed territory as the manufacturer and seller of the licensed product, the consumer may form particular ideas about the identity of the patentee and the 'value' of his patented invention — whether because it has become known through public discussion, or because the patentee himself draws attention to himself through the notice referring to the inventor, or because the consumer encounters him as a supplier on markets outside the licensed territory. However, the formulation of such standards also entails special dangers for the entrepreneurial independence of the licensees and competitive freedom on the relevant market as a whole. They must therefore be limited to what is objectively necessary, they must be notified to the licensee in advance and in a clear and detailed fashion and must apply to all licensees and also to the licensor without distinction. In view of the vagueness of the relevant clause in the agreements, these conditions have not been met in the case under consideration. This is further reinforced by the fact that the control exercised over boards was at the same time designed to ensure that there was a competitive 'distance' between all involved.

- The obligation to sell rigs only as part of complete sailboards merely constitutes a restriction of distribution of goods.
 - The requirement that royalties be paid on the basis of the selling price of complete sailboards and the requirement that the sailboards carry a notice indicating that they were 'licensed by Hoyle Schweitzer' served merely to consolidate and reinforce the abovementioned restrictions of competition.
 - The imposition on the licensees of the place of manufacture, the obligation on them to acknowledge certain trade marks as legally valid and the obligation imposed on Ostermann and Shark not to challenge the licensed patents did not result in any improvements or benefits within the meaning of Article 85 (3) of the EEC Treaty.
2. The distribution agreements concluded by Akutec, WSC and Ostermann with retailers in Germany were also not caught by Article 4 (2) (1) of Regulation No 17. The ban on supplies to other dealers contained in the agreements also applied, without restriction, to any supplies to dealers in other Member States and thus constituted a ban on exports, so that these agreements also related to imports and exports within the meaning of this provision.

Moreover, there are no circumstances underlying these restrictions which might have justified exemption under Article 85 (3) of the EEC Treaty. It is true that the retailers covered by the agreements were referred to as 'specialist dealers' and that the firms involved have also claimed that it was necessary, owing to the special nature of the sailboard product, to exercise control over the eligibility of dealers. However, none of the firms involved have mentioned any objective criteria on the basis of which the dealers were in fact selected. In any case, even if a permissible selective distribution system had existed, the complete ban on any supplies to other dealers, including therefore those in the distribution system itself, would have imposed too great a restriction.

III. APPLICATION OF ARTICLE 15 (2) (a) OF REGULATION No 17

Under Article 15 (2) (a) of Regulation No 17, the Commission may by decision impose on undertakings fines of from 1 000 to 1 000 000 units of account, or a sum in excess thereof but not exceeding 10 % of the turnover in the preceding business year of each of the

undertakings participating in the infringement where, either intentionally or negligently, they infringe Article 85 (1) of the EEC Treaty. In fixing the amount of the fine, regard must be had both to the gravity and to the duration of the infringement.

1. Culpability

(a) Patent licensing agreements

While WSI and the licensees may have originally assumed that the ban on the separate supply of rigs, the calculation of the royalty on the basis of the selling price of the complete sailboard and the affixing of the licence notice to the board were covered by the scope of the German patent in the form of the original application, they could not in good faith maintain that view once the German Patent Office, at the beginning of 1974, had decided on the final version of the document laid open for public inspection on 27 June 1974. The adoption of this version and its wording clearly resulted in the patent protection being restricted to the rig. Where, in legal actions brought against third parties, WSI continues to put forward the view that the scope of the patent protection extends in Germany also to the board and that the abovementioned restrictions had therefore been covered by the specific subject matter of the patent right, the maintenance of this legal standpoint — at any rate as regards the applicability of the competition rules in the EEC Treaty — does not exclude the reproach of negligent infringement. This would be true even if it were established that third-party suppliers of boards for windsurfing might under certain circumstances be committing an 'indirect patent infringement' on the German market, since licensees at any rate, being persons entitled to exploit the invention, can supply rigs to anyone and purchase boards from anyone. The culpability of the licensees as regards the abovementioned restrictions must be deemed to be slight, however, as they had to submit to the relevant conditions imposed by WSI in order to obtain a licence. Similarly, in the implementation of the licensing agreements, it was primarily WSI that insisted on the observance of the relevant restrictions and in particular sought to prevent the separate supply of rigs, so that the main burden of responsibility, as far as the application of Article 15 (2) is concerned, lies with WSI alone. Therefore it has been thought fit not to fine the licensees.

In assessing the culpability of WSI, the Commission has given consideration to the fact that no decision

has ever before taken on restrictions of competition of the kind under consideration here.

The culpability of WSI, Ostermann and Shark regarding the agreement concluded between them not to challenge the licensed patent must be judged quite independently of their own assessment of the patent situation. Even in the abovementioned Commission Notice on Patent Licensing Agreements of 24 December 1962, such no-challenge clauses were not included in the list of clauses unobjectionable under the terms of Article 85 (1) of the EEC Treaty. Since 1972, the Commission has in its decisions consistently pointed out the incompatibility of such clauses with this provision ⁽¹⁾. Ignorance of this legal position by the parties concerned is at the very least grossly negligent. However, the culpability of the licensees Ostermann and Shark must also be deemed to be slight, since they too had to submit to this condition imposed by WSI; therefore, once again, a fine is to be imposed only on WSI.

Against that WSI claims that it had to accept this clause of the agreements since it had originally been agreed by Ten Cate with the firms concerned and these firms had refused any change when the licensing agreement was transferred to WSI. However, this explanation cannot be accepted, since the no-challenge clause is an agreement to the disadvantage of the licensees alone. It has also not been confirmed by the licensees.

(b) *Restrictions of competition in distribution*

It has been a principle established in Commission decisions since as early as 1964 ⁽²⁾, and confirmed frequently by the Court of Justice of the European Communities ⁽³⁾, that export or reimport bans

imposed on sole distributors and bans imposed on other types of dealers preventing them from supplying other dealers constitute infringements of the Community competition rules in that they tend to isolate national markets, in so far as such restrictions go beyond the limits set in Regulation No 67/67/EEC and are not limited to the obligation to observe the conditions of a selective distribution system.

The firms involved in these restrictions of competition — namely Ostermann, Akutec, Klepper, Shark and WSC — have intentionally infringed one of the basic prohibitions laid down in the Community competition rules: for in all the abovementioned instances, the aim was the complete isolation of the respective national markets. The fact that they might not have realized in detail the scope of these rules is irrelevant, since they were in any case aware of and sought to achieve the restrictive effects of their agreements ⁽⁴⁾.

2. Gravity and duration of the infringement

(a) *Patent licensing agreements*

The ban on the separate sale of rigs and the associated restrictions concerning the calculation of royalties and the affixing of the licence notice had a considerable influence on the supply of sailboards on the German market. Other Community suppliers wishing to market boards in Germany combined with the rigs manufactured under licence were thus in principle shut out, though in practice the attempt to exclude them was not always entirely successful. The effect of these restrictions must have been appreciable as from the time when the patent was published on 27 June 1974 and even more so when the patent was finally granted by the German Patent Office (decision of 31 March 1978), because suppliers, from the latter time at the latest, were dependent on the supply of rigs from the licensees if they wished to avoid what was then a clear risk of patent infringement proceedings. The full effect of the restrictions was finally felt after the termination of the litigation on the granting of the licensed patent brought before the Bundespatentgericht (decision of 28 November 1979) in which the validity of the patent for the rig was in substance confirmed. It must therefore be assumed that these restrictions of competition significantly affected the marketing campaigns for sailboards in 1978 and

⁽¹⁾ Decision of 9 June 1972 — Davidson Rubber: OJ No L 143, 23. 6. 1972, p. 31, and in particular p. 32; Decision of 18 July 1975 — Kabelmetal/Luchaire: OJ No L 222, 22. 8. 1975, p. 34, and in particular p. 35; Decision of 2 December 1975 — AOIP/Beyard: OJ No L 6, 13. 1. 1976, p. 8, and in particular p. 12.

⁽²⁾ See Decision of 23 September 1964 — Grundig/Consten: OJ No 161, 20. 10. 1964, p. 2545; see also, for example, Decision of 1 December 1976 — Miller International: OJ No L 357, 29. 12. 1976, p. 40; Decision of 23 December 1977 — BMW Belgium NV: OJ No L 46, 17. 2. 1978, p. 33; Decision of 14 December 1979 — Pioneer Hi-Fi Equipment: OJ No L 60, 5. 3. 1980, pp. 21 *et seq.*; Decision of 25 November 1980 — Johnson & Johnson: OJ No L 377 31. 12. 1980, p. 16.

⁽³⁾ Judgment of 13 July 1966 — Grundig/Consten [1966] ECR 429; see also judgment of 1 February 1978 — Miller International [1978] ECR 131; judgment of 12 July 1979 — BMW Belgium NV [1979] ECR 2435.

⁽⁴⁾ See judgment of 1 February 1978 — Miller International [1978] ECR p. 131, and in particular ground of judgment No 18.

1979 and had a major effect on such campaigns in 1980 and 1981.

With regard to the no-challenge clause imposed by WSI on Ostermann and Shark, particular account must be taken of the fact that the sail system protected by the patent is considered at present to be the only usable one on the market and that the patent is accordingly also of outstanding importance economically.

(b) *Restrictions of competition in distribution*

It is difficult to assess in detail the extent of the movements of goods which might have taken place if they had not been prevented by the distribution restrictions agreed by Ostermann, Akutec, Klepper and Shark with sole importers in other Member States and by Ostermann, Akutec and WSC with retailers in Germany. They were in force for between two and three years. In view of their purpose, which runs directly counter to the Community's objective of integration, and their not inconsiderable duration, the abovementioned restrictions must be regarded as serious. However, account must be taken of the fact that the firms involved have been able to show that the distribution restrictions were in many cases not observed; measures to counter this were taken only by Ostermann and then only to a limited extent. In fixing the amount of the fine, apart from the turnover, the number of restrictive distribution agreements concluded by each undertaking must also be considered.

IV. APPLICABILITY OF ARTICLE 3 OF REGULATION No 17

Where the Commission finds that there is infringement of Articles 85 or 86 of the EEC Treaty, it may, under Article 3 of Regulation No 17, require the undertakings concerned to bring such infringement to an end.

After the suppression of the said agreements, at least in the version under consideration here, the need to require the termination of the infringements contained in these agreements no longer exists. But there remains a continuing interest in confirming the existence of infringements in the past. This follows in the first place from Article 15 (2) of Regulation No 17, since fines are being imposed with regard to a number of these agreements. However, this is also true for those restrictive agreements for which a fine is not imposed since it is necessary *vis-à-vis* the interested public to clarify the Commission's assessment of these agreements taken as a whole. The complainants have a particular interest therein.

HAS ADOPTED THIS DECISION:

Article 1

1. The following provisions in the patent licensing agreements which existed until 1981/82 between WSI and the licensees Ostermann, Shark, Akutec, S.A.N., Klepper and Marker constituted an infringement of Article 85 (1) of the EEC Treaty:

1. the obligation on the licensees to exploit the licensed patents only for the manufacture of sailboards using boards which had been given WSI's prior approval;
2. the obligation on the licensees not to supply rigs manufactured under German patent No 19 14 602.4-22 separately and without the boards approved by WSI;
3. the obligation on the licensees to pay royalties for rigs manufactured under German patent No 19 14 602.4-22 only on the basis of the net selling price of a complete sailboard;
4. the obligation on the licensees to affix to the boards in their range a notice stating that such boards are 'licensed by Hoyle Schweitzer' or 'licensed by WSI';
5. the obligation on the licensees to acknowledge the word marks 'Windsurfer' and 'Windsurfing' as well as a design mark showing the abstract shape of a sail (so-called 'logo') as valid trade marks.

2. The provision in the agreements between WSI and Akutec, S.A.N., Klepper and Marker for termination of the licensing agreements should the licensees start production in a territory not covered by a patent also constituted an infringement of Article 85 (1) of the EEC Treaty.

3. Furthermore, the obligation on the licensees, stipulated in the agreements with Ostermann and Shark, not to challenge the licensed patents constituted an infringement of Article 85 (1) of the EEC Treaty.

Article 2

1. The prohibition contained in the distribution agreements as listed below under (a) to (d) preventing each sole distributor from selling outside his allotted territory, or the latter's obligation to ask the manufacturer for approval of any such sales, constituted infringements of Article 85 (1) of the EEC Treaty:

- (a) agreements between Akutec on the one hand and the undertakings Horwa, Taselaar, Ertisport and RaFly on the other;
- (b) agreements between Ostermann on the one hand and the undertakings Thijs and d'Ieteren on the other;
- (c) agreements between Klepper on the one hand and the undertakings Telstar, Intersurf, Media Loisirs and Citabel Sports on the other;
- (d) the agreement between Shark on the one hand and Renka Sport on the other.

2. The prohibition on retailers according to the agreements as listed below under (a) to (c) to supply contract products to other dealers in other Member States also constituted an infringement of Article 85 (1) of the EEC Treaty:

- (a) the 'dealer passes' distributed by Akutec to retailers;
- (b) the 'partnership agreements' concluded between Ostermann and retailers;
- (c) the 'partnership agreements' concluded between WSC and retailers.

Article 3

The following fines are hereby imposed:

- 1. on the undertaking WSI a total fine of 50 000 (fifty thousand) ECU or DM 113 793 in respect of the ban on the separate supply of rigs (Article 1 (1) (2)), the obligation to pay royalties on the basis of the net selling price of a complete sailboard (Article 1 (1) (3)), the obligation to affix the licence notice on the board (Article 1 (1) (4)), the factual ban on production in territories not covered by a patent (Article 1 (2)) and the stipulation of a no-challenge clause (Article 1 (3));
- 2. in respect of the export bans imposed on sole distributors in other Member States and the bans imposed on dealers in Germany from supplying other dealers:
 - 1. a fine of 15 000 (fifteen thousand) ECU or DM 34 138 on the undertaking Ostermann;
 - 2. a fine of 10 000 (ten thousand) ECU or DM 22 759 on the undertaking Akutec;
 - 3. a fine of 10 000 (ten thousand) ECU or DM 22 759 on the undertaking Klepper;
 - 4. a fine of 5 000 (five thousand) ECU or DM 11 379 on the undertaking Shark;

- 5. a fine of 5 000 (five thousand) ECU or DM 11 379 on the undertaking WSC.

The abovementioned amounts shall be paid within three months of notification of this Decision to account No 260/00/64910 of the Commission of the European Communities with Sal. Oppenheimer, Cologne.

Article 4

This Decision is addressed to:

- 1. Windsurfing International Inc.
 - (a) 1955 West 190th Street, Torrance, California 90509, USA;
 - (b) for the attention of
Herrn Patentanwalt Axel Hansmann
c/o Licht, Schmidt, Hansmann & Hermann,
Albert-Rosshaupter-Str. 65,
D-8000 München 70
- 2. Windglider Fred Ostermann GmbH,
Comotorstr. 12,
D-6636 Überherrn-Altforweiler;
- 3. Shark Wassersportgeräte GmbH,
Auf den Höhen,
D-2830 Bassum;
- 4. Akutec Angewandte Kunststofftechnik GmbH,
Stäblistr. 6,
D-8000 München 71;
- 5. S.A.N. Warenvertriebsgesellschaft mbH,
Rötelstr. 30,
D-7107 Neckarsulm;
- 6. Klepper BeteiligungsGmbH & Co. Bootsbau KG,
Klepperstr. 18,
D-8200 Rosenheim;
- 7. Marker Surf GmbH,
Hauptstr. 51 – 53,
D-8100 Garmisch-Partenkirchen;
- 8. Windsurfing Central GmbH,
Hainburgstr. 47,
D-6054 Rodgau.

This Decision is enforceable in accordance with Article 192 of the EEC Treaty.

Done at Brussels, 11 July 1983.

For the Commission

Frans ANDRIESEN

Member of the Commission