

Revision of the rules for the assessment of licensing agreements for the transfer of technology under EU competition law

Introduction

The Federation (identity No. 83549331760-12) represents IP intensive companies in the United Kingdom, all of whom are involved in technology transfer of various kinds - a list of members is attached. Our member companies are extensively involved with IP in Europe and internationally. Not only do our companies own considerable numbers of IP rights, both in Europe and elsewhere, but they are affected by the activities and IP rights of competitors.

The consultation

The European Commission has launched a public [consultation](#) for the revision of the current framework for the assessment of technology transfer agreements, including the Technology Transfer Block Exemption Regulation and its corresponding Notice, scheduled to expire in April 2014.

The Commission invites comments on the application of EU antitrust rules for the assessment of technology transfer agreements, i.e. patent, know-how and software licensing. The aim is to strengthen the incentives for research and innovation, facilitate the diffusion of intellectual property and stimulate competition. The closing date is 3 February 2012.

IP Federation response

The IP Federation believes the Block Exemption Regulation and Guidelines are essential to a well-functioning system. Our Policy Paper [PP07/10](#) contained comments on the Draft Commission Regulation on R&D Agreements and the Guidelines on Horizontal Cooperation Agreements

Our response to the specific questions in the new [consultation](#) is as follows.

1. Is your company primarily a **licensor or licensee** of technology? In which sector(s) or broad product groups?

Our members are concerned with both licensing in and licensing out of technology, in a wide range of sector and product groups.

2. Do you, overall, consider that the Block Exemption Regulation and the Guidelines **have proven to be a well-functioning system** for assessing technology transfer agreements?

The IP Federation believes the Block Exemption Regulation and Guidelines are essential to a well-functioning system. The system provides a degree of business certainty and a legal framework in which to conduct business that

would not exist without them, especially with the lack of case law in this area. For this reason we would urge caution before any changes are considered or made to the Regulation which would undermine established business practice.

3. Can you give an **indication of the impact** (positive and negative) of the current competition rules on the business of your company? What would be the impact on your business if there were no Block Exemption Regulation and Guidelines?

Providing legal certainty is a great advantage to business when entering into licensing arrangements.

This positive impact of the current system is hampered by the Market Share test. The difficulty in establishing the market in question and whether the parties to a potential agreement are competitors undermines any legal certainty. A Technology market (as compared to product market) is very difficult to ascertain and subsequently establish the Market Share of the parties. Establishing if parties are competitors is fundamental to applying the regulation correctly due to the differences in Hardcore Restrictions in Article 4.

One potential solution to this uncertainty would be to increase the threshold levels to allow some room for error in establishing Market Share. The IP Federation does not believe such an increase would have a negative impact on competitiveness in the Market and could enhance it by making the transfer of technologies simpler.

4. Please report **any problems raised by the application** of the Block Exemption Regulation and/or the Guidelines. Please indicate also the sector/broad product group(s) in which such problems were encountered and the type of solution found, if any, to address the problems and results obtained.

The Market Share Test is the major problem in application of the regime, especially when applied to Technology Markets as compared to Product Markets.

Certainty is also undermined by the ability for an agreement when signed to be fully compliant with the Regulation but at a later date due to changes in Market Share (Art. 8(2)) to fall outside the safe harbour created by the regulation.

5. Do you have any suggestions as to how one could clarify **either the concepts or terminology** used in the two instruments?

The IP Federation urges extreme caution when considering amending concepts or terminology, especially in the case of terminology. Certainty of the operation of the Regulation has been established over the years and this would be destroyed if minor changes were made to the Regulation calling into question the meaning of terminology.

6. According to your experience, do you consider that some of the provisions in the current Block Exemption Regulation and/or parts of the text of the Guidelines have become **unsatisfactory or need to be updated due to developments** (in particular developments

after 2004 when the current system was put in place) that have taken place at the national and European level either generally or in a particular industry? Please provide reasons for your response.

The Market Share Test is subject to developments in application of Article 102 which has altered how Markets are defined in any cases narrowing them leading to applicability of the Regulation being narrowed.

7. Do you believe that there are **any specific competition "issues" related to technology transfer agreements not currently addressed** by the current Block Exemption Regulation or Guidelines and that should be considered in the review? For example should the scope of the Block Exemption Regulation and/or the Guidelines cover other types of production related agreements such as agreements, where trade-marks are licensed for display on consumer goods but there is no licensed technology? In addition, are there new contractual arrangements or clauses in technology transfer agreements which could have an impact on competition and which are not explicitly dealt with in the Block Exemption Regulation and/or the Guidelines? Please provide reasons for your response.

The IP Federation does not believe there are any specific competition "Issues" not currently addressed. The Regulation could usefully be extended to cover multiparty agreements such as patent pools.

8. Have you been involved in **litigation** and/or **competition investigations** concerning the Block Exemption Regulation and/or the Guidelines? Or are you aware of national cases and/or arbitration awards that could be relevant for the Commission's review. Please specify.

No - the IP Federation has not been directly involved in any litigation or competition investigations.

9. Do you consider that there is **a need to keep a Block Exemption Regulation in this field** or would it be enough to merely give guidance (including relevant safe-harbours) in the Guidelines?

Yes the IP Federation believes there is a need to keep the Regulation it provides a template for business to work with and highlights key areas of completion concern acting as an executive summary to the Guidelines.

10. Do you have any particular **comments on the list of hardcore restrictions** in Article 4 and/or the **list of excluded restrictions** in Article 5 of the Block Exemption Regulation? In particular, should the lists include also other type of restrictions or should, on the contrary, certain restrictions be removed from them? We would welcome comments as to whether you consider the balance right as regards the Commission's policy toward territorial restrictions, field of use restrictions and possibilities of exclusive and non-exclusive grant-backs.

The list of Hardcore restrictions should not be extended. Grant-back provisions are fundamental to the willingness of business to consider technology transfer agreements and such provisions for non-exclusive licenses should be looked upon more favourably in any new regime. The IP Federation members would be delighted to participate in further work in this area.

11. Have you encountered practical difficulties in **calculating the relevant market shares** for the purpose of applying the Block Exemption Regulation (c.f. Article 3(3))? If so, how could this situation be improved?

Calculating Market Share is an imprecise science and causes many difficulties. Following developments in Article 102 application and understanding the Market in question especially in Technology Markets leads to uncertainty as to the correct calculation of Market Share.

12. The Commission has recently commissioned a study on competition law and patent law, available at the webpage of this consultation:

http://ec.europa.eu/competition/consultations/2012_technology_transfer/index_en.html.

Do you have any comments on this study? We would particularly welcome comments on the specific issues of cross-licensing, patent pools and grant-backs respectively, which are addressed in the study.

When looking at Competition issues and Technology Transfer, the IP Federation believes there is much merit US approach that IP should be viewed largely as other forms of property for competition law purposes and that technology transfer arrangements are generally procompetitive. Encouraging transfer of technology by licence, even with some restrictions to how the IP is used, increases competition.

Cross-licensing and Grant Backs are fundamental to commerce in this area and current arrangements work well in the vast majority of cases. As the report highlights more research in this area would be required before any changes were proposed.

The IP Federation agrees with the report that Patent Pools can aid the workings of a competitive market and believes these could be brought within the scope of the Regulation.

In the report, we found the discussion of pass-through very theoretical, asserting with only minimal evidence that there is a problem arising from the structure of patents and variation in national law,^{*} and ignoring the fact that the free negotiation between licensor and licensee will in any case tend to avoid anti-competitive results.

Consider, by way of example, a licence under a new patented catalyst for the manufacture of sulfuric acid which provides for -

- (a) the licensee to make the catalyst and sell it to customers (sulfuric acid manufacturers) in return for a royalty paid to the licensor;

^{*} In relation to patents at least, the law in the EU is in fact remarkably harmonized. Thus the law on patent validity is virtually fully harmonized. The majority of national patents are obtained under exactly the written law and via the same procedure (i.e. under the European Patent Convention and via the European Patent Office), and therefore have exactly the same text. The law on infringement insofar as it is likely to relate to licensing is also very similar between member states (compare, for instance, Sections 60(1) to 60(3) of the UK Patents Act with Articles L613-2 to L613-4 of the French Intellectual Property Code, both of which were inspired by the wording in the Community Patent Convention).

- (b) the licensee's customers (sulfuric acid manufacturers) to use the catalyst for making sulfuric acid, and to sell the acid, without infringing the patent;
- (c) the customers of the sulfuric acid manufacturers to use the sulfuric acid (e.g. for making sulfonate detergents) without infringing the patent; and
- (d) all customers further down the chain to use what they buy without infringing the patent (e.g. for making sulfonate detergents with the sulfuric acid).

We consider that the pass-through described above (whether explicit, or implicit in the existing law on patent infringement, exhaustion of rights, or sale of goods) cannot be anti-competitive in practical terms, and indeed, depending on the parties' business models, may be commercially necessary if an agreement to be made at all. On the other hand, there are restrictions on pass-through that would equally not be anti-competitive, such as restrictions on the knowhow used for manufacturing the catalyst (not to pass beyond the licensee), or on use of the catalyst for purposes other than the manufacture of sulfuric acid.

One can apply the general wording of the present BER and Guidelines to such a situation, and also to differently-structured situations arising, for example, with semiconductor products and computer software. To prescribe detailed rules for pass-through in the BER and Guidelines covering all possible situations would, the Federation believes, limit their value without achieving any competition law objectives.

The IP Federation would also like to note that aligning regimes is not practical and would lead to more uncertainty and. Patent Thickets are outside the scope of the Regulation.

13. Any other observations or suggestions for improvement of competition policy in this area?

The Regulation could usefully be extended to cover multiparty agreements including patent pools. If this was an area the Commission believed merited further work, IP Federation members would be delighted to assist.

Alignment with the pertinent competition rules that govern distribution in particular the permissibility of sales restrictions into a territory/customer group would also merit further work.

Review of the treatment of non-competes, preventing a licensee from competing using his own technology is a hard-core for agreements between competitors (Article 4(1) (d)) and excluded for agreements between non-competitors (Article 5 (2)). We believe that if a licensee begins to use his own technology to compete with the licensed technology, the licensor should have the option to terminate the licence and seek a licensee who will be committed to exploiting it effectively, increasing competition between the different technologies.

Conclusion

As indicated above, the IP Federation is broadly in favour of the Block Exemption Regulation and Guidelines as they stand. Providing legal certainty is a great advantage to business when entering into licensing arrangements.

Certain aspects of it, such as the Market Share test, could usefully be reviewed. Even so, we would urge caution before any changes are considered or made to the Regulation which would undermine established business practice.

The Federation looks forward to the outcome of the consultation. Our members would be pleased to assist further in the details of any changes that are proposed to the rules for the assessment of licensing agreements for the transfer of technology under EU competition law.

IP Federation
3 February 2012

IP Federation members 2012

The IP Federation represents the views of UK industry in both IPR policy and practice matters within the EU, the UK and internationally. Its membership comprises the innovative and influential companies listed below. Its Council also includes representatives of the CBI, and its meetings are attended by IP specialists from three leading law firms. It is listed on the joint Transparency Register of the European Parliament and the Commission with identity No. 83549331760-12.

ARM Ltd
AstraZeneca plc
Babcock International Ltd
BAE Systems plc
BP p.l.c.
British Telecommunications plc
British-American Tobacco Co Ltd
BTG plc
Caterpillar U.K. Ltd
Delphi Corp.
Dyson Technology Ltd
Eli Lilly & Co Ltd
ExxonMobil Chemical Europe Inc
Ford of Europe
Fujitsu Services Ltd
GE Healthcare
GKN plc
GlaxoSmithKline plc
Hewlett-Packard Ltd
IBM UK Ltd
Infineum UK Ltd
Merck Sharp & Dohme Ltd
Microsoft Limited
Nokia UK Ltd
Nucletron Ltd
Pfizer Ltd
Philips Electronics UK Ltd
Pilkington Group Ltd
Procter & Gamble Ltd
Rolls-Royce plc
Shell International Ltd
Smith & Nephew
Syngenta Ltd
The Linde Group
UCB Pharma plc
Unilever plc
Vectura Limited