



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

On 6 December 2011, the European Commission 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 (TTBER) and its corresponding Notice, scheduled to expire in April 2014.

The Commission invited 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 was 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 No. 7/10 contained comments on the Draft Commission Regulation on R&D Agreements and the Guidelines on Horizontal Cooperation Agreements.

On 3 February 2012, we submitted a response to the specific questions in the new consultation with Policy Paper No. 5/12, as follows.

Licensing sector

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

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.

Indication of the impact of the current competition

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. It is very difficult to evaluate a Technology market (as compared to product market) 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.

The IP Federation is the operating name of the Trade Marks, Patents and Designs Federation
Registered Office 5th floor, 63-66 Hatton Garden, London EC1N 8LE

Email: admin@ipfederation.com | Tel: 020 72423923 | Fax: 020 72423924 | Web: www.ipfederation.com

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Problems raised by the application of the Block Exemption Regulation or Guidelines

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.

Clarifying 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.

Unsatisfactory provisions that need to be updated owing to developments

The Market Share Test is subject to developments in the application of Article 102 which has altered how Markets are defined. In many cases, narrowing the definition of a Market has led to the applicability of the Regulation being correspondingly narrowed.

Specific competition "issues" related to technology transfer agreements not currently addressed

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.

The need to keep a Block Exemption Regulation

The IP Federation believes there is a need to keep the Regulation, as it provides a template for business to work with. It highlights key competition concerns and acts as an executive summary of the Guidelines.

List of hardcore restrictions in Article 4 and excluded restrictions in Article 5

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.

Practical difficulties in calculating the relevant market shares

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.

Commission study on competition law and patent law

When looking at Competition issues and Technology Transfer, the IP Federation believes there is much merit in the US approach that IP should be viewed largely in the same way 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 on 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 are 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,¹ 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;
- (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 is 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 TTBER 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 TTBER 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. Patent Thickets are outside the scope of the Regulation.

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

¹ 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).

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. Market share is a difficult thing to measure precisely, particularly in Technology Markets, and is subject to change over time. As one solution, we propose that the limits on combined market share currently set (20% for competing undertakings, 30% for non-competing) could be raised. Even so, business favours certainty over most other things, and 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. Nothing more has happened on this since it closed in February 2012. This could be because everyone is reasonably happy with the current Exemption and Guidelines, but if they plan any kind of overhaul, they will need to move quickly (by EU standards) to replace the current Technology Transfer Block Exemption Regulation (TTBER) by 14 April 2014.

Steve Ward, 11 December 2012