



**International Chamber of Commerce**

*The world business organization*

## Policy statement

# **Comments on the Transfer of Technology Block Exemption (Regulation 240/96) European Commission Evaluation Report**

*Prepared by Commissions on Competition and on Intellectual  
Property*

### **1. General**

The European Commission Transfer Technology Block Exemption (“TTBE”) Evaluation Report (“the Report”) was made publicly available in December 2001. The Commission has invited comments upon the Report.

Whether for licensors or licensees of intellectual property in the EU, the scope of the TTBE is of great importance as it affects the legality and enforceability of licences. Moreover, the TTBE sets the Commission's approach to the relationship between competition law and the protection of intellectual property rights. As stressed in the Report, protection for intellectual property rights and the protection of effective competition should be regarded as complementary, rather than opposed, as innovation in products and technologies is the ultimate source of competition. It is therefore important to find the right balance between protecting competition and protecting intellectual property rights.

The main antitrust jurisdictions of the world should try to converge their policies in all matters having significant multi-jurisdictional effects. This certainly applies to antitrust policies in the field of intellectual property licensing.

ICC welcomes the Commission's approach to the consultation process. ICC hopes that the Commission will continue along that path and especially proceed to a publication of a draft block exemption along with draft guidelines (as it did for the vertical and horizontal agreements) in order to allow stakeholders to assess how agreements would need to be analyzed on the basis of both texts. ICC encourages the Commission to align the approach for the assessment of intellectual property right licensing agreements with the approach taken for horizontal and vertical agreements by (i) eliminating the white and grey clauses and (ii) streamlining the list of black clauses.

Due account should be taken of the specific aspects of intellectual property rights licensing. Intellectual property protection is aimed at providing legal certainty for the intellectual property right holder for the duration of that intellectual property right. Antitrust agencies and courts applying antitrust laws should not question the social contract under which intellectual property rights are granted. This social contract is for the legislator to amend, if necessary, and not for the antitrust agencies or courts in specific cases. In that regard, ICC would encourage the Commission to carefully analyze the US approach (to which the Commission refers in para. 58 of the Report) which puts more limits on the possibilities for competition policy to intervene against licence agreements between non-competitors. In some cases, such approach may help to stimulate innovation if it is assumed that intellectual property rights are striking the right balance between over- and under protection of innovators' efforts.

This is the more relevant since, under the Commission's modernization proposals, national judges will be allowed to apply Article 81 in full, i.e. including the exemption conditions under Article 81(3). Therefore parties to an agreement will need themselves to access the effects of the agreement in respect of Article 81 without having the option of notifying the agreement to the Commission.

Thus, there is a need for very clear guidelines to accompany a new block exemption on which companies can rely. Such guidelines should clarify that an agreement that falls outside the new block exemption is not illegal but needs to be assessed against the principles laid down in the guidelines. They should also clearly indicate the circumstances under which an agreement outside the scope of the new block exemption would fall within the scope of Article 81(1) and if so, the circumstances under which the agreement would qualify for exemption under Article 81(3).

Special attention should be given to the distinction between horizontal and vertical licensing. ICC acknowledges the description of a vertical relationship in para. 125 of the Report. However, the prime issue is whether the licence would significantly damage any competition which would have taken place between the licensor and the licensee absent the licence.

The guidelines should also give serious consideration to market definition and clearly differentiate between different markets (i.e. innovation, technology, and product markets). Effects of restrictions imposed on a licensee are totally different in the technology market and the product market. In the technology market, effective competitive constraints on market power often have special characteristics. Market shares of licensors in the technology markets are not only generally very difficult to calculate, but also mostly of limited relevance for assessing sustainable market power or dominance. In particular, a licensor dominance ceiling for application of the new block exemption, if applied to the new technology market, seriously risks stifling innovation and would greatly damage the usefulness of the new block exemption.

As to product market, paragraph 179 of the Report acknowledges that even if dominance is or has been acquired as a consequence of an intellectual property right, exploitation thereof within the scope of such intellectual property right should be generally acceptable, under both Articles 81 and 82.

Introducing a product market dominance ceiling for exploitation within the scope of an intellectual property right would introduce uncertainty and expose licences of successful innovators to the risk of court litigation, and to investigations of national competition agencies applying national competition laws. This seriously risks stifling the introduction of products onto the market. The possibility for the Commission and national competition authorities to withdraw the application of the new block exemption in cases where the conduct of a licensor or licensee has effects incompatible with Article 82 should be sufficient remedy.

A finding of abuse of a dominant position of course would not be blocked by applicability of the new block exemption (cf. European Court of Justice in *Compagnie Maritime Belge*, 2000).

In view of the foregoing, it is necessary to distinguish between restrictions within the scope of the licensed intellectual property rights, and other restrictions.

Restrictions within the scope of the licensed intellectual property right should include all restrictions connected with the exploitation of that right, such as obligations of the licensee to e.g. protect the value of the intellectual property right, or to grant back blocking intellectual property rights in the scope of the licence. Restrictions outside the scope of the licensed intellectual property right, such as tying and non-compete, should be treated similarly as restrictions per the Horizontal and Vertical Restraints Guidelines. Restriction in horizontal intellectual property right-licenses should be treated similarly as restrictions in vertical intellectual property right licenses, subject to appropriate black list situations and the possibility of withdrawal.

## **2. More specific issues**

### **The Defining of Know-how**

The TTBE and the Vertical Restraints Block Exemption define "know-how" differently. As taken from Article 1(f) of the VRBE, *"know-how" means a package of non-patented practical information, resulting from experience and testing by the supplier, which is secret, substantial and identified*. ICC proposes that the definition of know-how in the new block exemption be amended and brought into line with the more comprehensive Verticals Restraints Block Exemption definition.

### **Enlarging the scope of the TTBE to cover other intellectual property rights**

Under the current block exemption, the licensing of other intellectual property rights is covered when it contributes to the achievement of the licensed technology and contains only ancillary provisions.

As it is often difficult to assess the *"ancillary character"* of such other intellectual property rights, it seems justified to include all intellectual property rights within the scope of the new block exemption. The most obvious need seems to lie with design, copyright and software licensing.

While an inclusion of copyright licensing agreements within the scope of the new block exemption may increase legal certainty, we would urge the Commission to carefully assess the fact that competition issues in that sector may need to be addressed in a different way than for the other intellectual property rights. If copyright were included, ICC would appreciate the inclusion of the Commission's case law and policy on copyright licensing in the guidelines.

### **Enlarging the scope of the TTBE to cover multi-party licensing**

As stated above, the guidelines should provide a clear definition of "*competitor*" and acknowledge that horizontal multi-party licences are not automatically restrictive of competition. These kind of agreements are of the essence to technological development and implementation of new innovations by cutting the patent thicket and allowing introduction of new standardized systems covered by numerous complementary or blocking patents of different holders.

The guidelines should clearly set out the limited circumstances, if any, under which such licences are problematic. Subject to the next paragraph, all other multi-party licences should come within the scope of the new block exemption.

ICC urges the Commission to request the Council for an extension of the scope of Council Enabling Regulation no. 19/65 to include multi-party licensing. However the introduction of a new block exemption should not wait for such mandate to be given. We therefore suggest that the Commission give clear instructions as to multi-party licences in the guidelines. The guidelines should also discuss under which circumstances a bundle of vertical sublicensing authorizations allowing standard package licensing by one authorized licensor, (and the consequent standard licences agreements) would be covered by the new block exemption.

### **Licensing in respect of joint ventures**

ICC would encourage the Commission to bring the thresholds for loss of the new block exemption's protection for a joint venture between competitors in line with the thresholds in the specialization (20%) and R&D block exemption (25%) (See para. 138 of the Report).

The market share threshold should be set at 25%, in line with what the Commission suggests for licensing agreements between competitors (para. 187 of the Report).

### **Time limits for exclusivity in licences of intellectual property rights without statutory duration**

There is a need to bring the TTBE in line with the Vertical Restraints Block Exemption on time limits. Article 1 (3) of the current TTBE limits exclusive know-how licensing agreements both between competitors and non-competitors to ten years (for most of the restrictions).

As far as these types of agreements between non-competitors are concerned, the Vertical Restraints Guidelines impose no time limit for know-how licences that are ancillary to exclusive distribution agreements. ICC would encourage the Commission to bring the TTBE in line with the vertical restraints approach, as suggested in paragraph 130 (b) of the Report.

### **Site licences**

The Commission questions how to assess site licences with an output restriction (paragraphs. 152-153 of the Report) and questions to what extent the distinction between competitors and non-competitors is still relevant in that respect. ICC submits it is more appropriate to distinguish between horizontal and vertical licensing relations, and apply the general rules of the new block exemption allowing restrictions within the scope of the intellectual property right concerned.

### **Tying and non- reciprocal grant back**

ICC agrees that tying and non-reciprocal grant back are generally outside the scope of an intellectual property right, but believes they should be covered by the new block exemption as there are circumstances (particularly in vertical relations) when such provisions aid pro-competitive arrangements. If the Commission can justify applying a market share ceiling to such cover, ICC urges the Commission to provide examples in its guidelines of situations where tying in vertical and even horizontal licences above the 30% market share ceiling could benefit from an exemption. As far as vertical licences are concerned, useful guidance can be taken from para. 215-224 of the Vertical Restraints Guidelines.

### **3. Conclusion**

ICC would favour a broad new block exemption covering multiparty licensing, all intellectual property rights and both horizontal and vertical licences. The new Block Exemption should preferably contain a licensees' product market share ceiling of 30% only for restrictions imposed on the licensee outside the scope of the licensed intellectual property right. The new block exemption should only include a very short list of "black list situations". ICC is of the opinion that uncertainty about the applicability of safe harbour protection as soon as a licensor's dominance on a market is alleged to exist, especially in technology markets, would stifle innovation to an unacceptable extent. The possibility of withdrawal of safe harbour protection by the Commission or a national competition authority via action under Article 82 provides sufficient remedies.

Clear guidelines, particularly as to market definition, the differences between product and technology markets, and the distinction between horizontal and vertical relationships, are of the essence.

ICC will shortly be submitting suggestions for issues which such guidelines should contain and would welcome an opportunity to give its comments on any draft guidelines issued by the Commission in conjunction with the text of a new block exemption regulation.

**Document n° 225/573 Rev.**

26 April 2002