International Chamber of Commerce
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Department of Policy and Business Practices

European Commission's proposal for a revised transfer of technology block exemption regulation (TTBER) and accompanying guidelines: ICC comments

Prepared by the Commissions on Competition and on Intellectual Property

Introduction

ICC believes that innovation is an essential motor for sustainable economic growth and an open and competitive market economy. Innovation is fostered through both an effective intellectual property rights system which allows the protection and dissemination of intellectual assets, as well as a competition framework which allow competitors to compete fairly.

In the area of licensing, it is essential that the two policies work together to encourage the dissemination of technology, which is of critical importance for growth. Competition law should therefore encourage pro-competitive licensing. Unjustified regulatory constraints on the transfer of technology are likely to result in a sub-optimal level of consumer welfare, an inefficient allocation of resources and stifled innovation. These factors are particularly important, given the nature of technology licensing in the international competitive marketplace.

In view of the importance placed on innovation in the European Union's strategy to become one of the most dynamic economic regions in the world, it is essential that the competition framework in the EU takes the above considerations into account.

In doing so, it should adopt a sympathetic view of the dynamic efficiencies associated with the licensing of intellectual property, and recognize business requirements to integrate complementary intellectual property and to avoid costly infringement litigation. This is especially true in view of the ongoing reforms to "modernise" and decentralize the application of EC competition law.

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General principles

ICC is of the opinion that the Commission's future policy in the field of technology licensing should be solidly based on the following principles:

1. The mere possession of an intellectual property right should not give rise to a presumption of the existence of market power. Instead, the existence of such market power should be determined by evaluating the availability of, for instance, close substitutes. In doing so, the Commission should take account of both current and likely potential participants in the relevant product or technology markets.

2. The Commission should recognize that exclusivity, field of use, territorial and other intrabrand limitations in intellectual property licences normally serve pro-competitive ends in allowing the licensor to exploit its intellectual property more efficiently. This is particularly relevant for SME's that need to be able to exploit their technologies through licensing.The focus of the Commission's approach should be the question of how the arrangement may affect interbrand competition, i.e. on whether the licensing agreement may be a sham horizontal cartel, and if not, whether the licensing agreement is likely to significantly suppress competition in competing technologies or related markets, or is likely to significantly raise barriers to entry without resulting in sufficient compensating efficiencies.

   The assessment under Article 81 should concentrate on the *ex ante* situation (*i.e.* the economic situation at the time the licensing agreement is concluded) and on whether, at that moment in time, the licence was likely to have a negative effect on competition that would have existed in the absence of the licence. This principle should also be applicable to the question whether parties are (potential) competitors or not, as in Article 3 of the TTBER presently in force. To avoid deterring pro-competitive licensing, a competition authority or a court should not be allowed to second-guess, maybe many years later, whether an alternative licensing arrangement might have (had) a less restrictive effect on competition.

3. The future block exemption should provide adequate legal certainty for licensing arrangements that have been legitimately concluded. It should preferably include rules which are simple, clear and relatively easy to apply, both for the companies involved, as well as for courts. By the same token, it is of the utmost importance that the Guidelines provide a clear and simple framework for assessment which allows situations which are non-infringing at first glance to be filtered out. In this respect the Guidelines should be clearer about - and provide more examples of - situations where contractual provisions included in intellectual property licences are, upon superficial inspection, restrictive but objectively necessary and inherent to a licence agreement in a specific situation and therefore not infringing Article 81(1). They should also explain by specific examples how the agreement at issue may significantly affect competition in the relevant markets concerned.

With the entering onto force of Regulation 1/2003, the need for legal certainty, in particular for SME's, has become even more important than in the past, since formal legal certainty for specific cases as a rule can no longer be obtained from the Commission.

ICC's fundamental concerns

1. The market share thresholds of Article 2 fail to recognize the nature of dynamic competition and will often be an incorrect parameter for the measurement of market power in the market(s) affected by intellectual property licences. The application of market share ceilings as a "hard and fast" rule in markets where dynamic competition is key is likely to result in an unreliable assessment of market power, as the test in itself focuses on actual market positions rather than the competitiveness of the markets concerned over a longer period of time. This applies in particular in technology markets where market shares are to be calculated on the basis of existing product markets. A closely related concern is that the continuous application of a market share test is likely to "punish" companies which have successfully developed and introduced new technologies by taking away the benefit of the exemption in the event their markets shares increase so as to exceed 20% or 30% of the relevant technology or product markets. While the Commission acknowledges that the non-applicability of the exemption does not imply that the agreement at issue infringes Article 81, the sanction of being expelled from the safe harbour of the TTBER and exposed to legal challenges in court is disproportionate, and potentially discourages licensing of technology and innovation in general. Account should be taken of the fact that under Regulation 1/2003, Article 81 will mostly be applied when conflicts have emerged many years after the conclusion of the licence agreement at issue. A more realistic approach under the future regulation would be to allow authorities to withdraw the applicability of the TTBER if after e.g. 7 years, a sufficient number of viable R&D centres does not effectively restrain the use of any market power achieved by a party as a result of the licence agreement concerned (cf. Article 4(1) of the R&D BER).

2. The proposal fails to acknowledge that intrabrand restrictions may bring about a number of efficiencies. This concern is particularly pertinent with respect to licence arrangements with non-competitors. Here, the Commission seeks to simply apply its methodology developed in the framework of vertical restraints under Regulation 2790/1999 by listing a number of territorial restrictions as hard core restrictions. However, there are a number of reasons why this approach is not justified. First, this approach does not take account of the fact that licence agreements enabling non-competitors to use a technology (e.g. to manufacture a novel product) are generally pro-competitive. The Commission's reasoning in paragraph 23 of the Guidelines concentrates on the fact that licensees are selling their own product which implies that there may "thus" be more competition to protect. However, ICC respectfully submits that the key observation is whether such competition would have existed in the absence of the licence. The increased emphasis on intrabrand restriction in Article 4(b) also conflicts with the Commission's own observation in the Evaluation Report that the future exemption should be less focussed on intrabrand restrictions than Regulation 240/96. Furthermore, the Commission does not seem to acknowledge that, as a rule, licensees need to invest more than mere distributors, and hence need more protection .

3. Obligations of the licensor not to exploit the licensed technology himself seem to be blacklisted by the Guidelines and the proposed TTBER . Presently, such an obligation is

exempted. No evidence is being adduced that the same should not be the case in the new TTBER (unless the obligation is reciprocal and concerns competing technologies). This blacklisting particularly would impede licensing by SME's.

4. The proposed TTBER blacklists asymmetrical field of use restriction (and running royalty) provisions in cross-licences between competitors under Article 4(1)c. It is however widely acknowledged that cross-licences between competitors may result in a variety of efficiencies, in particular the elimination of reciprocal potential blocking positions, and are necessary to cut through patent thickets that are increasingly prevalent in many sectors of industry. Such cross licences allow companies continued freedom to design their products, and generally do not restrict competition that would have existed in the absence of the licence. Any restrictions on the licensee's ability to design and manufacture new competing products do not arise from the cross- licensing as such, but from the patent system and rights it legitimately creates. Asymmetrical cross-licensing and running royalties often cater for imbalances in the patent portfolios of the parties. Making such arrangements "hard core" may inhibit procompetitive cross-licensing. Only where a cross-licence agreement between competitors would put an end to the use of its own technology by any of the parties, e.g. by locking it into the technology licensed from the other party, should this be considered hard core and excluded from.the safe harbour of the TTBER. Furthermore, the delimitation in the Guidelines between output restrictions, customer restrictions, product market restrictions, and field-of-use restrictions is not clear and needs further elaboration.

The draft regulation excludes mere non-assertion agreements from the TTBER by definition. The Guidelines also take a negative approach to field of use provisions in settlement agreements (See paragraphs 196-201). Such provisions however are commonly used to achieve "patent peace "because they help balance the parties' exchange of value. Settlement of patent disputes would be much more difficult under the proposed Guidelines.

5. In dealing with package licensing in the proposed Guidelines, the Commission does not appear to appreciate that the number of essential patents of a patentee participating in a package licence actually used by a licensee generally is not a relevant or even practically workable criterion for setting royalty levels. A licensee is interested in access, not in the number of reasons why he does not have access.

6. The Commission proposes replacing the current Commission Notice on subcontracting agreements with a corresponding framework of analysis in the Guidelines. ICC supports this approach. However, the text as currently suggested is significantly harsher than the existing Notice in that it requires that ".. the licensed technology or the supplied equipment is necessary for the purpose of producing the goods…". As in the current Notice, the Guidelines should only require that the subcontractor receives designs, other proprietary information or tools without which he would not be able, under reasonable conditions, to manufacture the contract products. Moreover, the draft Guidelines make the non-applicability of Article 81 dependent on a number of circumstances which so far have not been taken into account, in particular the reduction of the subcontractor's incentive to

innovate, possible foreclosure effects and increased potential for collusion (para 39). The emphasis on these “effects”, which are hardly verifiable for companies wishing to outsource the production of goods, may have a chilling effect on subcontracting arrangements. It would be better to emphasize that, in view of the nature of the market for subcontracting services, competition problems will only arise in exceptional circumstances.

7 The scope of the future TTBER for know-how licence agreements should be aligned with Regulation 240/96 to cover know- how licensing agreements which involve “substantial” know- how (meaning information which must be “useful” i.e. can reasonably be expected to be capable of enabling the licensee to manufacture the contract products), rather than requiring that the information must be “indispensable” for the manufacture or supply of the contract products.

8 The proposed TTBER should include an explicit safe harbour for second-sourcing licensing agreements. Such agreements are important and frequent in practice, and have never been a reason for concern to competition authorities.

9 The transitional period proposed in Article 9.2 of the draft TTBER (ending 31 October 2005) is far too short, and agreements exempted under the present TTBER should remain exempted for their lifetime as long as the new TTBER will apply (similar to the transitional rule under the present TTBER). The proposed transition rules would cause many disputes between licensees and licensors with respect to current licensing agreements.

ICC’s Position

ICC appreciates the Commission’s efforts to replace the current block exemption Regulation 240/96 by a new, less formalistic regulation which takes economic insights into consideration. ICC however believes that the current proposal unnecessarily limits pro-competitive licensing arrangements and does not meet the international business community’s need for clear and easy-to-apply rules. ICC suggests that it might be better to maintain the present TTBER until its expiry in 2006, allowing for more time to consider the difficult issues at stake, as it hardly seems possible to change the present draft TTBER and Guidelines in time to adequately improve the conditions for assessment of licensing agreements by the numerous decision makers competent after the entering into force of Regulation 1/2003.

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