International Chamber of Commerce
The world business organization

Prepared by ICC Commission on
Competition

Comments in response to European Commission's questionnaire on technology transfer agreements

Highlights

- Harmony with R&D Block Exemption and Horizontal Guidelines and applicable rules
- Concepts analysis and hard core restrictions
- Discussion on the EU study on competition law and patent law

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

ICC's membership comprises both technology licensors and licensees in a wide range of industry sectors.

ICC would like to emphasise its support of a competition policy that promotes innovation and intellectual property. IP licensing is generally very pro-competitive and the competition rules should not overly restrict the parties' freedom to enter efficiency-enhancing licences. The Commission's Block Exemption and Guidelines are very important in promoting a competition policy that is conducive to innovation. Throughout the world the European Commission is watched by other agencies as a leading authority in this area; when considering any revisions to the Block Exemption and Guidelines, the Commission should be aware of this.

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?

On the whole ICC considers that the Block Exemption and the accompanying Guidelines have provided a good workable framework for analysing technology transfer agreements' effects on competition. Nonetheless, as discussed below – see, in particular, the answers to questions 4, 5, 10, 11, 12 and 13 – ICC thinks that the system could be improved.

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?

The impact on ICC's various members and stakeholders varies.

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 relationship between the Technology Transfer Block Exemption Regulation and the Guidelines, on the one hand, and the R&D Block Exemption and Horizontal Guidelines, on the other, causes problems.

[1] *The members of ICC Task force on EU review of regime of licensing of technology are: Jacques Bourgeois (WilmerHale) (Chairman), François Brunet (Cleary Gottlieb Steen & Hamilton), Elio De Tullio (De Tullio & Partners), Kaarli Eichhorn (GE Europe NV), Sean Heather (US Chamber of Commerce), Alan Hoffmann (Alcatel-Lucent), Andrius Iškauskas (AAA Legal Services), Carel Maske (Microsoft EMEA), Cormac O'Daly (WilmerHale, Cândida Ribeiro Caffé (Dannemann, Siemsen, Bigler & Ipanema Moreira), Thierry Sueur (Air Liquide), Martin Wolfhard (Syngenta Crop Protection AG).*

Paragraph 45 of the Technology Transfer Guidelines states that they cover "development work before obtaining a product or a process that is ready for commercial exploitation, provided that a contract product has been identified". Development work is, however, also covered by the R&D Block Exemption and Horizontal Guidelines (Article 1(1)(a)(iv) refers to "paid-for research and development of contract products" and see Example 2 in paragraph 147 of the Guidelines). Does this apparent overlap mean that the parties can choose which Block Exemption is applicable or do they have to analyse agreements containing both R&D and licensing for compliance with both Block Exemptions and under both the Technology Transfer and Horizontal Guidelines? ICC would like to see clarification of this, potentially by way of examples that would show when each Block Exemption is applicable.

The fact that two Block Exemptions/Guidelines can be applicable is particularly problematic when the two diverge. Notably, there are/have been divergences on:

- Definition of potential competitor. This is up to three years under Article 1(1)(t) of the R&D Block Exemption and "normally a period of one to two years" under the Technology Transfer Guidelines' paragraph 29.

- The applicable market share thresholds.

- No-challenge clauses. These were hardcore restrictions under Regulation 2659/2000 and excluded restrictions under the Technology Transfer Block Exemption. This divergence has thankfully been resolved since, under Regulation 1217/2010, no-challenge clauses are now excluded restrictions.

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

The treatment of sub-contracting in the Block Exemption and Guidelines should be clarified. First, while the Guidelines' paragraph 44 provides that they cover 'subcontracting' "whereby the licensor licenses technology to the licensee who undertakes to produce certain products on the basis thereof exclusively for the licensor", this is inexplicably not reflected in the Block Exemption. Second, if the other conditions of the Block Exemption are met, ICC believes that language should be added to the Block Exemption explicitly exempting a licence under which the licensee must supply the contract product exclusively to the licensor or to a designated third party who performs a subsequent process in the manufacturing chain on the licensor's behalf. Third, the licensor's scope to determine the transfer price of an intermediate manufacturer to a final manufacturer should be clarified. Currently it could be argued that there is more latitude for doing this under the Subcontracting Notice than under the Block Exemption as under the latter it may constitute RPM. Yet, it should be the Block Exemption that provides greater legal certainty.

ICC would welcome clarification of whether a right of reproduction and distribution of copies under a software licence qualifies as a licence for "production of contract products" and is therefore exemptible.

The concept of a field of use could be clarified. Fields of use are often indispensable to the licensor deciding to license in the first place. They should not automatically be equated to restrictions on the licensee. Please see more on this in our answer to question 10. ICC believes that Guidelines paragraph 180's statement that a "field of use must be defined objectively by reference to identified and meaningful technical characteristics of the licensed product" is too narrow; there can be other pro-competitive grounds for a field of use apart from its technical characteristics and the Guidelines should not fetter the parties' freedom in this respect.

Fields of use are a complex area and the future revised Block Exemption and Guidelines should address a variety of potential fields of use and scenarios.

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.

Please see above our answer to question 4 regarding the Block Exemption's relationship with the revised R&D Block Exemption.

Please also see our comments on patent pools in the answer to question 12 below.

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.

Trade mark licensing could fall under a revised Block Exemption but it may also often be ancillary to distribution and fall under the General Verticals Block Exemption.

In addition to software, there are other copyright works that are of a technical character that could explicitly be covered by the Block Exemption. Any rationale for always excluding non-software copyright from the Block Exemption would not be justified. Currently, however, unless they constitute know-how, such works fall outside the Block Exemption.

Likewise, databases protected by the *sui generis* database right could explicitly be covered by the Block Exemption.

Since Article 1(b) of the "enabling" Council Regulation 19/65/EEC only empowers the Commission to apply Article 101(3) by regulation to technology transfer agreements involving two undertakings, we have not considered the possibility for the Block Exemption to apply to patent pools. However, multi-party agreements have become increasingly important in certain sectors and reflect the growing complexity of some new technologies.

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.

ICC's task-force members have not been involved in litigation or investigations where the Block Exemption or Guidelines have been at the core of the litigation or investigation. Nor are we aware of relevant national cases or arbitration.

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?

ICC would prefer to see the Block Exemption retained as it provides for greater legal certainty if an agreement fulfils its conditions.

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.

Article 4(1): Hardcore restrictions between competitors

This article is complex and causes difficulty in practice.

In particular, the exceptions to Article 4(1)(c) could be read as being inherently restrictive of competition if the parties' combined market shares exceed 20%. This reading would be regrettable since, as noted above, field of use restrictions are often necessary and pro-competitive. It should be expressly provided that the listing of the provisions in Article 4(1)(c)(i) to (vii) is without prejudice to whether they are restrictive of competition at combined market shares above 20%.

The treatment of reciprocal agreements under Article 4(1)(b) and (c) is too strict. Restrictions in reciprocal agreements under which the parties are still allowed use their own technology should be excluded restrictions under Article 5.

Article 4(2): Hardcore restrictions between non-competitors

ICC believes that agreements between entities that are neither actual nor potential competitors rarely restrict competition. Moreover, almost any anti-competitive effects of such agreements will fall under Article 102. The concept of hardcore restrictions in agreements between non-competitors who must both have market shares below 30% is thus overly restrictive – see more on this market share threshold issue below under question 11.

In particular, the treatment of passive sales is unsatisfactory. The two-year time limit in Article 4(2)(b)(ii) seems arbitrary and illogical when under Article 4(2)(b)(i) the licensor can protect its territory and customers from passive sales for an unlimited period.

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?

As with any other instance in which market shares are used in competition law, there can be inherent difficulties such as obtaining accurate market data. This is exacerbated here as technology markets are often difficult to define and analyse. In addition, referring to backward looking and static market shares can be particularly inappropriate on dynamic technology markets; for this reason, the Guidelines' reference to "four or more independently controlled technologies" is a helpful complement to the market share thresholds albeit in some situations one could argue that requiring at least four other independent technologies is too demanding so this figure might be lowered.

Market definition is often complex in technology transfer agreements. This is especially so where the agreement may lead to "new markets". ICC would welcome the inclusion of some illustrative examples on this in the Guidelines.

The majority of ICC members would favour abolishing the market share threshold for agreements between non-competitors. As noted above, these agreements rarely restrict competition and are normally pro-competitive. The rare examples of agreements between non-competitors that restrict competition will already be caught by Article 102.

If the Commission does not favour abolishing this market share threshold, at the very least, it should raise it to 40%. This would ensure that a greater number of agreements between non-competitors benefit from the Block Exemption's safe harbour.

Also on the subject of market shares, Article 8(2)'s disapplication of the Block Exemption after two years following the year in which the relevant market share threshold was first exceeded may be too strict. A longer period could be more appropriate. In addition, Article 8(2) would suggest that the

Block Exemption is disapplied even if the relevant market share subsequently falls below the applicable threshold. ICC would recommend changing this.

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.

Overall the study is thought-provoking and a good review of economic analysis. Given, however, its lack of empirical analysis, ICC would caution against relying on this study as a reason to amend the Block Exemption or Guidelines.

On cross-licensing ICC would submit that the study overstates the potential restrictive effect of what is normally a pro-competitive practice. In particular, the study does not refer to a sufficient body of real world examples illustrating these allegedly restrictive effects. The Guidelines already recognise that Article 101(1) can apply "where competitors cross license and impose running royalties that are clearly disproportionate compared to the market value of the licence and where such royalties have a significant impact on market prices" (paragraph 158) and if agreements with reciprocal running royalties are "devoid of any pro-competitive purpose" or a "sham" (paragraph 80). ICC thinks that the Guidelines strike the correct balance here and would not recommend going beyond this.

ICC would also question the study's contrast between the treatment of R&D agreements and cross-licences. The study considers that under the Horizontal Guidelines research joint ventures "tend to *decrease* the firm's incentives to innovate unless they involve significant complementarities in (physical, human or financial) inputs". Our view is that the Horizontal Guidelines are more liberal than this. Some R&D agreements do not even fall under Article 101(1).

The study makes some interesting points on patent pools. In particular, given the pro-competitive effects of patent pools in reducing transaction costs and clearing patent thickets, ICC supports the questioning of the received wisdom that the inclusion of non-essential and substitute technologies is necessarily anti-competitive. The study correctly considers that the current approach to non-essential technologies is "not supported by the more recent economic literature" (pages 4 and 98). While the Guidelines allude to the possibility of pro-competitive reasons for including non-essential technologies in a pool (paragraphs 149 and 222(a)), these reasons should be developed. For example, the study mentions the need "to achieve a greater degree of legal certainty" (page 4). Additionally, it can often be a disproportionate burden for a pool to analyse painstakingly whether technologies are essential, non-essential, complementary, or substitutes. Even assuming that these distinctions are clear-cut, which they often are not, the administrative burden of analysing every technology may vastly outweigh any "disadvantages" of including some non-essential or substitute patents in the pool. These alleged disadvantages are often presumed rather than questioned. For example, paragraph 217 of the Guidelines is premised on the assumption that excluding non-essential technologies will necessarily lead to lower royalties. This, however, does not always have to be the case – see the United States Court of Appeals, Federal Circuit judgment in *Philips v ITC*.[2]

On grant-backs, as on cross-licensing, ICC questions whether the study is not overstating the potential for anti-competitive restrictions. ICC is not aware of recent disputes relating to grant-backs in the EU Member States or indeed in the United States. The current system, which exempts grant-backs other than exclusive grant backs to severable improvements/new applications, which are excluded restrictions, seems to work well. Absent more empirical evidence of a compelling need for reform, ICC would not support changing it (apart perhaps from specifying that a grant-back to non-severable improvements should only be exclusive while the licensed patent is still valid; after its expiry the grant-back should be non-exclusive). Again, as for cross-licences, ICC would not necessarily agree that there is such a clear contrast between the treatment of grant-backs versus the treatment of research joint ventures under the Horizontal Guidelines. (In any case, the Study seems particularly concerned

[2] US Philips Corporation v International Trade Commission, 424 F.3d 1179.

with research joint ventures "involving undertakings of significant size", which, assuming this refers to their market shares, would mean that the Block Exemption is inapplicable and that the conditions of Article 101(3), including proof of efficiencies, would have to be fulfilled).

Finally, while the discussion on pass through clauses is interesting, ICC would not address this subject in the Guidelines until more is known about it.

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

As noted in several places above, ICC would like to see more examples in the Guidelines. The revised Horizontal Guidelines contain numerous examples that are very useful for companies that have to self-assess their compliance with Article 101. The Technology Transfer Guidelines should provide examples on how to apply the Block Exemption and examples of when agreements are not covered by the Block Exemption.

This is a complex area and companies can find it difficult to carry out the necessary self-assessment of their agreements' compatibility with Article 101. ICC would like DG COMP in appropriate circumstances to be more open to providing informal individual guidance to companies. While the publication of guidelines is of considerable assistance to companies, activation of the possibility to provide guidance on novel questions in individual cases would also be very helpful.

The International Chamber of Commerce (ICC)

ICC is the world business organization, a representative body that speaks with authority on behalf of enterprises from all sectors in every part of the world.

The fundamental mission of ICC is to promote trade and investment across frontiers and help business corporations meet the challenges and opportunities of globalization. Its conviction that trade is a powerful force for peace and prosperity dates from the organization's origins early in the last century. The small group of far-sighted business leaders who founded ICC called themselves "the merchants of peace".

ICC has three main activities: rules-setting, dispute resolution and policy. Because its member companies and associations are themselves engaged in international business, ICC has unrivalled authority in making rules that govern the conduct of business across borders. Although these rules are voluntary, they are observed in countless thousands of transactions every day and have become part of the fabric of international trade.

ICC also provides essential services, foremost among them ICC International Court of Arbitration, the world's leading arbitral institution. Another service is the World Chambers Federation, ICC's worldwide network of chambers of commerce, fostering interaction and exchange of chamber best practice.

Business leaders and experts drawn from ICC membership establish the business stance on broad issues of trade and investment policy as well as on vital technical and sectoral subjects. These include financial services, information technologies, telecommunications, marketing ethics, the environment, transportation, competition law and intellectual property, among others.

ICC enjoys a close working relationship with the United Nations and other intergovernmental organizations, including the World Trade Organization, the G20 and the G8.

ICC was founded in 1919. Today it groups hundreds of thousands of member companies and associations from over 120 countries. National committees work with their members to address the concerns of business in their countries and convey to their governments the business views formulated by ICC.
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International Chamber of Commerce
The world business organization
Policy and Business Practices
38 Cours Albert 1er, 75008 Paris, France
Tel +33 (0)1 49 53 28 28 Fax +33 (0)1 49 53 28 59
E-mail icc@iccwbo.org Website www.iccwbo.org