



## ICC's comments on DG COMP's Draft proposal for a revised block exemption for technology transfer agreements and for revised guidelines<sup>1</sup>

ICC supports a competition policy that fosters innovation and robust intellectual property protection and appreciates the opportunity to respond to the Commission's draft revised block exemption regulation on the application of Article 101 TFEU (Treaty on the Functioning of the European Union) to technology transfer agreements (the "draft Block Exemption") and the Commission's proposal for revised Guidelines (the "draft Guidelines").

ICC replied to the Commission's questionnaire on technology transfer agreements in February 2012 (the "February 2012 Comments"). These comments refer to ICC's earlier comments in so far as relevant. ICC has a number of concerns and suggestions on the draft documents.

As a preliminary point, in comparison with other forms of cooperation that are subject to EU block exemption regulations, technology transfer agreements are by definition less likely to restrict competition. They provide for the use of technology by other market participants where the owner could also keep the usage rights to itself. In light of their pro-competitive purposes, technology transfer agreements should therefore receive the least restrictive treatment under the applicable block exemption regulation.

### ***Which block exemption, if any, is applicable?***

ICC welcomes the Commission's proposed clarification concerning the relationship between the draft Block Exemption and the R&D and specialization block exemptions. As ICC highlighted in its February 2012 Comments, currently there is sometimes significant confusion over which, if any, block exemption is applicable. ICC notes that, under Article 9 and Recital 7 of the draft Block Exemption and paragraphs 46 and 58 *et seq.* of the draft Guidelines, the R&D block exemption or the specialization block exemption will apply if either of these block exemptions is applicable to the "subject matter" of the license. ICC also notes that if the licensee carries out "further research and development" leading to the production of contract products, the draft Block Exemption may also be applicable (Recital 7).

<sup>1</sup> These comments were prepared by the members of the ICC Task Force on Technology Transfer: Jacques Bourgeois (WilmerHale) (Chairman), José Gabriel Assis de Almeida (J.G. Assis de Almeida & Associados), Jacques Beglinger (SwissHoldings), Fabio Bortolotti (Buffa, Bortolotti & Mathis), Peter Chrocziel (Freshfields Bruckhaus Deringer LLP), Mark Clough QC (Brodies LLP), Gerard Hartsink (ABN AMRO Bank NV), Alan Hoffman (Alcatel-Lucent), Christoph Liebscher (Wolf Theiss), Elisabeth Logeais (Licensing Executives Society International), Dorien Noordeloos (Syngenta), Matthias Nordmann (Norton Rose LLP), Cormac O'Daly (WilmerHale), Raymundo Perez (Von Wobeser & Sierra), Peter Potgieser (Royal Bank of Scotland N.V.), Thierry Sueur (Air Liquide), Peter Vandeghinste (Nestlé), Dánice Vazquez d'Alvaré (Bufete Lex, SA), Mickael Viglino (J.G. Assis de Almeida & Associados). The comments have also been approved by the ICC Commission on Intellectual Property.

ICC also notes that Article 1(c) of the draft Block Exemption clarifies that it is applicable if raw material and equipment purchase provisions in license agreements are “directly and exclusively related to the production of the contract products”, seemingly regardless of the value of these purchases.

At the same time, various questions remain about the applicable legal framework, particularly in “mixed” or “hybrid” cases where licenses are granted simultaneously in connection with e.g. R&D, production and distribution. First, in respect of Article 1(c) of the draft Block Exemption the use of trademarks will generally not only be “directly and *exclusively* related to the production of the contract products”. Instead, such use will often be granted also in connection with the marketing/distribution of contract products. The practical use of Article 1(c) of the draft Block Exemption therefore risks being rather limited. Second, ICC would recommend adapting the wording of the examples in paragraphs 51 and 52 of the draft Guidelines (and possibly other examples as applicable) to provide more legal certainty for “mixed” scenarios in which it may be difficult in practice to determine one precise “subject matter” of the license.

### ***Definition of “technology”***

ICC would like to recommend once again that the definition of technology should be expanded. As explained in the February 2012 Comments, there is no plausible rationale for the exclusion of non-software copyright. The distinction between software and other copyright works that are of a technical character is arbitrary and has nothing to do with the innovative character of the work in question. Hence, the reference to “software copyright” in Article 1(b) of the draft Block Exemption should be replaced by “any copyrighted technical work”.

### ***Market shares***

ICC generally believes that agreements between entities that are neither actual nor potential competitors rarely restrict competition (and if they do, this conduct would likely be caught by Article 102 TFEU). The majority of ICC members would therefore still favour abolishing the market share threshold for agreements between non-competitors.

In particular, ICC regards the 20% market share threshold that Article 3(2) of the draft Block Exemption introduces for agreements between non-competitors when the licensee owns a substitutable in-house technology but does not license this out, as a needless tightening of the rules compared to the current Regulation.

Furthermore, ICC questions how easy it will be to apply this new market threshold in practice. Market definition is often an extremely complex task in technology transfer agreements. As with any other instance in which market shares are used in competition law, there can be difficulties such as obtaining accurate market data. This is exacerbated here as technology markets are often difficult to define and analyse. ICC regrets that the draft Guidelines do not contain illustrative examples of how to define relevant markets.

Likewise, ICC questions the need to apply the 20% market share threshold to agreements entered into by non-competitors who subsequently become competitors (Draft Guidelines paragraph 75). The approach seems inconsistent with the Commission's policy of applying the non-competitor list of hard-core restrictions in such situations. The draft Guidelines' proposal adds a further complex requirement that parties permanently monitor market conditions. It undermines the benefits of legal certainty and practicability that the draft Block Exemption otherwise intends to provide.

ICC regrets that the draft Guidelines safe harbour (paragraph 144) of four independent technologies has not been reduced to a lower number.

### ***Limits on ability to restrict passive sales***

The proposed general treatment of passive sales limitations as hard-core restrictions as a consequence of the removal of the current Article 4(2)(b)(ii) is unwelcome. The intended harmonization with the rules in block exemption Regulation 330/2010 on vertical agreements fails to recognise the differences between distribution and licensing agreements and that the interests of licensors call for the additional protection currently available under the technology transfer block exemption. The corresponding paragraph 116 of the draft Guidelines does not adequately counterweigh the loss of ICC members' contractual freedom since the reference to an objective necessity for limits on passive sales is bound to make the exception very difficult to invoke. Overall ICC believes that this change risks hampering pro-competitive licensing and undermining the technology dissemination rationale of licensing agreements.

### ***Grant-back clauses***

ICC regrets the proposed shift to individual analysis under Article 101 TFEU of all exclusive grant-back provisions introduced by draft Article 5(1)(a). As ICC noted in the February 2012 Comments, the current system of treating exclusive grant-backs to severable improvements as excluded restrictions and all other grant-backs as exempt seems to work well. Again, as highlighted in those comments, ICC is not aware of any empirical evidence of the current system not working well. ICC questions the anticompetitive presumption the Commission seems to have adopted here especially since a licensor can normally already use intellectual property law to restrict a licensee from using any non-severable improvements.

### ***No-challenge provisions***

ICC is somewhat surprised by the proposals regarding no-challenge clauses. Draft Article 5(1)(b) would require that both no-challenge and termination clauses need to be analysed individually for compliance with Article 101 TFEU rather than the latter being exempt. ICC would like to emphasise its support for the Commission's aim of identifying invalid intellectual property rights. However, the proposed change appears to go too far and ICC fears that licensees would try to capitalise on the change by trying to renegotiate license terms under the pretext of challenging validity. Ever since the entry into force of Regulation No 2349/84, exemption of a licensor's right to terminate a license agreement if its intellectual property is

challenged by the licensee has formed an integral part of the Commission's policy in this area. During the course of almost 30 years now, ICC has not become aware of any actual anticompetitive effects resulting from termination provisions and the Commission's proposal does not provide any examples of this. The current regime strikes a good balance between the parties' rights and, ICC submits, upholds the Commission's aim of eliminating unwarranted intellectual property protection.

### ***Pay-for-delay and settlement agreements***

ICC notes the reference in the draft Guidelines paragraph 223 to the potential need for antitrust scrutiny when disputes are settled on terms that seemingly would not normally have been accepted "based on the merits of the licensor's technology". ICC would caution against the Commission, or any other competition authority, assessing the validity and strength of an intellectual property right. This is a complicated assessment that competition authorities are generally not well placed to carry out. Rather, this is a task best carried out by national courts.

### ***Patent pools***

Given the pro-competitive effects of patent pools in reducing transaction costs and clearing patent thickets, ICC, as stated in the February 2012 Comments, supports the questioning, in draft paragraph 247, of the received wisdom that the inclusion of non-essential technologies is necessarily anti-competitive. In light of the sometimes enormous administrative burden required to assess whether technologies are essential, the acknowledgement of the pro-competitive effects of mixed pools in certain situations is appropriate.

ICC questions the proposed change from "fair and non-discriminatory" to "FRAND" in the first sentence of paragraph 252 of the draft Guidelines. Royalty and other terms must be FRAND if the technology in the pool is essential. If, however, the technology in question is non-essential, the current wording, which requires that "royalties and other licensing terms should be fair and non-discriminatory", is more appropriate.

### ***Other comments***

ICC's February 2012 Comments raised two other issues that we would recommend be further considered by the Commission.

First, while ICC welcomes draft paragraph 45's additional language regarding the scope to determine the transfer price of an intermediate contract product between sub-contractors, the treatment of sub-contracting should be further clarified. While the draft Guidelines' paragraph 45 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 still is not expressly reflected in the draft Block Exemption. If the other conditions of the Block Exemption are met, ICC also believes that language should be added to the Block Exemption explicitly exempting a license 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.

Second, the concept of a field of use in paragraph 194 of the draft Guidelines still refers to the need for a field of use to be "defined objectively by reference to identified and meaningful technical characteristics of the licensed product". This is too narrow since there can be other pro-competitive grounds for a field of use apart from its technical characteristics. ICC would recall its earlier comments that fields of use are often indispensable to pro-competitive licensing in the first place and they should not be automatically equated to restrictions on the licensee.