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European Commission
DG Competition
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Ref: HT.2742 – stakeholder input

Dear Sirs

Re: Review of the regime for the assessment of technology transfer agreements

The City of London Law Society ("CLLS") represents approximately 14,000 City lawyers through individual and corporate membership including some of the largest international law firms in the world. These law firms advise a variety of clients from multinational companies and financial institutions to Government departments, often in relation to complex, multi-jurisdictional legal issues.

The CLLS responds to a variety of consultations on issues of importance to its members through its 18 specialist committees. This response in respect of the regime for the assessment of technology transfer agreements has been prepared jointly by the CLLS Intellectual Property Law Committee and the Competition Law Committee.

The CLLS is registered on the European Commission's Transparency Register, and its registration number is **24418535037-82**.

I am particularly grateful to Robert Bell (Speechly Bircham), Howard Cartlidge (Olswang) and Philip Wareham (Hill Dickinson) for putting this paper together with me on behalf of the joint Committees.

Yours faithfully

Joel Smith
Chairman, Intellectual Property Law Committee
City of London Law Society

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Joint Response of the Intellectual Property Law Committee and Competition Law Committee to the European Commission review of the current regime for the assessment of technology transfer agreements

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The CLLS is pleased to have the opportunity to comment on this consultation about the Technology Transfer Block Exemption Regulation (**"TTBER"**).

The CLLS would like to thank the Intellectual Property Lawyers' Association (**"IPLA"**) for their work and acknowledges having had the benefit of reviewing a copy of the Response of the IPLA.

General approach

The CLLS supports the introduction of a new block exemption regulation (**"Regulation"**) for technology transfer (**"TT"**) agreements when the TTBER expires in 2014.

In our view:

(a) **Greater recognition of pro-competitive effects or "no effect".** The Commission should acknowledge and give greater recognition to the pro-competitive or benign competitive effects of most bilateral exclusive licensing and other TT agreements. Ideally, this would be done by recognising that as a general rule such agreements are not caught by Art 101(1), but we recognise that this is not consistent with the Commission's position over many years. If that approach is not possible, our view is that there should be greater recognition of the pro-competitive benefits of TT agreements when it comes to assessment under Art 101(3). Specifically, many of the terms that are encountered in practice in TT agreements should be treated as prima facie acceptable under Art 101(3) unless a clear competition problem can be demonstrated. Examples of such terms include grant-back, no-challenge and most types of non-compete clauses. This prima facie assumption should be articulated in both the European Commission's guidelines for TT and in the Regulation. More examples could be given in the guidelines of arrangements which would not raise any concern for the Commission.

(b) **New regulation required.** Having a well-drafted regulation is extremely useful and provides a level of legal certainty for businesses that no set of guidelines (with all of their caveats and qualifications) can provide. Business executives want to know, in simple terms, whether they are allowed to include certain terms in their TT agreements. Undertakings want to be able to apply a clear checklist and achieve certainty or at least comfort that the arrangement does not violate antitrust law, when negotiating and drafting technology transfer arrangements, particularly as these are often concluded under time pressure and without access to full legal advice. The risk of anti-competitive agreements "slipping through the net" is relatively low in the case of bilateral agreements even where there could be an argument that the two parties are competitors; in general only multi-party arrangements may raise serious competition concerns and should require a more detailed legal and economic analysis.

(c) **New regulation should give increased clearance based on simple criteria.** Businesses tend to find the TTBER requirements inherently difficult and expensive to assess in TT agreements, and particularly difficult when they must be assessed by reference to "technology markets". Business people generally understand product markets but do not understand technology markets. The general approach of any new regulation should be to provide a clear "safe harbour" for most TT agreements that are encountered in practice, based on criteria that can be readily applied by any commercial lawyer or business executive, without the need to consult an economist. The CLLS nevertheless appreciates that it is difficult to avoid criteria based on market shares, as a proxy for a fuller economic analysis and expect the parties as a minimum to identify whether there are competitors in any market and their respective market shares. However, technology markets are a theoretical and sometimes impractical concept and the TTBER would be more business-friendly if this was not part of the assessment as to whether the safe harbour is available. We also accept the need for the TTBER to be limited to bilateral agreements and to leave parties to assess their multiparty agreements by reference to guidelines. In order for the existing guidelines to be easier for small and medium sized enterprises (SMEs) to use, we suggest that the Commission could consider having separate Guidelines for bilateral and multilateral agreements and possibly incorporating the latter into the Horizontal Guidelines.

We respond to the questions as set out below for ease of reference:

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

As mentioned above, The City of London Law Society (**"CLLS"**) represents approximately 14,000 lawyers in the City of London through individual and corporate membership including some of the largest international law firms in the world. These law firms advise a variety of clients, from large multi-nationals to individual inventors and from investors to universities and public bodies. To many, technology has a critical role in their business or activities (whether IT, telecom, media, pharmaceutical, automotive, financial services, education, consumer or retail businesses to name just a few). Our members advise both licensors and licensees in technology transfer arrangements. We are therefore well-placed to comment on the operation of the current regime and its application of EU antitrust rules to the assessment of technology transfer agreements.

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?**

A system for giving undertakings clarity on the application of Art 101 TFEU to technology transfer agreements is to be welcomed in order to promote technology transfer and to facilitate sharing of technology as a way to boost further innovation. The structure of the current system is overly complex and does not provide certainty for undertakings.

The Guidelines provide a fairly useful summary of the Commission's criteria for assessment. The TTBER is moderately useful on the acceptability of certain terms, but undoubtedly the requirement to apply market share tests makes the Regulation more complex to apply than its predecessor, which provided a defined list of "hardcore restrictions" to be avoided and a definite "safe harbour". This is principally because of the shift away from a set of "black and white" rules to a more economic-based approach. This largely defeats the purpose of a regulation designed to provide business with legal certainty.

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 current regime provides a system which overall restricts the commercial freedom to transfer technology or licence technology between undertakings within the EU. It is a seen overall as a "brake" on businesses' ability to innovate through collaboration with partners. This in turn leads to a potential disparity with the way other systems operate globally, where other undertakings may be subject to more liberal regimes or at least clearer guidance on the application of antitrust or competition law regimes. The EU regime should be championing business within the EU and seen as encouraging innovation, through technology transfer or licensing between undertakings within the EU, within certain constraints.

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.

See the Response to Question 11 on market share.

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

See response 4 above. In any event, the drafting could be simplified, to avoid multiple carve-outs or exceptions to prohibitions, such as the drafting of the hardcore restrictions under Art 4 TTBER on allocation of markets or customers "except......(i) to (vii)".

Undertakings want to be able to apply a clear checklist and achieve certainty or at least comfort that the arrangement does not violate antitrust law, when negotiating and drafting technology transfer arrangements, particularly as these are often concluded under time pressure and without access to full legal advice.

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.

   It is unclear whether the TTBER or Guidelines take appropriate account of the degree to which most arrangements are cross-border and often involve parties outside the EU or one party outside the EU, with performance possibly outside the EU completely or only part-performance within the EU. The place of performance may be complicated, if the technology transfer is a bare legal licence of a patent, know-how or software copyright, so does not involve the licensor providing any physical material to the licensee or even any services within the EU. The stricter EU regime is still seen by clients as an obstacle for multinational businesses.

   This is an inevitable consequence of the global economy, and part of a trend that pre-dated 2004. If anything, the difficult economic conditions in Europe and globally make it even more imperative to liberalise the regime so as to increase the competitiveness of EU R&D and manufacturing.

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.

   It is unclear if there is any real justification for inclusion in the Regulation of other agreements licensing intellectual property or commercial agreements where the licence of intellectual property is a component (unless perhaps there is also associated technology being licensed).

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.

   No. We are not aware of any cases in the UK.

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?

   A block exemption is helpful if it achieves its purpose to promote certainty and thereby facilitate technology transfer within the EU.

10. Do you have any particular **comments on the list of hardcore restrictions** in Art 4 and/or the **list of excluded restrictions** in Art 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.

    CLLS believes that the restrictions in Art 4 and 5 should be liberalised (and certainly not added to).

    (i) *Excluded restrictions.* We note that certain restrictions (e.g. on assignment back) were moved to the list of excluded restrictions in Art 5, whereas in the predecessor to the TTBER they had been black-listed in Art 3. In our view, the Commission should take this one stage further by removing the list of excluded restrictions altogether and recognising that these restrictions do not cause competition problems.

    We suspect that the Commission's original suspicion of grant-back clauses may have been based partly on an older model of large licensors licensing small licensees, whereas in our experience most licensees are larger than licensors and perfectly capable of looking after their own interests at a commercial level.

    (ii) *Allocating markets and customers.* The Commission treats "allocation of markets or customers" as a hardcore restriction (both in the TTBER and in other Commission materials, e.g. the Notice on Agreements of Minor Importance). While this is understandable in some types of commercial relationship, in our view this approach is flawed when it comes to IP licensing. There is nothing inherently anti-competitive about granting rights to commercialise IP in different technical fields, territories, markets or customers. Each method is just another way of realising value from the IP, and is entirely normal and uncontroversial at a commercial level. Such dividing-up is a key feature of the exercise of IP rights. The Commission recognises that licensing in different fields and territories is acceptable, and it should do the same for licensing in different markets or with different customers. It should make no difference to the competition law analysis whether the licensee is granted rights in a technical field or for a particular customer set.

    One of the most difficult features of the regulation for businesses to apply is the long list of exceptions to the prohibition on carving up markets or customers under Art 4(1)(c), and the similar list in Art 4(2)(b). These are, in effect, double-negatives – exceptions to prohibitions, which by implication are acceptable. It would improve the clarity of the document, and the underlying legal position, and simplify the analysis of the safe harbour, if Art 4(1)(c) were deleted in its entirety, or the categories of prohibited clause were narrowed to some specific types of allocation of markets or customers.

Similarly, we suggest that the Commission should consider extending any such clarification of "allocation of markets or customers" in the case of IP licensing, to Art 11 of the Notice on Agreements of Minor Importance.

(iii) *Developing competing products.* The guidelines and regulation should state that it is permissible for a licensor to require an exclusive licensee not to commercialise products that compete with the licensed products.

It is clear from the guidelines and the current regulation that the Commission is more concerned about licensing between competitors than between non-competitors. However, the current approach of the Commission does not support the licensor who wishes to ensure that his licensee will not become a competitor (because this will increase the risk that the licensed product is not effectively commercialised). At a commercial level a restriction on competing is entirely sensible for a licensor who wants to ensure that the licensed technology is commercialised, and this should be viewed as pro-competitive. However, there is a business risk that it would be prohibited under Art 101, as the Commission generally regards restrictions on competition as unacceptable. This is indicated, for example, in Art 5(2) of the current regulation, which excludes from the block exemption a restriction on a licensee developing its own, competing products. In our view, Art 5(2) should not automatically exclude restrictions on a licensee competing, and the guidelines should mention the potentially pro-competitive benefits of such a restriction. Generally, the guidelines should not raise doubts about the legality of contract terms that are aligned with the conventional, commercial expectations of business people. In our view, a restriction on a licensee commercialising competing products falls into this category. Further, or at the least, the drafting of Art 5(2) of the TTBER should be clarified (in a similar way to Art 5(1)(c)) such that the provisions are without prejudice to permitting the right of a licensor to terminate the TT agreement in circumstances where the licensee begins to commercialise a competing product or technology to that the subject of the TT agreement (whether it develops that competing product or technology in its own right or licenses in that technology from another third party). Clearly, there is no legitimate justification for continuing a technology licence with a party, where the rationale for that commercial relationship has been undermined fundamentally.

(iv) *Charging royalties on unprotected products.* There are many situations in which a licensed product is used in combination with other products or services that are supplied by the licensee or the licensed product is incorporated into a larger product. It may be commercially sensible and convenient to base royalties on the sale price of the other products. Usually there is no anti-competitive intent behind such an arrangement, but it is an issue on which the parties' legal advisers may have to think carefully about the competition law implications, not least because of the comment in paragraph 81 of the guidelines that: "The hardcore restriction contained in Art 4(1)(a) also covers agreements whereby royalties are calculated on the basis of all product sales irrespective of whether the licensed technology is being used." The Commission should accept that royalties on combination products are not anti-competitive.

11. Have you encountered practical difficulties in **calculating the relevant market shares** for the purpose of applying the Block Exemption Regulation (c.f. Art 3(3))? If so, how could this situation be improved?

This is the single biggest issue, as assessing the relevant market and market share is often difficult, complex, time-consuming and therefore expensive, but even after completing such an assessment the parties may have little certainty as to how the Commission might be expected to approach the same facts.

The critical problem is the vagueness of defining the relevant market for the purpose of applying the market share tests. By its very nature, it is a relative concept, open to differing views. Defining an applicable market may mean very different things to those operating in a business at the sharp end and those applying an economic analysis from an academic or regulatory perspective. The typical antitrust analysis can involve an economic analysis calling for a wealth of commercial information, market data and often detailed reports from economists or analysts. It calls for detailed advice from lawyers. All of this is potentially expensive, time-consuming and ultimately may not take matters further forward to achieving certainty. For small to medium enterprises, the cost is prohibitive and this can only lead to a chilling effect upon the willingness of these businesses to consider technology transfer in certain situations, where the risk of regulatory scrutiny is too great or frankly the downside of getting it wrong is perceived as just too great.

We suggest that the Commission considers:

(1) whether the market share test remains essential in all cases;

(2) whether the market share thresholds should be raised for both competing and non-competing undertakings, to give parties greater comfort from headroom;

(3) whether, even if it does, for licence agreements between small or medium-sized undertakings, the default should be simply that these are accepted as being for the benefit of promoting innovation and within the TTBER safe harbour, unless the technology transfer arrangement contains a listed "black-listed" or "hardcore" restriction;

(4) whether the default should also be that a small or medium-sized undertaking falls within the TTBER safe harbour, even if it has developed a new, market-leading technology in which it may be seen as dominant, again provided the technology transfer arrangement contains no listed "black-listed" or "hardcore" restrictions;

(5) whether there should be a more lenient regime for technology reaching the end of its economic life, where it is about to come off-patent and become public domain; and

(6) if market share criteria are retained, more guidance on how to calculate market-share is to be welcomed, together with practical examples in the guidelines. Perhaps, there may be scope for the Commission to provide a quick view system to verify a party's understanding on a set of facts.

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.

We are unable to comment on this, which relates to very specific issues. We would observe that there is very little evidence in practice that grant back clauses in licences cause any real impact on the economy. Much of the analysis seems very hypothetical.

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

Guidance should be given to the types of arrangements which the Commission will consider so serious a breach of Art 101 as to warrant the prospect of enforcement action being taken. Again, this will guide business to when it is necessary to undertake full economic and legal analysis in relation to what otherwise may be a routine licence agreement being concluded. The Commission could provide a document setting out its enforcement priority in relation to technology arrangements that fall foul of Art 101 TFEU.

CLLS would welcome the opportunity to comment on any detailed proposals, once published by the Commission and would ask to be consulted.

3 February 2012