AmCham EU's response to the consultation on the review of the current regime for the assessment of technology transfer agreements

CONSULTATION RESPONSE

American Chamber of Commerce to the European Union
Avenue des Arts/Kunstlaan 53, 1000 Brussels, Belgium
Telephone 32-2-513 68 92 Fax 32-2-513 79 28
Register ID: 5265780509-97
Email:info@amchameu.eu

Secretariat Point of Contact: Carl Diesterweg (E: carl.diesterweg@amchameu.eu ; T +32-2-289 10 32)

3 February 2012

Background and Analysis

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

AmCham EU's membership comprises a diverse group of companies active in all sectors of the European economy. Our members are both licensors and licensees of technology.

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?*

The Block Exemption Regulation and the Guidelines have provided a reasonable degree of legal certainty and useful guidance to companies, and were a considerable improvement over the pre-2004 regime. AmCham EU welcomes the Commission's review as an opportunity to improve the system, in particular by taking into account both the evolution of technology and licensing practices and the decentralization of antitrust enforcement brought about by Regulation 1/2003.

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?*

On balance, the Block Exemption Regulation and Guidelines have had a positive impact on AmCham EU's members to the extent that they provide for a greater degree of legal certainty and flexibility than existed prior to 2004, although the impact on our members' businesses should not be overstated.

We would be very concerned if both the Block Exemption Regulation and the Guidelines were to be repealed without any replacement. Technology transfer agreements are vitally important to the development of a competitive European economy. The interaction between intellectual property law and competition rules is inevitably complex. Particularly in the post-Modernisation landscape of European competition enforcement, coherent guidance on the application of the competition rules to licensing agreements is essential to ensure that Member State courts and competition authorities treat such agreements consistently across the European Economic Area.

4. *Please report* ***any problems raised by the application*** *of the Block Exemption Regulation and/or the Guidelines. Please indicate also the*

CONSULTATION RESPONSE

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.

Please see the discussion below.

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

Section II of the Guidelines (regarding General principles) sets out two tests in order to assess whether a licence agreement restricts competition (and thus it is caught by the article 101 (1) prohibition). The first test is whether a license agreement restricts actual or potential competition that would have existed without the contemplated agreement. This test rightly focuses on the effects of the actual agreement in the market. The second test asks whether the agreement restricts actual or potential competition that would have existed in the absence of the contractual restraint. We believe that this second test is ambiguous and has the potential to hinder licensing agreements that enhance competition.

First, as regards the second test, the 'but-for' approach in the context of a licensing agreement puts the regulator in the position of having to speculate about whether or not the parties would have entered into an agreement that could have been potentially even more pro-competitive. It is generally accepted that the object of competition policy should be to prevent private parties from erecting artificial barriers to competition, thereby preventing the market as a whole from achieving socially optimal outcomes. Instead, this approach appears to oblige parties to pursue socially-optimal outcomes over their own commercial interests. This approach reduces legal certainty and can discourage companies from entering into some pro-competitive license agreements.

Second, we are concerned that throughout the Block Exemption and Guidelines, there is significant confusion about what constitutes a 'restriction'. In particular, we believe that the concepts of 'field of use', 'customer limitations' and 'territorial limitations' in both the Guidelines and the Block Exemption Regulation would benefit from clarification.

For example, although paragraph 182 of the Guidelines recognises that field of use limitations 'may have pro-competitive effects', they treat such clauses as potential restrictions of competition. Such an approach is inconsistent with the recognition of the intellectual property rights that are the subject of the license. Field of use, customer and territorial limitations are among the most critical license terms because they allow licensors to avoid having to choose between licensing their entire intellectual property right and nothing at all. They describe the extent to which the licensee is permitted to engage in an activity in which it otherwise would have no legal right to engage. Rather than restrict the licensee's commercial freedom, such provisions increase it.

Paragraph 180 states that a 'field of use must be defined objectively by reference to identified and meaningful technical characteristics of the licensed product'. We believe that this prescription is unnecessarily restrictive. Limiting fields of use to subject matters that are distinguished by technical characteristics may place within the 'hardcore' classification types of field of use license grants that do not threaten competition. This, in turn, may have the unintended effect of discouraging pro-competitive licensing in circumstances where a licensor is willing to grant a license only within a field that cannot be precisely described by technical characteristics of the licensed product. The Regulation and Guidelines should state clearly that non-technical fields of use that are narrower than a product market do not constitute hardcore restraints.

Moreover, as discussed below in response to Question 10, by treating field of use and similar limitations as exceptions to the general prohibition against agreements that have the object of allocating markets, the Block Exemption Regulation appears to take the position that such clauses have the object of restricting competition, and thus presumptively infringe Art. 101(1). This frequently leads companies to the mistaken conclusion that licensing agreements, which often contain such previsions, are presumptively illegal if they fall outside the safe harbour of the Block Exemption Regulation.

Treating scope limitations as restrictions by object that require exemption under Art. 101(3) TFEU is inconsistent with the jurisprudence of the Court of Justice, which makes a clear distinction between restrictions by object and restrictions by effect. As the Court recently explained in Case C-209/07 – *Competition Authority v. BIDS*, '*The distinction between "infringements by object" and "infringements by effect" arises from the fact that certain forms of collusion between undertakings can be regarded, by their very nature, as being injurious to the proper functioning of normal competition*'. In order to determine whether a clause or agreement constitutes an infringement by object, '*since the judgment in Case 56/65 LTM [1966] ECR 235 been settled case-law that the alternative nature of that requirement, indicated by the conjunction "or", leads, first, to the need to consider the precise purpose of the agreement, in the economic context in which it is to be applied*'. Case C-439/09 - *Pierre Fabre Dermo-Cosmétique SAS v. Président de l'Autorité de la concurrence*.

Understood in their legal and economic context, scope limitations are essential to the exercise of intellectual property rights and facilitate the transfer of technology. They cannot be regarded 'by their very nature, as being injurious to the proper functioning of competition'. This is not to say that licensing agreements can never have an anticompetitive object. However, in such cases, the restriction of competition arises from the overall context of the agreement, not the inclusion of a valid scope limitation. We therefore believe that the Guidelines and Block Exemption Regulation should clearly state that the exercise of an intellectual property right, like any other property right, is not inherently restrictive of competition, and that field of use and similar limitations that merely delineate the scope of the intellectual property right that is being conferred on the licensee do not constitute restrictions of competition by object.

CONSULTATION RESPONSE

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.*

We believe that the Block Exemption Regulation and Guidelines have generally held up well over the nearly eight years since they were issued. At the time of their release, the TTBER and in particular the Guidelines were seen by industry as a positive step away from 'bright-line' rules and classifications regarding the treatment of particular business conduct under EC competition law. The Commission would be well advised to continue down this path in its next revision.

In particular, we would encourage the Commission to move away from setting out bright line rules or presumptions of anti-competitive effect for practices that are not hardcore restraints. Conversely, we would encourage the Commission to consider adopting safe harbours wherever possible to make clear where particular conduct does not offend competition law. This would greatly help to limit uncertainty that can stifle incentives to innovate and technology transfer.

- Paragraph 219 of the Guidelines sets out a strong presumption that the inclusion of substitute technologies in a pool infringes article 101(1). Although under some conditions the inclusion of 'substitute' technologies in a patent pool may be used as a means to facilitate coordination, in other cases their inclusion may be neutral or even pro-competitive, depending on the specific facts and circumstances at hand, such as whether the substitute technologies included in the pool constitute such a large share of the available technologies that they create market power. There are many reasons why including substitute technologies in a patent pool may reduce transaction costs and create other pro-competitive benefits rather than restrict competition.

    - Patent pools play an important role in clearing patent thickets, which the Guidelines recognise in paragraph 214. As the Guidelines note at paragraph 218, 'the distinction between complementary and substitute technologies is not clear-cut in all cases'. Creating a strong presumption against including substitute technologies in patent pools increases legal uncertainty, making it more difficult to reach agreement on the composition of the pool, and potentially leading to the exclusion of complementary patents from the pool.

    - The evaluation of substitute patents needs to take place in the context of the overall pool of patents, not merely those patents that are substitutes for each other. A patent may be a substitute for one technology and a complement to another.

CONSULTATION RESPONSE

   - In cases where companies are contributing multiple patents to a pool, allowing the inclusion of substitute technologies may make it easier for the parties to reach agreement on the overall composition of the pool, and is unlikely to raise competition concerns in the absence of market power or where the technology in question relates to a relatively minor element of the final product.

   - Where the substitute patents must be used in conjunction with other technologies, including substitute patents in the pool can facilitate choice at the manufacturing level. For example, where consumer demand has not settled on a specific standard or technical solution, including substitute technologies in the same pool may allow manufacturers to introduce alternative versions of the same product and/or produce products that work on multiple standards.

- Cross-licensing and non-assertion of patent ('NAP') provisions are widespread and have become a commercial imperative for many companies in the technology sector. In most cases they enhance competition by mitigating potentially higher transaction costs, allowing for the most cost-effective means of effectuating technology transfers. While the Guidelines do refer to some of the pro-competitive benefits of "cross-licensing" and NAPs, the Guidelines should go further to expressly recognise the potential pro-competitive benefits of such clauses. In particular, the Guidelines should recognise the crucial pro-competitive function that cross-licensing serves in industries where numerous patent holders own relevant technology, because they enable companies to design their products without fearing infringement claims. Thus, cross-licensing generally promotes innovation and investment in R&D in these industries. Any indication in the Guidelines that such clauses may warrant intervention by the Commission should identify with maximum specificity the conduct and other circumstances where intervention would be appropriate.

- Provisions in licensing agreements requiring the licensee to grant back improvements to the licensor should similarly receive neutral treatment. Although in theory grant-back provisions reduce incentives to innovate because the subsequent innovator has to share its innovation with the original grantor, this only holds if the grantor would have the same incentive to grant the license under the same terms absent the grant-back. In other situations, grant-back provisions may create incentives to license and innovate, by allowing the licensor to recognise the full value of its license while creating the conditions necessary for the licensee to innovate in the first place.

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.

We do not believe that there is a compelling need to expand the scope of the Block Exemption Regulation or Guidelines to new categories of intellectual property agreements, such as 'pure' trademark licensing agreements. However, in the event that the Commission renews the Block Exemption Regulation, we believe that it would be appropriate to extend the scope of the exemption beyond bilateral agreements to include multi-party agreements that are generally likely to satisfy the criteria for exemption under article 101(3).

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.*

We have been unable to identify any instances in which our members were involved in litigation or competition investigations concerning the Block Exemption Regulation and/or the Guidelines.

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?*

The general view among our membership is that because licensing agreements frequently fall outside the scope of the Block Exemption regulation, the Guidelines tend to have more impact than the Block Exemption Regulation. The introduction of the direct application of article 101(3) and the abolition of the notification system has arguably removed the *raison d'être* for the Block Exemption Regulation, and some of our members would not mourn its passing if it were not renewed, because of the confusion that it creates regarding scope restrictions. Nonetheless, the Block Exemption Regulation has made important contributions to legal certainty, and there would continue to be significant benefits to having some sort of Block Exemption Regulation, in particular the assurance of minimum enforcement standards throughout the EEA through the application of legal safe harbours that bind Member State courts and competition authorities.

The reasons set out above in relation to the more significant impact of the Guidelines vis-à-vis the Regulation makes it all the more important that the Guidelines: (i) make perfectly clear that any exception to a hardcore restriction listed in the Regulation is not presumed to raise competition concerns; (ii) state that limitations in the license that merely delineate the scope of the intellectual property right transferred by the IP owner are not restrictions of competition by object; (iii) identify clearly the conduct and circumstances where intervention from the European Commission is

CONSULTATION RESPONSE

warranted; and (iv) set out clearly the countervailing efficiencies that may justify practices that in principle may raise competition concerns.

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.*

We believe that the treatment of hardcore restrictions could be improved in a number of respects.

- The discussion of hardcore restrictions should be limited to technology transfer agreements between competitors.
    - Technology transfer agreements between non-competitors rarely raise competition concerns, and when they do, those concerns are more likely to implicate article 102 than article 101.
    - Moreover, it is highly questionable whether the practices qualified as hardcore restrictions under article 4(2) of the current Block Exemption Regulation are properly characterised. Particularly given the low market share threshold, it is not clear that restrictions in a licensing agreement between non-competitors that relate to the price that the licensee charges for the final product necessarily restrict competition.
    - Similarly, the classification of restrictions on passive sales (to the extent that they remain following the exceptions in sub-sections (i)-(vi)) as hardcore restrictions of article 4(2)(b) are difficult to justify in light both of the right to exclude which is inherent in intellectual property and the low market share thresholds.

The treatment of hardcore restriction in relation to agreements between competitors should be simplified.

- The structure of article 4(1) and the seven exceptions to article 4(1)(c) are easily misinterpreted, not only by courts and competition authorities, but also by companies that are negotiating licensing agreements.
    - By treating the clauses in article 4(1)(c)(i)-(vii) as excepted restrictions, the Block Exemption Regulation creates the impression that such clauses are inherently restrictive, and thus potentially illegal at market shares above the thresholds of the Block Exemption Regulation. A clause that delimits the scope of an intellectual property right, such as a field or use or

territorial limitation is an essential element of the intellectual property right that is the object of the license. It does not restrict commercial freedom, but to the contrary enables the licensee to do something it otherwise would have no legal right to do.

- It would be better to discuss scope limitations separately, and to state explicitly that the inclusion of the enumerated contractual limitations shall not be presumed to have either the object or effect of restricting competition.

We also note that the Commission's practice with respect to restrictions by object and hardcore restraints in other areas (e.g., vertical restraints) has been updated to reflect a more economic approach.

We also suggest that the exclusion of no-challenge clauses in Art. 5(1)(c) of the Block Exemption Regulation be deleted. Such clauses rarely restrict competition and play an important role in facilitating the dissemination of technology. Article 6 already provides a sufficient safeguard to ensure that courts and competition authorities can intervene in those rare cases in which such clause could have anticompetitive effects. Indeed, given that such clauses are only relevant in the context of litigation, Member State courts should be free to consider the validity of such clauses within the overall context of the license and the market. This is notably true where the validity and infringement of the right is at issue, a question that antitrust authorities are not competent to address.

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 stated above, one problem that is frequently encountered is how to define the relevant product markets for purposes of calculating the market shares. Our members would generally welcome more detailed guidance on market definition (with real world examples from different industries) in the subsequent Guidelines.

Even in cases where the definition of the market is relatively straightforward, it is often difficult to calculate market shares, and shares often fluctuate over time. Individual competitors do not have access to competitors' sales data and the estimates of industry analysts may not always be reliable. Moreover, frequent fluctuations may place the parties in a position of uncertainty as to whether or not they are covered by the safe harbour at a given time.

The uncertainty problem is especially acute in situations that involve technology originating an entirely new market. In these situations, the question arises as to whether a market share safe harbour constitutes an adequate method to measure market power and thus to determine whether or not protection should be granted. In emerging markets the precise definition of the relevant market may be difficult, market shares of the parties are likely to be unstable for a period of time, and there may well be a lack of reliable sources of information from which to gather the relevant market share data. We suggest that the Commission consider an alternative safe harbour in such cases that would not be based on market shares.

Although the two-year grace period in article 8.2 of the Block Exemption Regulation provides a degree of margin, it is not entirely satisfactory. As drafted, parties to a licensing agreement would lose the benefit of the Block Exemption Regulation if their shares exceeded the thresholds for a period of two years, even if subsequently the shares drop back below the thresholds. In addition, since market shares are subject to fluctuations over time, an agreement may fall alternatively outside and within the safe harbour during the two year grace period, which puts the parties in a state of uncertainty as to whether or not article 8.2 applies and since when.

As a practical matter, the primary concern with licensing agreements is that by entering into the agreement, the parties' incentives to compete with each other will change. Parties to technology transfer agreements typically hope that the technology will be successful and that they will be rewarded with high market shares. From a normative perspective, we believe that competition policy should focus on preventing anticompetitive agreements from their inception, and should avoid creating uncertainty that discourages parties from entering into pro-competitive agreements that are scrutinised later in time when the market and technology may have evolved significantly. As such, we believe that the correct point in time to analyse the parties' market positions is the time at which the agreement is entered into.

We therefore urge the Commission to revise article 3 to apply the market share threshold only at the time that the agreement is entered into. This would significantly reduce uncertainty, and we are unaware of any empirical or theoretical analysis that would justify the automatic withdrawal of the benefits of the Block Exemption Regulation merely because the parties' investment in the licensed technology has been successful. Moreover, the withdrawal provisions of article 6 provide more than adequate safeguards to allow for enforcement in the exceptional case where a technology transfer agreement that was pro-competitive at the time it was entered into later becomes anticompetitive due to changed circumstances.

Finally, the Commission may also explore the possibility of raising the current market share safe harbour thresholds. In this respect it should be noted that Recital 32 of the EU Merger Regulation, which states that mergers (which by definition are clearly more restrictive of competition between the parties than technology licences) are unlikely to impede effective competition where the parties' combined market share does not exceed 25%.

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.

CONSULTATION RESPONSE

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.

As the CRA study itself recognises, there is little empirical analysis of the practices under consideration, and the study reflects the views of the authors rather than any consensus among economists. Despite the lack of empirical foundations – indeed, even any concrete evidence of economic harm – the study nonetheless issues wide-ranging policy recommendations that reflect neither the legal structure of competition law enforcement nor market realities.

We urge the Commission to be very cautious about expanding the guidance to practices that theoretical economists have identified as restrictive of competition on the basis of economic models where there is no strong empirical evidence of competitive harm. Technologies and licensing practices evolve quickly, and are the products of complex interactions in which the parties' actions are driven by a large number of constantly changing variables. It is therefore essential that competition policy ensures that parties have the maximum commercial freedom in framing the scope of technology transfer agreements.

Theoretical economics has an important role to play in helping competition enforcers make sense of the competitive landscape, and we strongly support the Commission's shift toward a more economics-based approach. However, there is very little consensus within the academic literature about the sources and drivers of innovation, and thus we urge caution in extrapolating policy from economic theory in the absence of empirical evidence. Prescriptive guidance based on theoretical constructs that posit the potential for competitive harm, without concrete evidence, risk reducing innovation by unnecessarily constraining the freedom of parties to license and undermining the incentive-based system that IP laws have created.

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

We welcome the Commission's initiative to begin the discussion on improving the technology transfer regime well in advance of the 2014 deadline. Developing an effective competition policy for technology transfer that reflects market realities is essential to ensuring that Europe builds a healthy and competitive environment in which innovation can flourish. Given the complexity of the issues, we believe that this can best be achieved through an ongoing dialogue with stakeholders. For example, we suggest that the Commission publish its preliminary findings following the current round of consultations and converse with stakeholders prior to issuing the draft revisions to the Guidelines and Block Exemption Regulation.

American Chamber of Commerce to the European Union – Avenue des Arts/Kunstlaan 53, B-1000 Brussels, Belgium
Telephone 32-2-513 68 92 – Fax 32-2-513 79 28 – info@amchameu.eu – www.amchameu.eu

***

AmCham EU speaks for American companies committed to Europe on trade, investment and competitiveness issues. It aims to ensure a growth-orientated business and investment climate in Europe. AmCham EU facilitates the resolution of transatlantic issues that impact business and plays a role in creating better understanding of EU and US positions on business matters. Aggregate U.S. investment in Europe totalled €1.4 trillion in 2009 and currently supports more than 4.5 million jobs in Europe.

***

American Chamber of Commerce to the European Union – Avenue des Arts/Kunstlaan 53, B-1000 Brussels, Belgium
Telephone 32-2-513 68 92 – Fax 32-2-513 79 28 – info@amchameu.eu – www.amchameu.eu