COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 20.12.2001
COM(2001) 786 final

COMMISSION EVALUATION REPORT

ON THE TRANSFER OF TECHNOLOGY BLOCK EXEMPTION REGULATION N° 240/96

TECHNOLOGY TRANSFER AGREEMENTS UNDER ARTICLE 81

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1 INTRODUCTION

(1) Under Article 12 of Regulation n° 240/96, the Commission is required to carry out regular assessments of the application of the Transfer of Technology Block Exemption Regulation (hereafter the 'TTBE'), and in particular of the non-opposition procedure provided for in Article 4 of that regulation.[1] To this end, the Commission is required to draw up a report to assess whether any adaptation of the TTBE would be desirable. This report contains such assessment and is asking for comments thereon from third parties (industry, consumer associations, etc.).

(2) Several arguments plead for a comprehensive reassessment of the Commission's policy in the field of technology transfer agreements.

(3) The TTBE is form-based and follows a legalistic approach similar to the one followed in the past by the Commission in the field of vertical and horizontal agreements. The TTBE is rather narrow in scope as it only covers certain types of exclusive licensing agreements. The benefit of the block exemption depends on a large number of complex formal requirements to be found in lists of 'white', ‘grey’ and ‘black’ clauses. Its focus is mainly on intra-brand competition and market integration. This raises the question whether the TTBE has imposed on industry a straitjacket forcing companies unduly to enter into agreements limiting their effectiveness and possibly limiting the competitiveness of the European industry.

(4) The recent reforms of the EC competition rules in the field of vertical and horizontal agreements have signified a shift from a legalistic and form-based approach to a more economic and effects-based approach, focussing more on inter-brand competition issues and on the analysis of possible efficiencies of certain restrictions. This was accomplished amongst others by the use of market share thresholds, the elimination of lists of white and grey clauses in the relevant Block Exemption Regulations and by the formulation of Guidelines.[2]

(5) These reforms have also touched upon IPR issues. In particular, Regulation n° 2790/1999 (Block exemption for vertical restraints) covers assignments or licences of intellectual property rights which are ancillary to vertical agreements, subject to the specific rules set out in that Regulation (see Article 2 par. 3). Furthermore, under Regulation 2658/2000, the rules applicable to specialisation agreements also apply to ancillary intellectual property rights provisions. Finally, Regulation n° 2659/2000 sets out new rules concerning the development and joint exploitation of intellectual property rights resulting from R&D agreements. These new rules have modified the Commission’s approach in relation to IPR issues. It is therefore necessary to carry out an in-depth review of the TTBE to see if there exist inconsistencies between the TTBE and these more recent Block Exemption Regulations.

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1 Commission Regulation (EC) 240/96 on the application of Article 81(3) of the Treaty to certain categories of technology transfer agreements, OJ L 031, 9.12.1996, p. 2-13.

2 Respectively Commission Regulation n° 2790/1999 for vertical agreements (OJ L 336 of 29.12.1999), n° 2658/2000 for specialisation agreements and n° 2659/2000 for R&D agreements (both OJ L 304 of 5.12.2000) and the accompanying Guidelines on Vertical Restraints (OJ C 291 of 13.10.2000) and Guidelines on the applicability of Article 81 of the EC Treaty to horizontal co-operation agreements (OJ C 3 of 6.1.2001).

(6) The need for a wide reassessment of the TTBE is further strengthened by the current reform of Regulation 17.[3] It is proposed within that reform that national authorities and national courts obtain the power to apply Article 81(3) of the Treaty directly. Clear and coherent rules are a basic pre-condition for ensuring predictable application.

(7) The reform of Regulation 17 requires in particular also to look at the opposition procedure contained in the TTBE. This concerns the so-called 'grey' clauses that fall outside the scope of the block exemption and for which the TTBE offers a quick look facility based on a simplified notification procedure. As it is proposed in the reform of Regulation 17 to abolish the notification system, it is clear that also the opposition procedure will have to be abolished and that the 'grey' clauses must either be covered by the block exemption or treated as hardcore. This implies a comprehensive review of the current policy approach to technology licensing.

(8) In the light of the foregoing, the aim of this report is to submit for public consultation an analysis of the present legal and factual situation and to put forward policy proposals designed to lead to:

- a simpler and possibly wider block exemption for technology licensing agreements, and

- a block exemption which is consistent with the new competition rules recently adopted and other recent policy developments.

2 MAIN FEATURES OF THE TTBE

(9) When adopting the TTBE in 1996, the Commission acknowledged that the economic development of the Community and its ability to draw abreast of its competitors in the rest of the world depended on the capacity of industry to devise new technologies and to disseminate them in the Community. Hence, the TTBE was designed to play a pivotal role in the development of innovation within the EU economy and in contributing to the competitiveness of businesses operating in the Community.

(10) In essence, the TTBE aimed at striking a balance between three main objectives. The first objective was to simplify the rules governing licensing agreements by combining the preceding block exemptions on know-how[4] and patent licensing[5] into one single regulation, so as to "encourage the dissemination of technical knowledge in the Community and to promote the manufacture of technically more sophisticated products" (Recital 3). The second objective was to guarantee effective competition in technologically new or improved products. The third aim was to create a favourable legal environment for companies investing in the EU, by providing them with legal certainty and by reducing the administrative burden resulting from individual notifications under Article 81(3).

(11) In order to reconcile the above-mentioned objectives, the TTBE reserves the benefit of the block exemption to licensing agreements complying with a number of formal requirements. Firstly, the TTBE only covers the specific types of agreements defined in Article 1, thereby keeping the exemption within relatively narrow limits. Secondly, it relies on

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[3] Proposal for a Council Regulation on the implementation of the rules on competition laid down in Articles 81 ands 82 of the Treaty, OJ C 365 E, 19.12.2000, p. 284 - 296.

[4] Commission Regulation (EEC) n° 2349/84 of 23 July 1984

[5] Commission Regulation (EEC) n° 556/89 of 30 November 1988

the assumption that any restriction overstepping the boundaries of the patent subject matter is potentially caught by Article 81(1). Thirdly, the TTBE regulates contractual arrangements by setting out three categories of clauses: (i) those that generally would not violate Article 81(1) but the legality of which is clarified by the block exemption (‘white clauses’); (ii) those that violate Article 81(1) and the inclusion of which would bring the entire agreement outside the scope of the block exemption ('black clauses’) and (iii) those which are neither exempted nor expressly excluded and the assessment of which requires a case by case analysis (‘grey clauses’). For the latter category the TTBE provides for an opposition procedure whereby the Commission must establish, within a specified period of time, whether the notified agreement may benefit from the block exemption (see Article 4). In addition, Article 7 allows the Commission to withdraw the benefit of the block exemption in respect of agreements having effects incompatible with the conditions of Article 81(3). Pursuant to Article 7(1), this may happen in particular when the licensee’s market share exceeds 40%.

2.1 The scope of the TTBE

(12) The TTBE block exempts certain exclusive licensing agreements entered into between only two parties for the purposes of manufacture, use and commercialisation (Articles 1.1 and 10(10)). The TTBE only applies if the licensee himself manufactures the licensed goods or provides the licensed services, or has them manufactured or provided for his account (Recital 8). This excludes agreements solely for the purposes of sale (distribution agreements).[6]

(13) As regards the *type of IPR*, the TTBE applies only to pure or mixed patent and know-how licenses. Other IPRs (in particular trademarks, design rights and copyright, especially software protection) are covered to the extent that “such additional licensing […] contains only ancillary provisions” (Recital 6, see also Articles 1.1 and 5.1(4)).

(14) As regards the *type of agreement*, the TTBE covers certain exclusive licenses whereby the licensor undertakes not to appoint other licensees and/or not to exploit the licensed technology himself in the licensed territory, and/or the licensee agrees not to exploit the licensed technology in the territories reserved to the licensor (Articles 1.1(1), 1.1(2) and 1.1(3)). Furthermore, the TTBE exempts, under certain conditions, agreements granting the exclusive licensee a protection against active and passive sales from licensees established in other territories (Articles 1.1(4), 1.1(5) and 1.1(6))[7].

(15) Licence agreements that do not abide by this model are left uncovered and may benefit from Article 81(3) only upon individual examination following notification.

(16) In particular, Article 5 expressly excludes from the benefit of the block exemption the following types of licensing arrangements:

(a) "agreements between members of a patent or know-how pool which relate to the pooled technologies" (Article 5.1(1)), except where the parties are subject to no territorial restriction with regard to the manufacture, use or putting on the market of the licensed products or to the use of the pooled technologies (Article 5.2(2));

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6 IPR provisions that are ancillary to distribution agreements are however, as explained in the introduction, covered by Regulation 2790/1999.

7 In addition, Article 1 covers under certain conditions also two specific types of agreement, i.e. patent or know-how licenses obliging the licensee to commercialise the licensed products exclusively under the licensor's trademark (Article 1.1(7)) and the so-called 'use licenses' (Article 1.1(8)).

(b) cross-licensing arrangements between parties which are "competitors in relation to the products" covered by the licences (Article 5.1(3)), except where the parties are subject to no territorial restriction with regard to the manufacture, use or putting on the market of the licensed products or to the use of the licensed technologies (Article 5.2(2));

(c) licensing agreements between competing undertakings holding interests in a joint venture and relating to the activities of the joint venture (Article 5.1(2)), with the exception of those licensing agreements entered into between one of the parties and the joint venture where the aggregate market share of the participating companies does not exceed 20% - if only joint production is provided - or 10% - if the JV agreement covers also joint distribution (Article 5.2(1)). These latter thresholds correspond with the market share thresholds of the previous block exemption regulations on specialisation and R&D agreements.[8]

2.2 Rules applying to specific restraints

(17) *Territorial restrictions.* The TTBE covers under Article 1.1 restrictions preventing the licensor and the licensee from exploiting the licensed technology in each other's exclusive territories. The term 'exploitation' includes any use of the licensed technology, and in particular production in, as well as active and passive sales of the licensed products into, each other's territories (Article 10(10)). It should be observed that these provisions cover both agreements between non competitors and agreements between companies which compete on the same licensed product or technology market before the grant of the license. Furthermore, territorial restrictions designed to protect a licensee against active and passive sales by other licensees are also covered (Articles 1.1(4), 1.1(5) and 1.1(6)).

(18) The exemption of these territorial restrictions is subject to certain duration limits that differ according to the type of agreement and depending on whether the restriction concerns licensor-licensee protection or licensee-licensee protection. In case of licensor-licensee protection in patent licences, the exemption applies as long as the licensed product is protected by parallel patents in the relevant territories (Article 1.2). In case of licensor-licensee protection in know-how licences the exemption is applicable for a maximum period of 10 years from the date when the licensed product is first put on the market by any of the licensees (Article 1.3). For licensee-licensee protection, the TTBE limits the exemption of restrictions on passive sales to "a period not exceeding 5 years from the date when the licensed product is first put on the market within the common market by one of the licensees" (Articles 1.2 and 1.3), both for patent and know-how licences. Agreements providing for territorial restrictions exceeding the above-mentioned periods are blacklisted (Article 3(7)). Finally, Article 3(3) excludes from the block exemption agreements containing restrictions which prevent third parties from engaging in parallel trade.

(19) *Customer allocation*. Article 3(4) of the TTBE blacklists clauses whereby the parties directly or indirectly allocate customers within the same technological field of use or the same product market if the parties are competitors for the contract products. Furthermore, Recital

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8 Commission Regulation (EEC) n° 417/85 and Commission Regulation (EEC) n° 418/85. These Regulations have been replaced by Commission Regulation 2658/2000 and Commission Regulation 2659/2000 (see footnote 2). The new Regulations contain higher market share thresholds of 20 % and 25 %.

23 provides that “such restrictions between undertakings that are not competitors remain subject to the opposition procedure”, that is to say they are treated as grey clauses.[9]

(20) *Field of use*. Obligations restricting the exploitation of the licensed technology to one or more technical fields or to one or more product markets are generally regarded as not falling within Article 81(1).

(21) *Output restrictions*. Article 3(5) of the TTBE provides that the exemption shall not apply where "the quantity of the licensed products one party may manufacture or sell or the number of operations exploiting the licensed technology he may carry out are subject to limitations". This general exclusion from the block exemption is subject to two exceptions. The first one concerns the so-called 'use licences', where the licensee may only produce the licensed products for incorporation into its own products and for resale as spare parts for its own products (Article 1.1(8)). The second exception covers those situations where the licence is granted only for the purposes of providing a particular customer with a second source of supply (Article 2.1(13)). The *ratio legis* underlying these two exceptions is that quantity restrictions in 'use licences' or in 'second supplier' licences fall outside Article 81(1) as the purpose of such agreements "is not to create an independent supplier on the market" (Recital 23). In addition, Article 2.1(12) and Recital (24) contain provisions regulating the so-called ‘site licences’, i.e. licences limiting the exploitation of the licensed technology to a specified production site.

(22) *Price restrictions*. Any direct or indirect price restrictions are excluded from the benefit of the block exemption (Article 3(1)).

(23) *Non-compete obligations*. Article 3(2) of the TTBE prohibits all obligations preventing one party “from competing with the other party, with undertakings connected with the other party or with other undertakings in respect of research and development, production, use or distribution of competing products". However, Article 2.1(18) allows “a reservation by the licensor of the right to terminate the exclusivity granted to the licensee, and to stop licensing improvements to him […] and to require the licensee to prove that the licensed know-how is not being used for the production of products or the provision of services other than those licensed", should the licensee decide to deal with competing products or technologies. In addition, obligations on the licensee "to pay a minimum royalty or to produce a minimum quantity" (Article 2.1(9)) or "to use his best endeavours to manufacture and market the licensed product" (Article 2.1(17)) are block exempted.

(24) *Tying*. Under Article 4(2)(a), tying is defined as an obligation on the licensee “to accept […] further licences or to procure goods or services which are not necessary for a technically satisfactory exploitation of the licensed technology or for ensuring […] quality standards”. The TTBE qualifies such restrictions as ‘grey clauses’ falling under Article 81(1). Their exemption requires notification, eventually under the opposition procedure. Furthermore, Article 2.1(5) provides that tying is covered by the block exemption if it concerns goods or services and insofar as the tied goods or services are “necessary” for a technically proper exploitation of the licensed technology or for ensuring that the licensed product complies with minimum quality standards.

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[9] This means that customer restrictions lead to the loss of the block exemption for the whole agreement if the licence is between competitors, while the benefit of the block exemption is lost only in respect of these restrictions when the licence is between non-competitors.

(25) *Grant-backs*. Article 3(6) of the TTBE black-lists any obligation on the licensee to assign (i.e. sell his IPR relating to) any improvements or new applications of the licensed technology to the licensor. Article 2.1(4) white lists the obligation imposed on the licensee to grant the licensor a licence relating to such improvements or new applications on condition that, if these improvements are severable from the licensed technology, the license is non-exclusive and that the licensor accepts the reciprocal obligation to license out his own improvements to the licensee. Non-reciprocal grant-back licences and exclusive grant-back licences relating to severable improvements are neither exempted nor expressly condemned by the TTBE, but fall within the grey area of provisions requiring individual exemption. The difference is that while a clause requiring a straightforward assignment of the IPR brings the whole agreement outside the scope of the TTBE, the latter type of grant-backs implies the loss of the block exemption only in respect of the specific clause at issue.

(26) *No-challenge clauses*. Pursuant to Article 4, clauses prohibiting the licensee from contesting the secrecy or the substantiality of the licensed know-how or from challenging the validity of the licensed patents are regarded as 'grey clauses' requiring notification under the opposition procedure. Article 2.1(15), however, allows the licensor to terminate the agreement if the licensee would challenge the validity of the licensed IPR.

3 GENERAL PRINCIPLES APPLYING TO IPR POLICIES AND COMPETITION POLICIES

(27) The relationship between IPR policy and competition policy is a longstanding topic of debate in economic and legal circles. It is recognised that it is not easy to marry the innovation bride and the competition groom and some have argued that such a marriage will unavoidably lead to divorce. The main source of conflict usually mentioned is the possibly conflicting aims of IPR law and competition law. In this chapter this alleged source of conflict is dealt with before it is analysed how in practice IPR and competition policies are married in the EU and in the US.

3.1 Conflicting aims of IPR law and competition law?

(28) Recognising that early copying of an innovation and free riding on an innovator's efforts would undermine the incentive to innovate, IPR laws grant certain monopoly rights to the innovators. The intellectual property laws give the innovator the right to exclude others from exploiting the innovation. The legal monopoly which IPR law confers on the property right owner may, depending on the availability of substitutes in the relevant market, in turn lead to market power and even monopoly as defined under competition law. This has given rise to the alleged source of conflict mentioned above, as competition law would take away what IPR law is providing.

(29) However, in principle this is only an apparent source of conflict. At the highest level of analysis IPR and competition law are complementary because they both aim at promoting consumer welfare. The objective of IPR laws is to promote technical progress to the ultimate benefit of the consumers. This is done by striking the right balance between over- and under-protection of innovators' efforts. The aim is not to promote the individual innovator's welfare. The property right provided by IPR laws is awarded to try to ensure a sufficient reward for the innovator to elicit its creative or inventive effort while not delaying follow-on innovation or leading to unnecessary long periods of high prices for the consumers. A delay in follow-on innovation may result when the innovation consists of improvement on earlier ideas that have been granted patent protection already. Unnecessary long periods of high prices will result when the innovation allows the IPR holder to obtain market power in the antitrust market(s)

where the IPR is exploited and where the IPR protects this monopoly position longer than is required to elicit the innovative effort.

(30) In order to correctly strike the balance between under- and over-protecting innovators' efforts, intellectual property rights differ from and are usually less absolute than 'normal' property rights: they are often limited in duration (patents, copyright), strictly limited in scope (copyright, trade mark), not protected against parallel creation by others (copyright, know how) or lose their value once they become public (know how).[10]

(31) Competition policy aims at promoting consumer welfare by protecting competition as the driving force of efficient markets, providing the best quality products at the lowest prices.

(32) The relevant question is therefore not one of conflict but of complementarity and possibly adjustment in the individual case. To what extent should competition policy intervene and try to improve the balance produced by IPR law? On this question some general lines of agreement but also some marked differences exist between different jurisdictions.

(33) There is agreement on the positive role competition policy may play in forming IPR law ("competition advocacy"). Competition policy expertise should prove useful in helping to decide on issues like the correct scope and duration to be awarded under IPR law, i.e. in deciding ex-ante on the balance to be found in IPR law.

(34) There is also agreement that competition policy has to play its normal role where IPR rights are used to produce an anti-competitive effect beyond the exploitation of the IPR rights. For instance, the conditioning of licensing on the purchase of a non-patented product (tying) or on the imposition of a non-compete obligation is to be dealt with under competition law. There is also general agreement that in such cases competition policy must take account of specific IPR characteristics in order to properly protect dynamic efficiency. For instance, a non-compete obligation may be required to protect the confidentiality of the know how transferred or to prevent the know how benefiting competitors of the licensor.

(35) There is however no agreement as to what extent competition policy should interfere with the exploitation of IPR rights in individual cases. This is true both for the exploitation and licensing by dominant and non-dominant companies. It is here that marked differences exist between the EU and US approach. In general EC competition policy has placed more limits on the exploitation of IPR rights than US competition policy.

[10] It is questionable whether trademarks should be dealt with here. As remarked by Pitofsky, trade marks "involve an economic tradeoff with different implications for antitrust law. The economic purpose of trademark law is not in general to encourage innovation and creativity, but instead to reduce consumer search costs by identifying the source of the goods, and thereby incidentally to encourage quality by protecting reputation". R. Pitofsky, Antitrust and Intellectual Property: Unresolved Issues at the Heart of the New Economy, *Antitrust, Technology and Intellectual Property Conference*, University of California, March 2001. It however also needs to be recognised that trademarks are often licensed together with other IPRs such as know how and patents.

3.2 EC competition policy in the field of IPR

(36) It is already difficult inside one jurisdiction to define the respective roles of IPR and competition policy. In the EU the difficulty is increased by the fact that the granting of IPRs is still largely done nationally.[11] On the one hand Article 295 (former Article 222) EC Treaty requires the Community to respect national systems of property ownership and Article 30 (former Article 36) EC Treaty provides a specific exception from the free movement provisions of the Treaty where they conflict with national IPRs. On the other hand the Court has also stressed the need to protect the fundamental principles of free movement and competition within the Community. For that reason the Court has developed the distinction between the grant or existence of the IPR, which can not be affected by the rules of free movement and competition, and its exercise, which can be affected by these other provisions of the EC Treaty.

(37) For instance, in *Consten-Grundig* the Court found that Articles 30 and 295 "do not exclude any influence whatever of Community law on the exercise of national IPRs. Article 36 (now 30) … cannot limit the field of application of Article 85 (now 81)."[12] In relation to Article 295 the Court made it clear that "the contested (Commission) decision to refrain from using rights under national trade mark law in order to set an obstacle in the way of parallel imports does not affect the grant of those rights but only limits their exercise to the extent necessary to give effect to the prohibition under Article 85(1) (now 81(1))."[13]

(38) In the context of the distinction between existence and exercise of an IPR the concept of the 'specific subject matter' of the IPR has been elaborated by the Court. The specific subject matter is the core package of rights that make up the IPR itself. According to some the normal use of an IPR, to ensure for the right holder the benefit of the specific subject matter of that right, is regarded as preserving the existence of the right and can not be overruled by the competition provisions of the Treaty.[14] Specific subject matter and existence are thus overlapping concepts, although it is not always clear how the notions of 'normal use' and 'benefit' are to be applied in concrete cases. Others claim that the existence only covers the authority of Member States to determine the conditions for granting IPRs. According to this view the use of the IPR to ensure the benefit of the specific subject matter of that right can in principle be scrutinised under the competition provisions, however it may fall outside the competition provisions for other reasons such as objective justification.[15]

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[11] This is slowly changing as EC legislation is giving rise to new or harmonised IPRs throughout the EU. This legislation covers in particular trade marks (Council Directive n° 89/104 of 21.12.1988), rental and lending rights (Council Directive n° 92/100 of 16.11.1992), the harmonisation of the term of protection of copyright (Council Directive n° 93/98 of 29.10.1993), satellite broadcasting and cable retransmission rights (Council Directive n° 93/83 of 27.9.1993), the legal protection of databases (EP and Council Directive n° 96/9 of 11.3.1996), biotechnological inventions (EP and Council Directive n° 98/44 of 6.7.1998) and designs (EP and Council Directive n° 98/71 of 13.10.1998). New legislation that is in the process of being adopted includes a proposed Directive on the harmonisation of certain aspects of copyright and related rights in the information Society and a proposed Directive on the protection of inventions by utility models. In addition, the Commission has recently adopted a proposal for a Council Regulation on the Community patent. (COM (2000) 412 final).

[12] Consten Grundig v. Commission [1966] ECR 299, p. 346. See also Parke Davis v. Probel [1968] ECR 55 and Deutsche Grammophon [1971] ECR 1147.

[13] See previous footnote.

[14] K. Coates & J. Finnegan, Intellectual Property, chapter 8, paragraph 8.27, in J. Faull & A. Nikpay, *The EC Law of Competition*, 1999

[15] S.D. Anderman, *EC Competition Law and Intellectual Property Rights*, 1998, chapter 2.

(39) For assessment purposes it is important to note that the Court and the Commission have always narrowly defined the specific subject matter.[16] It is clear that the possession of an IPR gives the owner the right to license and ask royalties. However, the Court and the Commission have always considered that the conditions of the licence may fall under Articles 81 and 82.

(40) For instance, under Article 82 it is foreseen that the conditions of a licence may not discriminate between licensees and that the imposed royalties may not be excessive. In the *Magill* judgement by the ECJ it has even been established that a dominant company may under certain conditions be forced to grant a licence to a third party.[17]

(41) Case law and the TTBE have also made it clear that conditions contained in a license agreement may fall within Article 81(1). This applies to conditions that affect competition in general, both intra-brand competition and inter-brand competition. For instance, in the list of black clauses in the TTBE one finds inter-brand related clauses like non-compete obligations and intra-brand related clauses like territorial restraints of an excessively long duration and price restrictions related to the sale of the licensed product.[18]

(42) The TTBE does not make a clear distinction according to whether the licensing agreement is concluded between competitors or between non-competitors and does not contain a coherent approach towards agreements between competitors (see also section 5.1). The TTBE applies a clause-based approach to non-reciprocal and cross licence agreements between competitors, making coverage dependent on the agreements (not) containing certain clauses. But the TTBE covers licence agreements between competitors relating to the activities of a joint venture only below certain market share thresholds (see section 2.1 of this report).

(43) The TTBE is also not sufficiently clear on when companies are considered to be competitors. "Competing manufacturers or manufacturers of competing products" are defined in the TTBE (Article 10(17)) as "manufacturers who sell products which, in view of their characteristics, price and intended use, are considered by users to be interchangeable or substitutable for the licensed products." This provision has been generally interpreted and applied as defining competitors rather widely. Parties to a license agreement that were competitors before the innovation are still considered to be competitors even when the licensed manufacturing process or patented product is such a sweeping breakthrough that there would no longer be any competition absent the licence.

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16 For the purposes of Community law, the specific subject matter of a patent has been defined by the ECJ in the *Centrafarm BV v. Sterling Drug* case as being « to ensure to the holder, so as to recompense the creative effort of the inventor, the exclusive right to utilise an invention with a view to manufacture and first putting into circulation of industrial products either directly or by the grant of licenses to third parties, as well as the right to oppose any infringement ». Know-how does not enjoy a specific legal protection but owners of know-how may protect it through the general law on confidentiality. While there is no single definition of the specific subject matter of copyright, the case-law has highlighted a number of typical elements such as the right to decide on the first placing of a work on the market (*Gema* case), the right to require fees for public performance (*Coditel II* case) and the right to rent out a work (*Warner Brother v Christiansen* case). See also judgements of 22.9.1998, case C-61/87, *Egmont Film* and of 28.4.1998, case C-200/96, *Metronome*.

17 Joined Cases C-241/91P and C-242/91P Radio Telefis Eireann (RTE) and Independent Television Publications Ltd (ITP) v Commission [1995] ECR I-74. This report will not go into further detail of the application of Article 82 to IPRs.

18 It needs to be stressed that it is not always possible to distinguish between intra-brand and inter-brand competition restrictions. For instance it is generally recognised that RPM may have an effect on both intra-brand and inter-brand competition.

(44) The interplay between IPR law and EC competition law is most complex in the area of territorial restrictions. To determine whether a restriction on the licensee to actively or passively sell the licensed products in the licensor's or other licensees' territories may fall within Article 81(1), a further question needs to be addressed concerning the exhaustion of the IPR. A licensee can object to import of the licensed product into its territory when the product was put on the market without the licensor's consent. This applies to exports into the licensee's territory by third party producers or traders that have put the product on the market without the licensor's consent. It does not apply to export by third party traders which obtained the product from other licensees or from the licensor and thus with the latter's consent. It does also not apply to exports by other licensees or the licensor, because also in that case the product is put on the market with the licensor's consent. The extent to which a licensing agreement can limit the active or passive sales by the licensor or the licensee into each other's or other licensees' territories has thus to be dealt with under Article 81.

(45) In conclusion, the EC competition policy approach towards licensing agreements does recognise the existence of the monopoly granted by IPR law, but this does not mean that the exercise or exploitation of that monopoly may not be scrutinised under the competition rules. Licensor and licensees are separate undertakings and are also treated as such. The competition rules do not accept just any restriction that helps the licensor to realise the maximum profit from its monopoly. For instance, while it is clear that to obtain the full monopoly profit the licensor may want to impose restrictions on the licensees concerning their pricing, their output or the territories into which or the customers to whom the licensees may sell the licensed product, such restrictions may fall foul of the EC competition rules.

3.3 US competition policy in the field of IPR

(46) The US approach, as laid out in the Antitrust Guidelines for the Licensing of Intellectual Property issued by the DOJ and FTC ('US Guidelines'), is different from the EU approach.[19] The US Guidelines embody three general principles: (a) for the purpose of competition policy analysis intellectual property is regarded as any other form of property; (b) it is not presumed that intellectual property creates market power; and (c) licensing is generally considered to be pro-competitive.[20] Competition concerns may arise when the licensing agreement restricts competition between companies that would have been actual or likely potential competitors in the absence of the license (companies in a horizontal relationship).[21] The owner of intellectual property will not be required to create competition in its own technology and should therefore in principle be free to impose those restrictions in a licensing agreement which allow him to do what he could also have done on his own. The US approach does not only recognise the existence of the monopoly granted by IPR law, but also respects in general the right of the holder of the IPR to fully exploit it by imposing in a licensing agreement the restrictions necessary to obtain the full benefit of the IPR.

(47) The limitations imposed by competition policy on the freedom of the licensor are twofold. Firstly, competition policy may interfere when the restrictions in the licensing agreement apply to non-patented products or processes. For instance, if the licensor has a patent on the process of manufacturing but not on the product manufactured by the licensee, then fixing the licensee's sales price of the product is treated as illegal vertical price fixing

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[19] *Antitrust Guidelines for the Licensing of Intellectual Property*, U.S. Department of Justice and the Federal Trade Commission, April 1995.

[20] US Guidelines, section 2.0.

[21] US Guidelines, section 3.1.

under the competition rules.[22] Similarly, when the licensing agreement imposes a non-compete clause on the licensee preventing the latter from producing or selling competing products, this is treated as in any other vertical agreement. The same applies to the tying of the licensing agreement to the purchase by the licensee of another good or service.

(48) Secondly and more importantly, competition policy may interfere when the licensing harms competition between companies that would have been actual or potential competitors in the absence of the agreement. In such a case, if the licensing agreement has negative effects on prices/quantities/ qualities of goods or services on current or future markets this is dealt with under the US competition rules. This does in the first place concern situations where also without the licensing the licensor and licensee would be actual or potential competitors, i.e. licensor and licensee are already and continue to be in a horizontal competitive relationship. Secondly, it also concerns licensing agreements that, for instance through a non-compete/exclusive dealing clause, exclude competitors of the licensor (foreclosure effect). Thirdly, it could in principle also concern licensing agreements where the licensees are in a horizontal competitive relationship.[23]

(49) In practice, the US Guidelines only deal with the first two situations. As concerns non-compete clauses it has already been indicated that these can be attacked under the US antitrust rules as such clauses do not concern the exploitation of the IPR itself but concern other products or processes outside the scope of the IPR. The main competition concern is whether competitors of the licensor are foreclosed from the market.

(50) As concerns the situation where the licensor and licensee would also be actual or potential competitors on the markets in question without the licensing agreement, the US Guidelines are mainly worried about sham license arrangements intended to cloak a cartel. For instance, if the licensed manufacturing process or patented product does not represent an economic improvement over the available existing technologies or non-patented products and the patent is not a blocking patent, then the licence agreement will in general not involve a useful transfer of technology and will not lead to an efficiency-enhancing integration of economic activity.[24] The agreement will be challenged under the per se rule if it leads to price fixing, allocation of markets or customers, a reduction of output or certain group boycotts.

(51) If no such facially anti-competitive per se restraints are contained in a licensing agreement between competitors, the agreement will normally not be challenged if "the licensor and its licensees collectively account for no more than twenty percent of each relevant market significantly affected by the restraint."[25] Above this safety zone of 20% the rule of reason applies. In that case it will first be established whether the restraint has, or is likely to have, an anti-competitive effect. If such is the conclusion, it will be considered whether the restraint is reasonably necessary to achieve pro-competitive efficiencies. It will be

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22 See W.K. Tom, Background Note, p. 38, *Roundtable on Competition Policy and Intellectual Property Rights*, Committee on Competition Law and Policy, OECD, October 1997, and N. T. Gallini & M. Trebilcock, Intellectual Property Rights and Competition Policy: A Framework for Analysis of Economic and Legal Issues, p. 339 and 344-345, *Roundtable on Competition Policy and Intellectual Property Rights*, Committee on Competition Law and Policy, OECD, October 1997.

23 US Guidelines, sections 3.1, 3.3 and 4.1.

24 US Guidelines, section 3.4, example 7. See also the FTC's challenge of a patent pool between Summit Technology and VISX (FTC Dkt. No. 9286 (February 23, 1999), Agreement Containing Consent Order to Cease and Desist; and the FTC's Analysis to Aid Public Comment) and the DOJ's Business Review Letters concerning the MPEG and DVD patent pools (Business Review Letters from Joel I. Klein to Garrad R. Beeney, respectively of June 26, 1997, and December 16, 1998).

25 US Guidelines, section 4.3.

established whether there are "…practical and significantly less restrictive alternatives…. If it is clear that the parties could have achieved similar efficiencies by means that are significantly less restrictive, then the Agencies will not give weight to the parties' efficiency claim. In making this assessment, however, the Agencies will not engage in a search for a theoretically least restrictive alternative that is not realistic in the practical prospective business situation faced by the parties…… If the restraint is reasonably necessary, the Agencies will balance the pro-competitive efficiencies and the anti-competitive effects to determine the probable net effect on competition in each relevant market."[26]

(52) Parties to a licence agreement that were competitors before the innovation are not considered to be competitors anymore where the licensed manufacturing process or patented product is such a sweeping breakthrough that there would no longer be any competition absent the licence. The safety zone and the rule of reason approach above the 20% market share threshold are therefore in particular relevant for those licensing agreements where the licensed manufacturing process or patented product does represent only a limited economic improvement over the available existing technologies or non-patented products. In such a case, if there is a horizontal competitive relationship between the parties absent the licence, it becomes relevant to measure the collective market share of the parties, to look at the necessity of the restraints and balance the positive and negative effects.[27]

(53) For application of the 20% market share threshold it is necessary to establish whether the negative effects of the licence are only felt on product markets or whether the licence has also effects on technology markets or on competition in research and development. In the former case the market shares only need to be established on the relevant product markets. In the latter case market shares for the relevant technology or innovation markets have also to be established. If in the latter case market share data are unavailable or do not accurately represent competitive significance, the safety zone will be established by looking at the number of independent competing technologies or research entities with the required specialised assets. If the restraint is not facially anti-competitive and there are four or more competing technologies or research entities in addition to the parties to the licence agreement, then the agreement falls within the safety zone.

3.4 A comparison

(54) The US approach makes a clear distinction between licensing agreements entered into between competitors versus agreements between non-competitors and draws policy conclusions from this distinction. The US approach treats very leniently restrictions that concern the exploitation of the IPR itself when the licensor and licensee are not actual or potential competitors. In such a situation it is considered that restrictions concerning the licensee's territory, output, field of use and under certain circumstances even pricing are rightful ways of the licensor to try to maximise his income from the IPR. This fits in with the more lenient current approach of the US towards vertical agreements between non-competitors in general, except where it concerns price fixing. While in general vertical price fixing is a per se restriction under US competition law and the US Guidelines state that this also holds in case a licensor of an intellectual property right in a product fixes a licensee's resale price of that product, the US Guidelines also make it clear that the owner of a product

[26] US Guidelines, section 4.2.
[27] W. Tom, p.27-28.

patent may fix in a license to manufacture the licensee's first sales price of the patented product.[28]

(55) The stricter EU approach towards restrictions concerning the exploitation of the IPR itself when contained in agreements between non-competitors reflects the higher importance EC competition policy attaches to intra-brand restrictions in general and territorial restrictions in particular. It is considered important to protect intra-brand competition as distribution costs make up a substantial part of the end price of most products and competition between distributors may help to reduce these costs. It is also a recognition of the fact that the licensees may be in a horizontal competitive relationship.[29] Territorial restrictions are paid more attention in particular because of the additional market integration objective which EC competition policy has.[30]

(56) There are less marked policy differences as regards restrictions that do not concern the exploitation of the IPR itself, such as non-compete obligations and tying. Both the US and EC competition rules are applied to such restrictions. In the US, the market power of the parties and the competitive structure of the relevant antitrust market are taken into account under the rule of reason approach. While the same is done in the EU for vertical agreements in general under Block Exemption Regulation 2790/99 and the Guidelines on Vertical Restraints, the TTBE puts such restrictions in the black and in the grey lists.

(57) There are again more marked policy differences as regards licensing agreements between competitors. The US policy applies a market share threshold for its safety zone for all licence agreements between competitors, where the TTBE does so only for licence agreements relating to joint ventures. Other licence agreements between competitors are often excluded from coverage by the TTBE by applying a clause-based approach. Also, the US policy applies a narrower definition as to when companies are considered to be competitors.

(58) In summary, the US approach puts more limits on the possibilities of competition policy to intervene against licence agreements between non-competitors. It thereby gives a somewhat wider assurance that the licensor can exploit its IPR when the licensing takes place between non-competitors. If it is assumed that IPR laws are striking the right balance between over- and under-protection of innovators' efforts, such approach helps to stimulate innovation. That assumption may however not be correct for all cases. Also, the difference with the EU approach should not be exaggerated as EC competition policy allows in many instances the same intra-brand restrictions, but keeps the possibility under specific circumstances to intervene where considered necessary. Lastly, the US approach is more coherent where it concerns licence agreements between competitors.

4. FACT-FINDING ON THE IMPLEMENTATION OF THE TTBE

(59) The Commission has carried out a fact-finding so as to gain a better understanding of the manner in which the current rules have operated since their adoption. A questionnaire was sent to industry and consumer associations, certain research-intensive companies, specialised organisations and law firms. In addition, the experience acquired by the Commission in the

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28 This tension probably explains why this freedom to fix the licensee's price has been limited in various court judgements: see Tom, p. 38; Gallini & Trebilcock, p. 339; the US Guidelines, section 5.2.

29 The US Guidelines, while recognising the possibility that the relationship between licensees is horizontal, seem to largely ignore the competition consequences of this by having a very lenient policy towards territorial restraints as long as the licensor and licensee are not competitors.

30 Guidelines on Vertical Restraints, point 7.

practical implementation of the TTBE was examined. Finally, the competition authorities of the Member States were asked to provide information on their current practice in the area of IPR licensing agreements. The results of this fact-finding are summarised below.

4.1 Interested parties' comments

(60) The questionnaire sent to interested parties was designed to acquire factual information covering both the main aspects and emerging new features of technology licensing activities, as well as the perception by third parties of the operation of the TTBE. Replies were received from individual companies representing a cross-section of industry sectors (e.g. electronics, mechanical engineering, automotive, pharmaceutical, healthcare, chemical and foodstuffs), as well as from industry associations, specialised organisations and law firms.[31]

4.1.1 Comments on current licensing activities

(61) A majority of comments indicate that licensing activities within industry have changed significantly over the last 10 years, both qualitatively and quantitatively. Such an evolution seems to be particularly noticeable in certain sectors (e.g. electronics, medical technologies, new materials, bio-computing, nanotechnology).

(62) In quantitative terms, most comments underline that in general firms license out their technologies more often today than in the past. This seems to concern both a widening of the range of technologies licensed and an increase in the number of licences granted for the same technology. The need to compensate high costs of patent portfolios through licensing revenues is mentioned as one of the reasons explaining such a trend. Furthermore, certain parties indicate that activities related to obtaining licences (licensing-in) has become more important given a greater need for new technological products and lacking in-house developments.

(63) This increase in licensing activities seems to go in parallel with a general rise of companies’ investments in R&D projects. R&D expenditures vary considerably across different industry sectors. For most of the companies who replied to the questionnaire they represent 5% to 10% of their annual total turnover. In certain sectors (e.g. pharmaceutical, healthcare) they tend to be significantly higher. Although royalty earnings generally represent a small fraction of companies’ annual total turnover (1% or less), they provide nevertheless a significant contribution to the recovery of investments in R &D.

(64) Furthermore, it should be noted that certain companies have recently built up more structured patenting strategies, in response to the increased importance of IPR ownership and licensing to maintain a market position . While the traditional use of IPRs was to prevent competitors from using proprietary innovation, their use has now expanded to encompass more diverse commercial strategies. These include blocking whole areas to competition (blocking strategies) and use of patents to create industry standards. As many companies increasingly view their IPRs as tradable capital assets, management of IPRs and patent portfolios now tend to form an important part of commercial strategies. In this connection,

[31] Out of 150 questionnaires sent, the Commission received replies from roughly 1/4 of the addressees, either directly or indirectly through industry associations. Although the replies may not constitute a representative sample, the information received provided useful indications for the preparation of this Report and the public consultation which will take place after publication.

some commentators consider that there is a trend for knowledge to become less publicly available and more being protected by IPRs.

(65) One organisation is of the opinion that there is, on the contrary, a general decrease in licensing activities within the Community, although there is a rise in licensing by educational bodies. Such a fall off would reflect changes such as the move of manufacturing and research to markets overseas. At the same time, public research organisations and higher educational institutions seem to realise that the information they formerly placed in the public domain may have a value and are accordingly seeking to protect it where possible and to manage the resulting IP through 'spin-out' companies.

(66) Virtually all comments seem to indicate that, compared with licensing, an outright selling of IPR remains a residual option for IPR holders. Some observers suggest that assignments would represent roughly 20% of the overall transactions relating to IPRs, the remaining 80% being represented by licensing. Royalty income lower than the cost of maintaining and protecting the IPR, low likelihood of market success and market exit by the IPR holder are the main reasons why companies would choose to assign rather than license their IPR.

(67) From a qualitative viewpoint, most comments indicate that both the nature and types of licensing arrangements have considerably evolved during recent years. In particular, it is emphasised that more joint collaborative efforts and more complex licensing arrangements are now required in order to keep pace with the greater complexity of new technologies. These often stem from multidisciplinary knowledge and approaches, which require companies to collaborate in order to take advantage of complementary skills owned by other companies or public research organisations. Thus, for instance, package-licensing programmes, technology pools and cross-licensing have become more frequent, also in view of a proliferation of blocking patents spread over many owners internationally.

(68) Furthermore, licensing activities seem to have become more global during the recent years. In particular, the trend of globalisation and the resulting changes in companies' commercial strategies have also affected the field of R&D. Large companies which already for many years had manufacturing facilities spread across countries are now also becoming more international in their research activities. In addition, some important 'world projects' (e.g. the international space station, the human genome project, medical research, ocean and climatic research, energy and telecommunications) all involve considerable international collaboration.

(69) As regards the type of IPR, patents and know-how are generally considered as the most relevant in licensing arrangements. Copyright licenses are often referred to as important, especially for software programmes and for computer implemented inventions. Design licenses are regarded as important for certain sectors, less for others. Trademarks are often only ancillary to know-how licenses or to distribution or manufacturing agreements.

(70) The replies received by the Commission also show a certain evolution as regards the reasons that may determine an IPR holder to grant a license or a manufacturer to obtain a license. As for IPR holders, there are the classic justifications for licensing such as the entry into a new product market or the opportunity to combine complementary production skills, especially when the licensor lacks production assets. In addition, licensors are increasingly placing weight on the possibility to create through licensing a new industry standard, to organise a technology pool or package licenses, to clear blocking positions and settling disputes resulting from overlapping patents. Insufficient knowledge of local market

conditions or lack of distribution or marketing capabilities seem to be regarded as less important for the grant of a licence. Some comments also indicate that licensing-out activities are related to the objective of achieving economies of scale or scope, or maintaining a market position for own technology, or sharing the risks connected with its exploitation.

(71) As for licensees, the strongest incentive to take out a licence seems to be to join complementary skills with an IPR holder whose technology can permit the licensee to enter a new product market or maintain a competitive position while reducing his costs. This is especially true when the licensee has its own development blocked by third parties' IPRs or finds that own development is more costly than outsourcing the technology from third parties. Actual or potential litigation about overlapping patent claims and the opportunity to clear blocking positions are often quoted as important factors.[32] Certain comments indicate that licensing-in activities may be also related to the creation of a new industry standard, the organisation of a patent pool or to the achievement of economies of scale or scope.

(72) Furthermore, IPR holders seem generally more inclined to grant licences to non-competing companies so as to avoid strengthening their competitors, except when licensing is designed to solve actual or potential disputes over conflicting patent claims. On the contrary, for licensees the type of partner seems to be less relevant, their incentives stem more from the nature of the licensed technology than from the competitive position of the originator.

(73) Finally, as regards the nature of the investments currently involved in licensing transactions, the comments received suggest that the costs supported by licensors which are specific to granting the license (i.e. excluding the incurred R&D costs), mainly relate to the protection of the licensed technology (litigation against infringements, etc.) and to its successive improvements and training of personnel. Licensees' costs include royalty payments and investments designed to improve the licensed technology, market and advertise the licensed products and, to a lesser extent, to service customers, train distributors or replace physical production assets.

4.1.2 Comments on the TTBE

(74) Interested parties were also asked to provide comments concerning the operation of the TTBE. The questions were of a general nature and essentially aimed at:

- identifying difficulties and advantages experienced by industry in the application of the TTBE,

- assessing whether the basic policy objectives underpinning the TTBE (i.e. development and wide dissemination of innovation throughout the Community while protecting effective competition in technologically new or improved products) were fulfilled in practice, and

- ascertaining whether the current Commission approach to technology licensing should be reviewed.

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[32] IPRs are considered to be in a mutual blocking position if the holders can not exploit their own IPR without infringing the other’s IPR.

The questionnaire also focused on specific issues relating to individual provisions of the TTBE. The views expressed in reply to these specific questions are taken into account in section 5 of the present report. In general, the vast majority of comments highlight that, despite certain advantages, the TTBE presents a number of major shortcomings.

(75) On the one hand, all commentators recognise that the TTBE has the advantage of being broader in scope and easier to apply than the preceding block exemptions on know-how and patent licensing. Some also express the view that, being very specific on what is not allowed (i.e. a comprehensive black list), the TTBE has the merit of providing legal certainty. Some also emphasise that the absence of market share thresholds facilitates the application of the block exemption. Finally, it has also been observed that the TTBE is sometimes used as a guideline.

(76) On the other hand, the criticism levelled against the current approach focuses on the following aspects:

- The TTBE is perceived as being too formalistic and rigid. This has become particularly apparent when compared with the new generation of block exemptions in the field of vertical restraints and horizontal co-operation agreements. In particular, the structure of the TTBE is considered too complex. In addition, the lists of exempted clauses, white-listed clauses, blacklisted clauses and exclusions are having the effect of forcing companies into a legal straitjacket which may discourage dissemination of technologies or deter more efficient transactions. It is also considered unclear how the scope of application of the TTBE interfaces with Regulations n° 2658/2000 on specialisation agreements, 2659/2000 on R&D agreements and 2790/1999 on vertical agreements.

- Certain provisions are considered overly detailed and often confusing, with the result that there are sometimes doubts as to the application of the exemption. In particular, the interpretation of certain basic concepts seems unclear. For instance, the TTBE does not clearly distinguish between 'improvement' of the licensed technology and 'new' technology entailing an essential leap forward, with the result that the duration limits imposed by the TTBE on license agreements are difficult to apply. Another example is the definition of know-how, which is not the same as in the new vertical and horizontal block exemptions. The same is observed in relation to the definition of 'competitor', which is not in line with more recent legislation.

- The TTBE is too narrow in scope and does not cover some common licensing practices, so that many agreements need to be notified to the Commission. In particular, as the Regulation does not cover licences involving more than two parties, multilateral technology pools and multiparty package licences involving companies owning complementary IPRs are excluded from the benefit of the block exemption. Also, the fact that the Regulation covers non-patent IPRs such as copyright, design rights and trademarks only when they are ancillary to a patent licence puts many agreements, particularly copyright licences of software, in a situation of legal uncertainty. In this respect, some commentators indicate that they often refer to the TTBE as a guideline for assessing non-patent licensing agreements under Article 81.

- The current rules are too focused on territorial exclusivity clauses. In addition, they exclude certain common licensing arrangements from the benefit of the block exemption without sound economic justification. In particular, some commentators argue that the TTBE contains too long a list of restraints (e.g. non compete obligations, tying, quantity restrictions including site licences, certain forms of grant-backs) which are presumed illegal or are regarded as highly suspect even when the parties lack market power and are in a vertical relationship.

- The usefulness of the opposition procedure under Article 4 of the TTBE is doubtful. In general companies seem reluctant to avail themselves of this possibility because they prefer not to disclose their arrangements, because the situations to which such a procedure may apply are not always clearly specified, or to avoid the administrative burden of a notification.

(77) In accordance with the foregoing, a majority of comments suggest that the TTBE fulfils its purported objectives only to a limited extent.

(78) Where the parties manage to shape their agreements so as to fit into the framework of the block exemption, the legal certainty provided to them by the Regulation has a positive impact on the development and dissemination of technology. However, given its formalistic and prescriptive character, it is also argued that the current rules do not encourage new forms of licensing (e.g. multiparty package licences, licensing to joint ventures) and new approaches to technology transfer (e.g. non-compete obligations to protect know-how transferred to the licensee, bundling of an IPR licence with the supply of non patented products). The lack of clarity of the Regulation acts also as a disincentive to licensing. Some commentators observe that the long list of hardcore restraints currently provided for in the TTBE is the result of an approach that does not take sufficient account of the parties' market power and inter-brand competition. It is argued that a more economic-based approach could lead to a less rigid regime for licensing agreements and, therefore, to a wider dissemination of technology.

(79) While the prescriptive approach of the TTBE was clearly intended to protect effective competition, it is not sure that it has fully achieved that objective. On the one hand it is observed that compliance with the terms of the Regulation acts as a straitjacket on the contracting parties and as a disincentive to the dissemination of new technologies. As a result, it may hinder or retard market entry by new competitors. On the other hand, some commentators consider that, as the TTBE does not take account of the parties’ market power and the competitive relationship between the licensor and licensee, it may cover restrictions benefiting powerful or even dominant firms, to the detriment of customers and small and medium sized companies.

(80) In conclusion, the replies sent in response to the Commission’s questionnaire are generally supportive of an in-depth review of the TTBE.

(81) In this respect, most comments insist on the need to proceed with a radical simplification and clarification of the current rules along the lines set out by the new block exemptions for vertical restraints and horizontal co-operation agreements. This would imply, in particular, the adoption of a new block exemption covering a wider range of licensing agreements, the rejection of the white and grey list approach (together with the related opposition procedure) and a shortening of the current list of hardcore restrictions. Moreover, the adoption of specific guidelines clarifying certain key issues would be welcomed.

(82) Many comments point out, however, that the introduction of a market share threshold would backlash on innovation and licensing because the safe harbour would cease to be available if and when the licensed invention would become a success in the market. This is considered to be especially true if a market share threshold would be applied to technology markets as opposed to actual product markets. Defining relevant markets and calculating market shares would raise specific difficulties in the field of technology licensing. The same commentators add that issues of market power are sufficiently addressed under Article 82 and

by the corresponding ECJ case law. Reference is made in particular to the *Tetrapak* judgement.[33] By contrast, other comments consider that at present the Commission's approach to technology licensing takes insufficient account of issues of market power and inter-brand competition and emphasise that these two issues are fundamental to a proper assessment of the impact of such agreements on competition.

(83) Finally, it is suggested that other IPRs, including copyrights, design rights and trademarks, should be covered by one umbrella block exemption on condition that a more flexible approach would be adopted. Such an extension would be in the interests of legal certainty and would improve consistency across the field of IPR licensing. This view is opposed by other commentators who consider that issues of commercial practice and public policy involved in licensing of non-software literary work, of artistic works, of brands, and of databases are very different from those involved in technology transfer.

4.2 The Commission's enforcement practice

4.2.1 Statistics

(84) During the period from 1996 to 2000, the Commission registered approximately 140 new cases concerning the application of Article 81 and/or Article 82 to practices involving the exercise of IPRs.

(85) This figure includes all cases the centre of gravity of which was either the licensing of IPRs between undertakings for the purposes of manufacturing goods or services, or an alleged abusive behaviour by the IPR holder or its licensees. It does not include however those cases where the licensing of IPRs did not constitute the primary object of the practice (i.e. certain vertical agreements such as franchising and specialisation agreements) or concerned the development and joint exploitation of IPRs resulting from R&D agreements.

(86) If compared with the 5-year period from 1991 to 1995, during which the number of new IPR cases did not exceed 120, the Commission's relevant workload showed an increase of about 16%.

(87) Considering that approximately 2020 new cases concerning the application of Article 81 and 82 were opened during the period from 1996 to 2000, the above-mentioned category of IPR cases represented around 7% of the Commission's total workload in the field of antitrust.

(88) A breakdown by type of IPR shows that the majority of the cases opened during the last 5 years concerned patent and/or know-how licences (56%). Cases of which the primary object was the exercise or licensing of copyrights represented about 22% of all IPR cases. This group includes procedures relating to content licences (e.g. mechanical reproduction of music works), performing rights (e.g. broadcasting licences, agreements involving collecting societies) and copyright-based transfers of technologies (e.g. software licences, computer implemented inventions). Trademark licences for the purposes of manufacturing represented approximately 19% of all IPR cases. Within this group, roughly half of the procedures concerned pure trademark licences and the other half related to transactions where a trademark was licensed in connection with know-how. Finally, the remaining 3% were made up of cases concerning other types of IPR (in particular, licenses of design rights and access to protected databases).

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[33] Tetra Pak v Commission [1990] ECR II-309.

(89) As regards the origin of the procedures, the vast majority of cases originated from notifications concerning the application of Article 81 (75%), while the remaining part (25%) was the result of complaints or ex-officio proceedings involving the application of both Articles 81 and 82.

(90) Rare have been the instances where the notifying parties have availed themselves of the opposition procedure provided for in Article 4 of the TTBE. In fact, the application of this procedure was requested in only 5% of all notifications concerning patent and/or know-how licences. In addition, the Commission has never applied the withdrawal procedure under Article 7 of the TTBE.

4.2.2 Issues raised in notifications

(91) Looking at the reasons that made the parties notify their agreements, the following can be observed.

(92) *Firstly*, a large number of notifications concerned licensing agreements that for various reasons did not come within the scope of the TTBE. This occurred for instance when:

- the licence had as its primary object IPRs other than a patent or know-how, or

- the agreement was entered into between more than two parties (e.g. pooling arrangements, licence packages, multiparty licensing programmes), or

- the agreement was structured in a manner which did not fit into the form defined in Article 1 of the TTBE (e.g. non-exclusive licences), or

- the parties agreed on more complex types of co-operation (e.g. licenses of IPRs in the context of the creation of a joint venture, licensing connected with co-marketing activities).

(93) *Secondly*, notifications were also frequently made when the parties were uncertain as regards the applicability of the block exemption or the interpretation of its clauses. It is for instance considered difficult to assess whether trademark provisions in manufacturing agreements involving the transfer of know-how are ancillary or not. Questions have also been raised in relation to the coverage by the TTBE of agreements limiting the licensee's activity to the development of a product and excluding manufacturing activities. The current rules have also created problems of interpretation in relation to certain arrangements containing grant-back provisions, export bans or restrictions limiting the exploitation of the licensed technology to certain specified production units (so-called 'site licenses'). Furthermore, in cases of agreements settling disputes about alleged patent infringements, the parties have chosen to notify so as to avoid any possible doubt as to the legality of their transaction.

(94) *Thirdly*, a significant proportion of notifications concerned agreements containing clauses not expressly exempted (grey clauses). Relevant examples include agreements containing conditions on royalty payments or field-of-use restrictions not fitting into the wording of the TTBE, as well as customer allocation clauses, no-challenge and tying provisions.

(95) *Fourthly*, in some cases the parties sought to obtain an individual exemption for agreements containing clauses expressly excluded from the block exemption (e.g. black clauses such as non-compete obligations, resale price maintenance on the licensed products, territorial exclusivity exceeding the time limits provided for in Article 1 of the TTBE).

(96) An analysis of the notifications dealt with by the Commission during the reference period shows that the vast majority was cleared by comfort letter without further action. Formal decisions were adopted only in very few cases, which related to non-exclusive licences imposing export bans on the licensees[34], licensing arrangements forming part of joint venture agreements[35] and exclusive licences of broadcasting rights.[36]

(97) Certain cases were given publicity either through the publication of a notice pursuant to Article 19(3) of Regulation 17 or through press releases in view of their economic importance or their significance for competition policy.[37] Only a limited number of notifications gave rise to competition concerns and were cleared by the Commission following modifications to the original agreements.[38]

4.2.3 Issues raised in complaints and ex-officio procedures

(98) Looking at the competition issues raised in the context of complaints and ex-officio proceedings dealt with by the Commission during the reference period, the following can be observed.

(99) As regards the application of Article 81, the most recurrent issues include:

- arrangements restricting horizontal competition between actual or potential competitors; these situations cover in particular alleged market sharing between competing IPR holders through cross-licensing agreements or multiparty licensing programmes;

- agreements restricting the licensee's ability to compete with the licensor in areas not directly related to the licensed IPR (e.g. royalty payments extending over products manufactured by the licensee on the basis of his own technology);

- agreements foreclosing competing IPR holders on the market for the licensed products, including attempts to monopolise a sector through agreements setting a new industry standard;

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34 Decision of 14 December 1998 in the case *Sicasov*, OJ n ° L 4 of 8.1.1999.

35 Decision of 14 September 1999 in the case *General Electric Aircraft Engines/Pratt & Whitney*, OJ n° L58 of 3.3.2000, decision of 17 July 1996 in the case *Phoenix/Global One*, OJ n° L 239 of 19.9.1996 and decision of 15 September 1999 in the case *British Interactive Broadcasting/Open*, OJ n° L 312 of 6.12.1999.

36 Decision of 3 March 1999 in the case *Télévision par satellite*, OJ n° L 90 of 2.4.1999.

37 See in particular the following cases: *MPEG-2*, which concerned a licensing program for patents essential to implementing an industry standard for transmitting and storing video signals (IP/98/1155 of 18.12.1998); *DVD*, which concerned the creation of a patent portfolio licence giving access to essential patents on digital versatile disc technology (IP/00/1135 of 9.10.2000); *IBOS*, concerning a multiparty licence for the use of a technology linking the informatic systems of various banks (Competition Report 1996, p. 145); *Michelin/Continental*, involving a trademark license connected with the creation of a joint venture (Competition Report 1997, p. 140).

38 See in particular the following cases: *Canon/Kodak*, involving a co-operation between competitors for the creation of an industry standard based on a new advanced photographic technology (OJ C 330 of 1.11.1997 and Competition Report 1998, p. 147); *Sony*, concerning a network of licensing agreements allowing the licensor to restrict the licensees' ability to compete in the market for products (video games) compatible with its equipment (video game consoles) (Competition Report 1998, p. 159); *Hydro Texaco Holdings/Preem*, concerning a licence for a lubricating oil production technology agreed in the context of (but not ancillary to) the creation of a joint venture (Competition Report 1997, p. 131); *Pripps/Tuborg*, relating to a trademark and know-how licence for the production of beer between two competitors (Competition Report 1998, p. 161).

- exclusive licences foreclosing suppliers competing with the licensee on the market for the licensed products;

- agreements setting production quotas or limiting the exploitation of the licensed technology to a specified production site;

- agreements restricting imports and/or exports by the licensees, or hindering parallel trade;

- patent pools or similar forms of IPR licence packages, particularly in relation to pools covering non-essential patents or providing for extensive grant-back obligations on the members.

(100) As regards the application of Article 82[39], the most recurrent issues include:

- unilateral refusals to license with a view to excluding competitors from downstream or neighbouring markets or preventing competitors from manufacturing products compatible with the IPR holder's dominant product/equipment;

- attempts by a dominant firm to extend its dominance into downstream or neighbouring markets through abusive licensing practices (e.g. leveraging, tying practices);

- excessive pricing or discriminatory conditions in IPR licences;

- manipulation of standard-setting via late claims of essential IPRs ;

- imposition of no-challenge clauses to prevent licensees from asserting their own IPRs;

- systematic filing of blocking patents;

- vexatory patent infringement litigation;

- abuses of rights directed to hinder or retard market entry by manufacturers of generic products (sector of pharmaceuticals).

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39 The present Report only deals with issues relating to the application of Article 81 to IPR licenses. Reference to Article 82 is made because complaints and ex-officio procedures often involve the application of both provisions.

(101) An analysis of the complaints and ex-officio proceedings closed during the reference period shows that, in a number of cases, these have led to in-depth investigations under Article 81 followed by a modification of the agreements concerned[40] or to the application of remedies under Article 82.[41] In other cases, ex-officio procedures were simply dropped or the complaints withdrawn after a preliminary investigation. Other cases led to the adoption of decisions rejecting the complaints.[42]

4.2.4 Concluding remarks

(102) Several indications emerging from the analysis of the Commission's practice match with the comments made by interested parties in the context of the fact-finding exercise.

(103) Despite the improvement brought to the previous block exemptions concerning patent and know-how licences, the TTBE has not succeeded to curb the number of IPR related notifications. The fact that a large majority of notifications did not raise any serious competition concerns means that the Commission enforcement activities and resources have been devoted more to secure legal certainty for companies than to protect competition. This can in part be attributed to the narrow scope of application of the current TTBE, which seems increasingly inadequate to reflect the complexity of modern licensing arrangements (e.g. pooling arrangements), as well as to the uncertainty and ambiguities surrounding the interpretation of certain provisions. In addition, the white and grey clauses approach underpinning the TTBE, and the resulting strait-jacket imposed on industry, may have had the effect of either constraining the parties into less suitable and possibly less efficient contractual arrangements or forcing them to bear the administrative costs of a notification. Furthermore, the Commission cleared a number of agreements containing certain black listed or grey listed restrictions (e.g. non-compete obligations, tying), mostly in view of the relatively weak presence of the parties on the market. This seems to indicate that the TTBE is not sufficiently accurate in identifying what restrictions should be regarded as hardcore, which may eventually deter efficient licensing agreements.

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40 See in particular the following cases: *Microsoft Internet Explorer Licensing,* where the issue was the foreclosure of the market for internet browser software to competitors caused by non-compete and quantity forcing obligations on the licensees (Competition Report 1999, p. 162); *Sega* and *Nintendo,* where remedies were imposed in order to ensure competition in the supply of products compatible with the licensor's equipment (Competition Report 1997, p. 148); *Microsoft/Santa Cruz Operation,* where objections were raised against obligations restricting the licensee's ability to exploit his own technology to compete with the licensor in the provision of operating systems for workstations and servers (Competition Report 1997, p. 140).

41 See in particular the following cases: decision of 3 July 2001 in the case *NDC/IMS* (interim measures) concerning a refusal to license a copyrighted grid (map) of Germany used to present regional pharmaceutical sales data which was regarded as standard by the pharmaceutical industry (not yet published; by Order of 26 October 2001 the President of the CFI suspended the execution of this decision until such time as the Court has given judgment in the main action); *ITT/Belgacom,* concerning excessive pricing and discriminatory conditions for the access to protected data (Competition Report 1997, p. 164).

42 See in particular: *Microleader/Microsoft,* raising the issue of non exhaustion of a copyright on software programmes imported from third countries (Competition Report 1998, p.178); *Info-Lab/Ricoh,* where the existence of a dominant position held by the holder of a design right on an after-market was not considered proven (Competition Report 1999, p. 169); *M6/European Broadcasting Union* and *Canal Satellite,* where the complainants challenged certain exclusive licences of broadcasting rights under Article 81 (Competition Report 1999, p. 167 and 168); *Vickers/Rolls-Royce,* concerning restrictions on sublicensing in the framework of a trademark licence (Competition Report 1998, p. 168).

(104) However, the above analysis also shows that certain cases, mostly brought to the Commission attention by complainants, have unveiled problematic issues, particularly when licensing agreements were entered into between competitors with market power or when powerful licensors or licensees imposed restraints unrelated with the licensed IPR. Furthermore, in exceptional cases, the exclusivity attached to an IPR was overridden by competition rules with a view to preventing abuses of a dominant position. These indications suggest that any possible review of the TTBE must carefully consider such competition risks.

4.3 Competition policy of the Member States in the field of IPR

(105) As indicated above, the Commission invited the competition authorities of the Member States to provide information as to their current practice in the area of technology transfer and intellectual property licensing agreements.

(106) In response, some national competition authorities indicated the existence, in their respective Member States, of specific national competition rules applying to technology transfer agreements, including block exemptions similar to the TTBE. Other Member States have not adopted any special legislation but follow a case by case approach.

(107) Notwithstanding the specificity of different national laws, most national competition authorities have pointed out that, in general, the assessment of IPR licensing agreements under national competition rules is coherent with Community competition rules and with the practice developed by the Commission. However, a number of distinctive features have also been pointed out.

(108) One difference is that the single market objective, which is relevant under Community competition rules, does not normally play a role at national level.

(109) Certain national competition authorities have also emphasised that their analysis of technology transfer agreements takes account of economic factors such as the parties' market power. While such an analysis is not based on the presumption that IPR ownership necessarily creates market power, due attention is paid however to the market share of the parties on the licensed product market and to the existing level of inter-brand competition.

(110) Another important feature in the law and practice of certain Member States concerns the different approach followed in respect of agreements between non-competitors (vertical agreements) and agreements between competitors (horizontal agreements). In these Member States, for instance, territorial exclusivity and no challenge provisions are generally allowed if contained in technology transfer agreements between non-competitors.

(111) Other Member States have indicated that technology transfer agreements have only a marginal importance within their enforcement practice.

5. ISSUES TO BE REVIEWED

(112) The Commission's fact-finding has revealed dissatisfaction among economic actors for the manner in which the TTBE has operated in practice. The scope of application of the TTBE appears to be too narrow, its provisions sometimes unclear and its approach too prescriptive and formalistic. Providing industry with a substantially improved legal framework and ensuring at the same time an adequate level of protection of competition requires a comprehensive and balanced review of the main competition issues involved in technology transfer agreements. The purpose of the present section is to re-assess the main

aspects of the TTBE and to invite interested parties to comment thereupon. As in section 2 above, the following analysis will distinguish between issues relating to the scope of the TTBE (section 5.1) and issues relating to specific restraints (section 5.2).

5.1 The scope of the TTBE

(113) As has already been observed, the TTBE only covers a specific type of licences, i.e. pure or mixed patent and know-how exclusive licensing agreements which are entered into between two undertakings. The scope of the Regulation is therefore defined both by the type of IPR and by the form of the agreement.

5.1.1 Types of IPR

(114) The fact that non-patent IPRs, namely copyright, design rights and trademarks, are covered by the TTBE only when they are ancillary to patent and know-how licences seems to have created uncertainty and doubts as to the Commission's approach. In particular, it has been pointed out that, as a single licence often includes a complex package of IPRs, it may be difficult in concrete cases to determine what is the preponderant element of the licence[43]. It has also been observed that, while the Commission is generally inclined to treat copyright licences in the same way as patent licenses[44], it has never clearly stated that all the principles applying to patents are also applicable to copyright.

(115) This issue is of particular importance for the software industry which, like many other industries, depends upon a chain of copyright licences for manufacture and distribution. In this respect, it should be recalled that agreements under which hard copies of software are supplied for resale and where the reseller does not acquire a licence to any rights over the software but only has the right to resell the hard copies fall within the scope of Regulation n° 2790/1999. Under such distribution agreements the licence of the software only takes place between the copyright owner and the user of the software. This may take the form of a ‘shrink-wrap’ licence, i.e. a set of conditions included in the package of the hard copy which the end user is deemed to accept by opening the package. However, other arrangements do not fall within the scope of any block exemption. These arrangements may include distribution licenses whereby the distributor duplicates the software and provides the physical medium on which the program is stored, as well as the so-called ‘value-added licences’ whereby the software producer allows the licensee to modify the software for particular purposes (e.g. creation of a local language version). This situation has been criticised by some commentators who have pointed out that the lack of certainty in this area is regrettable in the light of the economic importance of software products.

5.1.2 Non-exclusive licences

(116) Unproblematic agreements are sometimes subject to the administrative burden of a notification simply because they do not fit into the model provided in Article 1 of the TTBE. As was the case in the *Sicasov* decision[45], even non-exclusive licences may require notification and may benefit from Article 81(3) only upon individual examination.

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[43] For instance, in a number of notified agreements, know-how and trademark licenses were closely interconnected and equally important for the parties to the arrangement.

[44] See 12th Report on Competition Policy, point 88.

[45] Decision of 14 December 1998 in the case *Sicasov*, OJ n ° L 4 of 8.1.1999.

5.1.3 Exclusive licences

(117) The TTBE covers under Article 1 only one type of exclusive licence, i.e. a licence where the licensee is granted territorial exclusivity. This consists in the licensor granting the exclusive right to use its technology for a period of time to only one company within a territory, which normally also implies that the licensor will not exploit himself the technology in the licensed territory. The TTBE does not cover exclusive licences where the exclusivity is linked not to a territory but to a specified field of use or customer group. In fact, licence conditions limiting the licensee's activity to a certain field of use are exempted under Article 2 only if contained in agreements complying with the conditions of Article 1 (i.e. in licences providing for territorial exclusivity). Moreover, customer exclusivity is blacklisted under Article 3 if agreed between competitors, and treated as a grey clause if agreed between non-competitors (Recital 23). In this respect, the following remarks can be made.

(118) In general, exclusivity provisions in licensing agreements are used to define the scope of exploitation of the licensed IPR between the parties. The object of such provisions is twofold. On the one hand, they confer the licensee the right of exclusively exploiting the licensed technology by excluding parallel exploitation by the licensor or third parties. On the other hand, they enable the licensor to retain residual exclusive rights by prohibiting the exploitation of his IPR by the licensee beyond the scope of the licence. The scope of the licence may be determined by reference to a territory, customer group (e.g. so-called 'second supplier' licences, etc.) or a field of use. The latter may embrace various concepts including a specific technical field of application of the technology (e.g. exploitation limited to a specific product), a product market or a specific activity of the licensee (e.g. exploitation limited to production for in-house consumption).

(119) Exclusivity provisions have in general similar positive and negative effects on competition regardless of whether they are linked to a territory or a customer group. In all cases these provisions have in common that they restrict both the licensee's ability to exploit the technology outside the scope of the licence and the licensor's ability to exploit his IPR within the scope of the licence.

(120) As long as the licence does not contain restrictions unconnected with the exploitation of the licensed IPR, exclusive licences are generally efficiency enhancing. If the IPR holder does not have the assets for the production or distribution of the licensed products, it is more efficient to license to someone who does. Furthermore, exclusivity may be necessary in order to safeguard the specific investments to be made by the licensee against free-riding and to solve a possible hold-up problem. It should also be observed that the grant of exclusive rights generally creates the necessary incentives for both parties to invest in further improvements, which enhances follow-on innovation.

(121) As regards the potential negative effects on competition, it is necessary to distinguish between agreements where the parties are in a vertical relationship and agreements entered into between competitors.

(122) If the parties to the agreement are in a vertical relationship, i.e. are non-competitors, exclusive licences as defined above, and absent other restrictions, have generally no significant negative effect and fall outside Article 81(1)[46]. In fact, in such a case, a situation of

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[46] This is in line with the ECJ case law which has established that, in principle, open exclusive licenses between non competitors do not fall under Article 81(1). See *Nungesser (LC) KG and Kurt Eisele v Commission* [1982] ECR 2015.

no licensing (i.e. no exploitation or self-exploitation of the technology by the licensor) would be worse for competition than the situation resulting from the grant of an exclusive licence. Exclusivity provisions in licensing agreements between non-competitors may raise competition concerns in two circumstances.

(123) Firstly, when the licence affects competition between the licensees. In this respect it should be recalled that in the *Nungesser*[47] judgement, which concerned the grant of an exclusive plant breeders' licence between non-competitors, the Court held that "the grant of an open exclusive license, that is to say a license *which does not affect the position of third parties such as parallel importers and licensees for other territories* is not in itself incompatible with Article 85(1) - now 81(1) - of the Treaty" (italic added). This implies that territorial or customer restrictions between licensees may fall under Article 81(1) (see below at point 5.2.1).

(124) Secondly, when the licensee holds significant market power on the market for the licensed products and exclusivity provisions strengthen his market position. This may in particular occur when an undertaking holds a dominant position in a product market and takes out an exclusive licence for a technology, with the result that other undertakings are prevented from competing on the same market. Such a foreclosure risk was acknowledged by the ECJ in *Tetra Pak I*[48]. The policy choice made in the TTBE was to exempt exclusive licences irrespective of the parties' market share. Thus, pursuant to the current rules, such foreclosure problem can be addressed under Article 81 only through the withdrawal of the block exemption.

(125) In this connection, it is important to specify the circumstances in which the parties to a licensing agreement may be regarded as being in a vertical relationship. Four situations can be distinguished in this respect:

- The licensor does not exploit the technology itself, i.e. he is present only in the relevant technology market, and the licensee does not operate as a supplier in the relevant technology market. In that situation, the parties operate, for the purposes of the agreement, at different levels of the economic process and are therefore in a purely vertical relationship.

- The licensor does exploit its technology, i.e. he is present on both the relevant technology and product market, while the licensee does not operate in either market. Also in this situation, the licence does not remove any competition which could have taken place between the licensor and the licensee absent the licence.

- The licensor and the licensee were producing competing products before the innovation but the licensed manufacturing process or patent product represents such a sweeping breakthrough that there would no longer be any competition between them absent the licence. This situation may also be regarded as vertical in nature.

- The IPRs owned by the licensor and the licensee are in a mutual blocking position.

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47 *Nungesser (LC) KG and Kurt Eisele v Commission* [1982] ECR 2015.

48 *Tetra Pak v. Commission* [1990] ECR II-309. In that case, Tetra Pak was in fact in a competitive relationship with its licensor (BTG) on the technology market for sterile food-packaging processes because, before the licence, it owned already a competing technology. However, despite this difference, the foreclosure problem which was at the centre of the Court's judgement could also arise when the licensee does not own proprietary technology (and therefore is not in a competitive relationship with its licensor) but enters into exclusive licensing agreements covering substitutable technologies.

(126) As explained in section 3 above, the definition of competing undertakings contained in the TTBE takes account of the first and second situation but treats the third and fourth as being horizontal in nature.

(127) If the parties are in a horizontal relationship, i.e. if the licence prevents competition that could have taken place between the licensor and the licensee absent the licence, exclusive licences between competitors may give rise to a number of specific issues, in addition to the competition concerns mentioned above.

(128) Firstly, exclusivity will often lead to the allocation of markets or customers, especially when the exclusive licensing is reciprocal or the exclusivity extends also into non-licensed competing products. Such market sharing is normally blacklisted.

(129) Secondly, under certain conditions, in particular in case of licensing to a joint venture and in case of non-reciprocal licensing, the exclusivity may lead to a loss of inter-brand competition and may in particular restrict competition on innovation markets by reducing the incentive of the licensee to invest in further R&D for its own technology. However, such agreements may also lead to efficiencies. To assess whether the negative effects on competition may be outweighed by the efficiencies the market power of the parties and the structure of the markets affected by the agreement need to be taken into account.

(130) While the above analysis regarding licensing between non-competitors and between competitors is coherent with the economic approach adopted by the Commission in the area of vertical restraints and horizontal co-operation agreements, it is however at odds with the more formalistic approach underpinning the TTBE. In this respect, the following may be observed:

(a) The TTBE covers, under Article 1, only territorial exclusivity and does not block exempt licenses where exclusive rights are granted to the licensee in respect of a customer group or field of use. Such a narrow scope of application of the TTBE may constitute for companies a reason of legal uncertainty and, if the agreement is between non-competitors, may be regarded as incoherent with a more economic and effect-based policy approach. However, if the agreement is between competitors, the current coverage by block exemption of territorial exclusivity may take insufficient account of possible market sharing risks.

(b) The TTBE covers exclusive licences of know-how only for a maximum period of 10 years "from the date when the licensed product is first put on the market by one of the licensees" (Article 1.3). In addition, it blacklists any exclusivity provision the duration of which would exceed 10 years even when the original know-how has been improved during that period (Article 3(7)). This approach may appear overcautious if compared with the one followed under Regulation n° 2790, where ancillary licences of know-how in the context of exclusive distribution agreements are exempted without duration limit. Furthermore, treating long-term exclusive know-how licences as hardcore restrictions of competition may effectively deter companies from entering into efficient transactions that could have fostered dissemination of new technologies.

(c) The TTBE is applied with a wide definition of the concept of 'competing undertakings'. A more realistic definition of 'competing undertakings' could substantially reduce the number of licence agreements falling outside the block exemption because of the market share thresholds of 10% and 20% in Article 5. Moreover, Article 5.1(3) excludes from the block exemption certain exclusive cross-licensing arrangements even when the agreement would be necessary to solve blocking positions resulting from overlapping patent claims.

Also, certain agreements involving the introduction of break-through technologies are treated as agreements between competitors while, by adopting a more narrow definition of competitors, they could be regarded as vertical in nature and be more widely covered by the block exemption.

(d) The TTBE does not take into account all the markets that can be affected by exclusive licences. The TTBE does not address in an efficient way possible foreclosure problems and inter-brand competition concerns resulting from exclusive licences between competitors.

(131) In conclusion, the foregoing analysis raises the question of whether Regulation n° 240/96 should be adapted or replaced so as to take better into account all the relevant economic factors and strike a better balance between pro- and anti-competitive effects of exclusive licensing agreements.

5.1.4 Multiparty licences

(132) As the TTBE only covers bilateral licence agreements, a significant number of more complex arrangements, such as licensing programmes, multilateral pools and licence packages fall outside its scope. Furthermore, as has been observed above in Section 4, such arrangements have become increasingly important for industry, given the growing complexity of new technologies. As a result, the Commission has frequently received notifications concerning this type of agreements.

(133) In this respect, it can be observed that multiparty licences, including multilateral pools, may be pro-competitive when they involve non-competing undertakings. In particular, they may allow the parties to bring together complementary inputs, reduce transaction costs (for instance by creating one-stop shopping for a technology package), clear blocking positions and avoid costly infringement litigation. Such efficiency-enhancing and pro-competitive effects are most likely when the pool covers only essential IPRs, i.e. every patent contributed to the pool is necessary for the realisation of the new technology. However, multiparty licensing between non-competitors may also have anti-competitive effects, in particular foreclosure on the innovation or product markets. Furthermore, where an agreement requires the members to grant licences to each other for current and future technology at minimal cost or on an exclusive basis, the parties may have reduced incentives to engage in R&D as each of them can free ride on the accomplishments of other pool members.

(134) Multiparty licensing may have serious anti-competitive effects when it covers mainly competing technologies, i.e. when entered into between companies which would have competed on the relevant technology or product market in the absence of the pooling arrangement . For instance, joint marketing of pooled IPR may allow competitors to collectively fix the prices of their products or technology to third parties and deter new entry. It may also discourage the members of the pool from engaging in research and development, thus retarding innovation.

(135) Having regard to the efficiency enhancing factors and potential anti-competitive effects, the question is open as to whether, and to what extent, multiparty licensing agreements should be covered by a revised block exemption. It should be observed that, as Council Regulation n°19/65 does not enable the Commission to cover by block exemption licensing agreements between more than two parties, an extension of the scope of the TTBE in this regard would require an amendment to the Council Regulation. An alternative would be to treat the agreements at issue only in the context of future Commission Guidelines.

5.1.5 *Cross-licensing and bilateral pools*

(136) Two issues can be raised in this connection. Firstly, criticism has been levelled against the TTBE on the ground that it applies different rules to these similar arrangements. In fact, the TTBE covers bilateral technology pools between non-competitors only if the parties are not subject to territorial restrictions, while cross-licensing between non-competitors is exempted even if the parties grant each other exclusive territories. As bilateral pools and cross-licensing between non-competitors are usually agreed for similar reasons and produce substantially similar efficiency enhancing effects, the more severe treatment of bilateral pools under the current TTBE has been considered unjustified.

(137) Secondly, cross-licensing and pooling arrangements between competitors are covered by the TTBE if the parties are not subject to any territorial restrictions with regard to the manufacture, use or putting on the market of the licensed products or pooled technologies. However, it has been observed that by establishing this rule the TTBE puts the emphasis on one specific concern (sharing of geographic markets) while it neglects other possible anti-competitive effects (e.g. co-ordination of price/output decisions), as well as possible efficiencies (e.g. solving blocking positions).

5.1.6 *Joint ventures between competitors*

(138) Licensing agreements relating to the activities of a joint venture between competitors are covered by the TTBE up to a 20% market share threshold if the licence is limited to production or up to 10% if the licence includes distribution. These thresholds were fixed in view of the corresponding thresholds provided for in Regulations n° 417 on specialisation agreements and n° 418 on R&D agreements. In view of the changes introduced with the adoption of the two new block exemption Regulations n° 2658/2000 and n° 2659/2000, which have in particular raised the thresholds for exemption to respectively 20% and 25%, it is necessary to reconsider the aforesaid provisions of the TTBE.

5.2 Issues relating to specific restraints

5.2.1 *Territorial and customer restrictions*

(139) In the *Nungesser* judgement, the ECJ observed that Article 81(1) applies to the so-called ‘closed licences’, i.e. licences containing territorial restrictions affecting the position of third parties. The notion of closed license covers both an agreement prohibiting sales by a licensee to customers who would export the licensed product into a territory exclusively allocated to other licensees or reserved to the licensor, and an agreement restricting sales by licensees into each others territories.

(140) Article 3(3) of the TTBE blacklists the first type of restriction (i.e. not to sell within the territory for export), while Articles 1.1(4), 1.1(5) and 1.1(6) block-exempt the second (i.e. restriction on active and passive sales by the licensees into each others territories). As regards restrictions on passive sales by a licensee into the territories licensed to other licensees, the TTBE limits the exemption to “a period not exceeding 5 years from the date when the licensed product is first put on the market within the common market *by one of the licensees*" (Articles 1.2 and 1.3, italics added).

(141) It should be noted that this exemption of a restriction on passive sales is not coherent with the policy followed by the Commission in the field of vertical restraints. In fact, Article 4(b) of Regulation n° 2790 qualifies as hardcore any restriction of passive sales in the context of exclusive distribution agreements. It should also be observed that the application of Article

81(1) to a restriction of passive sales in the context of IPR licensing agreements can not be discarded on the basis of the so-called exhaustion theory. In fact, sales made in response to unsolicited orders imply that the buyer searches and purchases the product in the licensee's territory, which leads to the exhaustion of the licensed IPR even if such intellectual property is based on national law. Furthermore, from an economic viewpoint, it could be questioned whether the investments generally sustained by licensees for the use of the licensed technology is of such a nature and magnitude as to justify a wider protection against free-riding from other licensees than for distributors in general. The Commission invites interested parties to provide information and comments in relation to this issue, so as to assess whether the solution adopted by the TTBE needs to be reviewed.

(142) Contrary to territorial restrictions, customer restrictions are excluded from the benefit of the TTBE. In fact, customer allocation is blacklisted if agreed between competitors (Article 3(4)) and classified as a grey clause if agreed between non-competitors.

(143) As has been observed above, when the parties are in a vertical relationship, territorial exclusivity and customer exclusivity produce similar positive effects (i.e. solving free-riding and hold-up problems) and in general produce similar negative effects (i.e. foreclosure and facilitating market partitioning). This would suggest that territorial and customer restrictions should be subject to similar rules. In this respect, the TTBE does not follow a systematic and coherent approach.

(144) The policy followed by the Commission in the field of vertical (distribution) agreements is based on the assumption that there is no substantial difference as to the effects that territorial and customer restraints may have on competition. As a result, Regulation n° 2790 brings both types of restrictions under the same set of rules and block-exempts certain territorial and customer restrictions if the agreement is between non-competing undertakings.

(145) These remarks may lead to the conclusion that, if the licence is between non-competitors, the exclusion of customer restrictions from the TTBE may appear overcautious and may skew the enforcement towards over-deterrence.

5.2.2 Output restrictions and site licences

(146) The TTBE starts from the premise that "the licensor is entitled to transfer the technology only for a limited purpose" (Recital 22) without infringing Article 81(1). This principle is the corollary of the licensor's exclusive rights protected by intellectual property laws. However, the TTBE acknowledges this principle only in relation to certain clauses, such as those limiting the licence to a particular technological field of use or a specific product market, as well as in relation to quantity restrictions if provided for in 'use licences' or in 'second supplier' licences. It does not extend however its application to quantity restrictions in general, which are blacklisted under Article 3(4).

(147) However, if the licensor may legitimately grant a licence only for a limited purpose, it may be argued that quantity restrictions may generally constitute a legitimate way to limit the purpose of the licence. Such restrictions may be justified in fact by economic considerations. For instance, if the licensor's current production capacity is below demand, it may be more efficient for him to license his technology to another firm instead of creating himself extra-production capacity. The licensor will however only do so if he can ensure that the total production of the product in question does not exceed his profit maximising level. In such a case, quantity restrictions may be an essential precondition for the grant of the licence and may ultimately facilitate (rather than hinder) an increase in total output.

(148) An efficiency-enhancing outcome is more likely when the parties are not competitors. In fact, in such a case, quantity limitations cannot restrict competition between the parties, as the licensee, absent the licence, would not be on the market altogether. Such limitations do not therefore result in a decrease of total output and do not restrict inter-brand competition.

(149) Quantity restrictions agreed between non-competitors may however restrict competition by reducing the incentive of licensees to compete with each other. The TTBE also considers that quantity restrictions may have the same effect as export bans (Recital 24), although some commentators have contested the likelihood of such an effect since the agreement does not prevent the licensee from selling across the border.

(150) On the other hand, when the licensing agreement is between competitors, quantity restrictions may have serious anti-competitive effects as the switch to the new technology generally causes the licensee either to give up his own production process or to refrain from investing in extra-capacity for production facilities based on his own technology. Thus, production quotas agreed in licensing agreements between competitors may easily lead to a straightforward output restriction. In addition, if quantity restrictions cover also other substitutable products manufactured by the licensee on the basis of his own technology, the agreement amounts to a sham cartel.

(151) In the light of the foregoing, interested parties are invited to provide comments as to whether, or to what extent, quantity restrictions should continue to be regarded, in the light of a more economic approach, as hardcore restrictions.

(152) Specific issues arise in relation to *site licences*.[49] A site licence can be defined as a licence whereby the licensor provides the licensee with all the technology required to construct, operate and maintain a production facility located on a particular site. In some cases the licensee is entitled to expand the capacity of the licensed facility or obtain a licence for a further facility on normal commercial terms, in which cases the site licence does not give rise to an output restriction. In some cases, however, the licence is limited to a plant with a specified name plate capacity, amounting to an output restriction.

(153) The question is whether the above distinction between agreements between competitors and non-competitors should apply also to site licences that amount to an output restriction.

5.2.3 Non-compete obligations

(154) Article 3(2) of the TTBE prohibits all obligations preventing one party “from competing with the other party, with undertakings connected with the other party or with other undertakings in respect of research and development, production, use or distribution of competing products". Therefore, the TTBE treats all types of non-compete obligations as hardcore restrictions, regardless of the competitive relationship between the parties and their position on the relevant markets. Moreover, the TTBE does not distinguish between restrictions affecting the licensee's ability to carry out independent R&D, to use third parties' or his own competing technology, or to distribute competing products.

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49 Site licenses provoked attention in particular when, in April 1997, based on a complaint lodged by Repsol Quimica, the Commission issued a statement of objections in relation to an agreement between Arco Chemical and Repsol which prevented the latter from expanding its existent capacities through a new production site in Spain.

(155) A look at the past Commission's practice concerning IPR cases shows that non compete obligations have generally been forbidden.[50] The ECJ case-law, however, is more balanced. For instance, in the case *Kai Ottung v. Klee & Weilbach* the Court found that non-compete obligations "*may* depending on the economic context in which the agreement was concluded, restrict competition within the meaning of Article 85(1)" (italic added).[51]

(156) A first distinction to be made is whether the licensing is between competitors or between non-competitors. Non-compete obligations in licence agreements between competitors risk to enhance collusion by for instance foreclosing third parties technology from the market, limiting independent R&D by the parties or increasing similarity between the parties adopting the same technology.

(157) In practice, however, non-compete obligations may be more often used in licence agreements between non-competitors. In the latter case, the main possible negative effect is foreclosure of third parties' technologies or products from the market. This negative effect depends, amongst other things, on the market power of the licensor, other entry barriers to the market, the duration of the agreement and possible cumulative effect of similar agreements. The main positive effect from non-compete obligations is that these may help to overcome free-riding problems. In particular, a licensor could refrain from licensing if he was not sure that his know-how or technology would not benefit the production and commercialisation of competing products.

(158) By analogy with Regulation n° 2790, which covers licensing of IPRs ancillary to distribution (e.g. franchising), it could be assumed that when, in licences between non-competitors, the licensor's market share does not exceed a certain threshold, restrictions imposed on the licensee not to use competing technology or not to use or sell competing products are not likely to create a significant foreclosure effect on either the technology or product market. Hence, contrary to the current approach, they could generally be covered by the block exemption.

(159) When the licensor restricts the licensee from carrying out competing R&D it may be less obvious that the licensing agreement is between non-competitors. Also, the efficiency justifications may be less strong and the risk of retarding innovation may be more important. This risk increases when the obligation not to compete in respect of R&D covers or affects technological fields unconnected with the licence.

(160) These issues are closely related to the debate concerning the use of market share thresholds in the context of technology transfer. Interested parties should comment on the extent to which non-compete obligations should be block exempted.

5.2.4 Tying

(161) In the past, the Commission has generally taken a negative stand in respect of tying where it concerned non-patented products supplied by the licensor directly[52] or by undertakings designated by the licensor[53]. In the *Windsurfing* judgement[54], the ECJ upheld a Commission decision condemning a licensing agreement whereby the licensor made the

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50 See *AOIP/Beyrard* of 2.12.1975 and *Vassen/Morris* of 10.1.1979.

51 Case 320/87, ECJ Report 1989, p. 1177.

52 See for instance the Commission's decision of 10.1.1979 in *Vassen/Morris* case.

53 See for instance the Commission's decision of 26.7.1988 in *Velcro/Aplix* case.

54 Case 193/83, ECJ Report 1986, p. 611.

licensing of a patent (covering rigs for sailing boards) conditional upon the acceptance by the licensee of an obligation to purchase, use and sell only boards previously authorised by the licensor. In this case, the scope of the licensor's patent did not cover the tied products (i.e. the boards to be used with the rigs). Given the circumstances, the ECJ held that "the obligation arbitrarily placed on the licensee only to sell the patented product in conjunction with a product outside the scope of the patent [was not] indispensable to the exploitation of the patent" and, for that reason, fell under Article 81(1). The Court, however, did not enter the discussion concerning the applicability of Article 81(3) to such an obligation. Hence, the ECJ case law does not prejudice the possibility to take into account, under Article 81(3), possible efficiencies resulting from tying.

(162) The net competitive effects of tying generally depend on the degree of market power that the licensor has in the relevant technology and product markets. Thus, tying may be harmful when a licensor with market power uses this restraint to extend this power from the tying product market to the tied product market, so as to foreclose rivals in the second market or to obtain supra-competitive prices. A similar reasoning could apply when tying is used to force the licensee to accept other licences.

(163) While the TTBE is silent as regards possible efficiencies arising from joint production or joint distribution or quality standardisation, it should be recalled that the Commission's approach to tying has considerably changed following its policy review in the field of vertical restraints. In particular, Regulation n° 2790 block exempts tying between non-competitors up to a 30% market share threshold.

(164) This raises the question of whether the TTBE should be reviewed with a view to removing tying between non-competitors from its ‘grey’ limbo by block exempting it up to a certain market share threshold, in line with the rules applicable to vertical restraints. Interested parties comments are welcomed.

5.2.5 Grant-backs

(165) As has been indicated in section 2.2, non-exclusive reciprocal grant-back obligations between licensor and licensee are covered by the TTBE while non-reciprocal grant-back obligations on the licensee or exclusive grant backs for severable improvements are not exempted by the TTBE and are treated as a grey clause.

(166) In economic terms, grant-backs may enable the parties to share the risks and costs of further innovation based on the licensed technology, which may promote innovation and subsequent licensing of the results of the innovation. On the other hand, grant-backs may harm competition if they reduce significantly the licensee's incentive to invest in improving the licensed technology. Compared with an exclusive grant-back, a non-exclusive term is generally unlikely to have anti-competitive effects. Exclusive grant-backs, instead, may affect the ex-ante incentives of the licensee to undertake innovation on the licensed technology.

(167) It is questionable to what extent the exclusion of non-reciprocal obligations from the block exemption is indispensable to protect the licensee’s ex-ante incentive to innovate.

(168) The TTBE should therefore be reviewed so as to clarify whether non-reciprocal and certain exclusive grant-backs may benefit from a block exemption.

5.2.6 No-challenge clauses

(169) In the perspective of the suppression of the notification system the legal treatment of no-challenge provisions, which are currently classified by the TTBE as grey clause, needs to be reassessed.

(170) In order to justify a possible extension of the block exemption to this type of restrictions, it can be argued that no-challenge clauses may in certain circumstances facilitate the grant of a licence and the dissemination of the technology. An example might be the prospective grant of a license by a small technology company to a larger firm, where the SME could fear that the licensee would absorb the know-how and then challenge the validity of the patent. By contrast it can also be argued that if the licensed patent is effectively invalid, or the licensed know-how is not substantial and secret, no-challenge clauses may have significant anti-competitive effects without any benefit. They may lead to higher prices for the licensed product as the licensee remains subject to royalty payments. They may also prevent the licensee from competing with the licensor. This may be the case for instance where the licensee would be prevented from challenging the validity of IPRs unconnected with the license.

(171) The ECJ case law appears not yet fully developed on this specific issue. In *Bayer v. Süllhöfer* the ECJ established that "a no-challenge clause included in a patent licensing agreement *may*, in the light of the legal and economic context, restrict competition within the meaning of Article 85 (1) of the EEC Treaty" (italic added).[55] The Court added that it is in particular necessary "to verify whether, given the positions held by the undertakings concerned on the market for the products in question, the clause is of such a nature as to restrict competition to an appreciable extent".[56] However, in its earlier *Windsurfing* judgement, the ECJ has stated that "such a clause clearly does not fall within the specific subject-matter of the patent" and violates Article 81(1).[57]

(172) In addition, it should be recalled that Commission Regulation n° 2659/2000 does not cover R&D agreements where the parties are prevented from challenging the validity of the relevant IPRs, without prejudice however "to the possibility to provide for termination of the research and development agreement in the event of one of the parties challenging the validity of such intellectual property rights".[58]

(173) Interested parties' are asked to comment on the appropriateness to apply in a future block exemption for licensing agreements an approach similar to the one followed in Regulation n° 2659/2000.

6. CONCLUSIONS AND OPTIONS FOR THE FUTURE

(174) The preliminary assessment of the TTBE contained in this report shows strong reasons to undertake an in-depth review of the TTBE.

(175) Firstly, the TTBE is generally considered overly formalistic and too complex and in addition too narrow in scope. It does not cover a number of licensing arrangements that do not

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55 Case 65/86, judgement of 27.091988, ECR 1988, p. 5249, point 16.

56 *Id*., point 19.

57 Case 193/83, judgement of 25.2.1986, ECR 1986, p. 611, points 92 and 93.

58 Regulation n0 2659/2000, Article 5.

pose great risks to competition and this problem seems to increase with new trends in licensing. In some cases, by imposing on companies an unnecessary compliance burden and forcing industry into a legal straitjacket, the TTBE may skew enforcement towards over-deterrence, which may have a negative impact on dynamic efficiency.

(176) Secondly, it does not seem to place sufficient weight on inter-brand issues and does not follow a consistent approach as regards the competitive relationship between licensors and licensees. It thereby may cover certain licensing arrangements that do not deserve coverage because they may work to the detriment of competition and result in a reduction of dynamic and allocative efficiency.

(177) Lastly, the TTBE is out of line with the recent reforms concerning vertical and horizontal agreements, which affects the coherence of Community competition policy and the predictability of the rules.

(178) The Commission may therefore have to devise new competition rules for licensing agreements. This could take the form of a wide, umbrella-type block exemption regulation in combination with a set of Guidelines. The scope of the new block exemption regulation will need to cover a wider array of patent and know-how agreements than the TTBE, but it will also be necessary to investigate the appropriateness to include other IPR agreements, in particular copyright licensing agreements. Alignment will be sought with the new type of block exemption regulations by limiting the prescriptive character of the new regulation and by concentrating on a limited hardcore list.

(179) It will also need to be considered to what extent the coverage of such a wide block exemption needs to be limited by the use of market share thresholds or some other threshold in order to effectively protect competition and innovation. A point of departure in this respect will be that a high market share or market power may not have to be perceived negatively as it will often be the result of successful innovative activity and it is this activity that needs to be protected. However, it is also true that most negative effects on competition arise in situations where licensor or licensees have a certain level of market power and where thus a general block exemption may be less appropriate. In addition the following can be remarked:

- it is more appropriate to work with market share thresholds for restraints that do not relate to the exploitation of the licensed IPR than for restraints that do relate to the licensed IPR;

- as regards restraints that do relate to the licensed IPR, it is more appropriate to work with market share thresholds for licensing between competitors than for licensing between non-competitors;

- it is not appropriate to cover licensing by dominant companies by a block exemption, as anti-competitive agreements of dominant companies can in principle not be exempted. However, in guidelines it could be explained in which situations licensing restrictions do not fall under Article 81(1).

(180) In certain licensing situations it may be more difficult than usual to define markets and identify market shares. This may not be the case where the IPR concerns only a small improvement on existing technologies or products, in which case the existing product or technology markets affected by the licensing agreement will be the relevant markets. However, it may be the case where the IPR concerns a major improvement or breakthrough on existing technologies or products. For such situations it has to be investigated whether the

analysis may require the delineation of markets for research and development (innovation markets) and whether other indicators of market power could be used.

(181) The Commission will have to consider whether it is thought necessary that the future block exemption regulation covers also multiparty licensing. If so, this will require an amendment of Council Regulation 19/65 which currently only allows coverage of licensing agreements between two parties.

(182) Without excluding other possible options that should also be discussed, the Commission is submitting to public consultation the following framework for a future regime.

(183) The first and main distinction to be made is that of licensing between competitors and between non-competitors. The Commission will have to consider how in practice this distinction can and should be made. As a starting point for discussion, reference is made to the comments above in points 125 and 126.

(184) As far as licensing *between non-competitors* is concerned the future block exemption:

- could treat restraints that do not relate to the exploitation of the licensed IPR, such as non-compete and tying, in the same way as Regulation 2790/99 (30% market share threshold, certain hardcore restrictions and certain conditions);

- could limit the coverage of restraints that relate to the exploitation of the licensed IPR, such as territorial, customer and field of use restraints, with a dominance threshold. The block exemption would include a limited hardcore list, in particular concerning pricing restrictions and possibly certain territorial restraints. It may also contain conditions which would exclude certain restraints from the coverage of the block exemption (severability);

- Below the market share threshold and the dominance threshold, the withdrawal mechanism would be maintained.

(185) For the restraints that do not relate to the exploitation of the licensed IPR, such a treatment would create coherence with Block Exemption Regulation 2790/99. Compared with the TTBE, it would mean that certain restraints currently in the black or grey lists would be exempted up to a certain market share threshold. The alternative would be not to cover such restraints as is currently the case under the TTBE.

(186) For restraints that relate to the exploitation of the licensed IPR, such as territorial, customer and field of use exclusivity, the dominance threshold would not only be necessary in view of the last condition of Article 81(3), but would also be appropriate to take account of possible foreclosure risks. Such a threshold would only apply in case the agreement falls under Article 81(1) in the first place, for instance in case of foreclosure. A set of accompanying guidelines could describe in which situations exclusive licenses would be unlikely to fall under Article 81(1), having regard in particular to the situation that would characterise the market absent the license. Also, a more limited hardcore list would apply so that certain restraints would no longer be per se illegal: this could include quantity restrictions, certain customer restrictions and maximum and recommended prices. A more nuanced approach would be required for territorial restraints. The hardcore list, while basing itself on Block Exemption Regulation 2790/99, must take account of the specific characteristics of licence agreements.

(187) As far as licensing *between competitors* is concerned, the future block exemption:

- could be limited by a market share threshold up to 25%;

- would contain a hardcore list for restrictions which directly or indirectly:

    - fix prices

    - limit output or sales

    - allocate territories or customers;

- may have to contain a list of conditions which would exclude certain restraints from the coverage of the block exemption (severability).

(188) This would create coherence with Block Exemption Regulation 2659/2000. Compared with the TTBE this would mean a more nuanced approach for pooling arrangements, cross licensing agreements, licence agreements concerning joint ventures and for restraints that do not concern the exploitation of the IPR itself, such as non-compete and tying. These are restrictions which are presently either excluded from the TTBE or blacklisted. It would justifiably provide less protection to territorial restraints between competitors in exclusive licensing agreements.

(189) Above the mentioned thresholds, guidelines would have to clarify competition policy, with appropriate references to the existing Guidelines on Horizontal Co-operation and Guidelines on Vertical Restraints.

(190) In reviewing the current rules and devising a future regime, account has to be taken of the fact that innovation in new products and new technologies are the ultimate source of substantial and major competition over time. Undue emphasis on short-term allocative efficiency may therefore create a socially unfavourable trade-off between static and dynamic efficiency.

(191) As regards the timeframe for this review, it should be observed that, although the TTBE is designed to remain in force until 31 March 2006, it may be necessary to change or replace the TTBE before that date. In particular, in view of the Commission proposals for the modernisation of Regulation n° 17, the grey list approach and the related opposition procedure under the TTBE risk becoming obsolete. The rules on technology transfer agreements will then need to be adjusted to the new legal environment so as to ensure the greatest possible transparency in policy and consistency between competition legislative instruments covering IPR issues.

(192) In order to identify the most appropriate solution for a future regime the Commission is inviting third parties to provide their comments, in particular on the above framework. Observations should be sent by 26.04.2002:

By post, to the following address:

European Commission
Office: J 70 - 5/93
Directorate-General for Competition
B-1049 Brussels
Belgium

By electronic mail, to the following address:

comp-technology-transfer@cec.eu.int

This Report is also available on the World Wide Web, in all the official languages of the Community, at the following address:
http://comm/competition/antitrust/technology_transfer/

Confidentiality: in case your comments may not be disclosed to third parties, please indicate this clearly.