

Comments on the Draft Commission Regulation on R&D Agreements and the Guidelines on Horizontal Cooperation Agreements

SECTION I: BACKGROUND AND OVERVIEW OF THIS PAPER

1. The IP Federation represents technology-intensive UK companies, all of whom are involved in R&D cooperation of various kinds. It is listed on the European Commission's register of interest representatives with identity no: 83549331760-12 and a list of members comprises Annex 1. The Federation thanks the Commission for the opportunity to comment on the draft Regulation and *Guidelines*.

2. The Federation has made a careful comparison of the draft Regulation with the Regulation currently in force (2659/2000). ***In what follows, "old" refers to 2659/2000 and "new" to the draft Regulation.***

3. The Federation believes that the following changes made by the Commission in the new text increase clarity and usefulness to companies seeking legal certainty:

the elaboration of the concept of "specialisation" in new Articles 1.12 and 1.13;

the elimination of old Articles 5.1(e) and 5.1(g), which were redundant, affecting only activities taking place after the end of the 7-year period which limits the exemption in its entirety; and

the creation of a new Article 6 out of a part of old Article 5.

4. However, **the Federation urges the Commission to reconsider some of the changes that have been made compared with the old Regulation**, each of which, the Federation considers, makes for increased legal uncertainty and limits the value of the Regulation. We discuss these changes in detail below in -

Section II of this paper, addressing new Article 3.2;

Section III of this paper, addressing new Article 3.3;

Section IV of this paper, addressing new Article 3.4; and

Section V of this paper, addressing new Article 5(e).

5. So far as the *Guidelines* are concerned, the Federation has two suggestions to make concerning paragraph 134 in the Chapter entitled "Research and Development Agreements" (see Section VI below).

SECTION II: CONDITION FOR EXEMPTION, NEW ARTICLE 3.2

6. New Article 3.2 has no counterpart in the old Regulation, and reads -

"The parties must agree that prior to starting the research and development all the parties will disclose all their existing and pending intellectual property rights in as far as they are relevant for the exploitation of the results by the other parties."

7. We do not know why the Commission has inserted this Article. We *speculate*, however, that the Commission is concerned by the possibilities of “patent ambush” in R&D cooperation analogous to “patent ambush” in standards organisations. However, any such analogy would be invalid, both (i) legally and (ii) practically, as follows:-

(i) Legally, standards-setting raises issues under Treaty Article 102 whereas an R&D cooperation does not. Companies making products or services affected by a standard have *no realistic option* but to comply with it, so that failure by others to disclose essential patents is very serious for them. In contrast, an R&D cooperation is *voluntarily* entered into by the parties, so that any party who is not satisfied by the terms available from the other party or parties on “existing and pending intellectual property rights” can simply “walk away” from the negotiation and seek new collaborators.

(ii) Practically, prior disclosure of “existing and pending intellectual property rights” is generally unworkable in the context of R&D cooperation. R&D cooperation, unlike standards-setting, is an excursion into the unknown, concerned with generating significant new knowledge. Therefore, it is logically impossible to say with any certainty at the outset whether or not exploitation of the results will require licences under existing or pending patents owned by the parties. *A clause in an agreement as required by Article 3.2 would in practice be likely to be inadvertently breached. Accordingly, Article 3.2 is undesirable because it would lead to disputes and legal uncertainty.*

The Federation therefore considers that the issue of “existing and pending intellectual property rights” should be left to the parties to work out their own solutions, and urges that Article 3.2 should be deleted.

SECTION III: CONDITION OF EXEMPTION, ARTICLE 3.3

8. The first sentence of new Article 3.3 reads as follows (underlining indicating the changes compared with old Article 3.2):-

“The research and development agreement must stipulate that all the parties must have equal access to the results of the joint research and development for the purposes of further research or exploitation.”

9. The old wording was not perfect (see 10(b) and 11 below), but it allowed as a reasonable interpretation that all the parties were entitled to receive the results (*ie* the information generated in the project), but that the exploitation might be *unequal* (even between companies *not* covered by the exception for research institutes, etc. in the second sentence of Article 3.3). The addition of the word “equal” implies that all the exploitation rights must be equal, which is contrary to the principal objective of the Regulation, namely to exempt specialisation in exploitation as defined in Article 1.13.

10. The words “The ... stipulate” imply exact copying of the words in the exemption into the agreement. Slavish copying of this wording, without its context, would lead to legal uncertainty.

We therefore propose -

***either* (a) that the first sentence of new Article 3.3 be made to agree once more with the first sentence of old Article 3.2; or**

preferably, (b) that new Article 3.3 be thoroughly revised so that the issues of -

- (i) receipt of the results,
- (ii) the performance of further research using the results, and
- (iii) exploitation using the results -

are clearly separated. We respectfully suggest that the old Article was defective in this regard and that the new Article is likewise defective.

11. A possible wording for proposal 10(b) is the following:

Article 3.3 All the parties must receive the results arising from the joint research and development. All the parties must have the right to use such results for the purpose of further research. All the parties must have the rights to exploit such results in accordance with the other provisions of this Regulation, save that the following parties may agree not to have any exploitation rights: research institutes, academic bodies, or undertakings which supply research and development as a commercial service without normally being active in the exploitation of results.

SECTION IV: CONDITION FOR EXEMPTION, ARTICLE 3.4

12. The main change here compared with old Article 3.3 is the deletion of the second sentence, which read as follows:

“Such right of exploitation may be limited to one or more technical fields of application, where the parties are not competing undertakings at the time the research and development was entered into”.

13. **The Federation does not believe that such a technical field of use limitation infringes Treaty Article 101 (1), and therefore urges the Commission to reinstate the sentence quoted above.** Note that the Technology Transfer Block Exemption Regulation (TTBER) 772/2004, Article 4.1 (c) (i) specifically permits them, even between competitors.

SECTION V: HARDCORE RESTRICTION, ARTICLE 5(e)

14. Article 5 (e) has no counterpart in the old Regulation. It reads thus:

“the requirement not to make any, or to limit, active sales of the contract products or contract processes into territories or to customers which have not been exclusively allocated to one of the parties by way of specialisation in exploitation”.

15. Especially because this Article is new, it is important that it should be clearly understandable by SMEs and inexperienced national Courts. There is no explanation of this new Article in the Recitals of the Regulation. The Federation’s best interpretation of Article 5(e) is attached as Annex 2 to this paper, from which it appears that the object of Article 5(e) is a subtle one; indeed, it is one which the Federation has found easiest to imagine in terms of mathematical “sets” and Venn diagrams. (The Federation has no objection to the *principle* of the new Article 5(e) as it understands it.) We conclude as follows:-

(i) **If the Federation’s interpretation in Annex 2 is *correct*, the Federation urges the Commission to add to new recital (16), which supports new Article 5, the following words:**

In addition, a restriction that deprives any individual customer or territory within the internal market of active selling by all of the parties should be excluded from the benefit of the block exemption.

(ii) But, if the Federation’s interpretation is *incorrect*, the Federation requests the Commission to let the Federation (and others) what is in fact intended, so that we may comment further.

SECTION VI: GUIDELINES, PARA 134

16. **In the event that the Commission adopt the proposals in Section III above regarding Article 3.3, the quotation of “equal access” from the Article will have to be changed.**

17. A separate issue is that of “evaluation vehicles”. A situation which occurs from time to time is this:-

Companies A and B collaborate on building a computer programme for specifying or for testing products. One or both of them tries out an early version of the computer programme produced in the project on its own proposed or existing products, thereby evaluating the early version of the programme so that improvements can be made to it, also within the project. The *products* are pure “evaluation vehicles”, not subjects of the cooperation as such. The cooperation agreement does give ensure that companies A and B receive the code of the programme, *but it does not require the tester to give to the other party full details of the tests, or the “background” relating to the products tested, only enough information to allow the early version of the programme to be improved.*

18. An agreement as summarised in 17 above will not benefit from the new Regulation even if new 3.3 is amended as the Federation has proposed, for the reason that the parties do not receive all the results. However, it surely cannot be that the limitation in question infringes Treaty Article 101(1). Paragraph 134 already deals with other agreements that fail to meet the condition of Article 3.3 but are nevertheless compliant with Treaty Article 101. **The Federation suggests restrictions relating to “evaluation vehicles” should be identified in Article 134 as restrictions that would not normally infringe Treaty Article 101(1).**

IP Federation
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Annex 1 - IP Federation members 2010

The IP Federation (formerly TMPDF), represents the views of UK industry in both IPR policy and practice matters within the EU, the UK and internationally. Its membership comprises the innovative and influential companies listed below. It is listed on the European Commission's register of interest representatives with identity no: 83549331760-12.

ARM Ltd
Babcock International Ltd
BAE Systems plc
BP p.l.c.
British Telecommunications plc
British-American Tobacco Co Ltd
BTG plc
Delphi Corp.
Dow Corning Ltd
Dyson Technology Ltd
Eli Lilly & Co Ltd
Fujitsu Services Ltd
G E Healthcare
GKN plc
GlaxoSmithKline plc
Hewlett-Packard Ltd
IBM UK Ltd
Infineum UK Ltd
Kodak Ltd
Merck Sharp & Dohme Ltd
Nokia UK Ltd
Nucletron BV
Pfizer Ltd
Philips Electronics UK Ltd
Pilkington Group Ltd
Procter & Gamble Ltd
QinetiQ Ltd
Rolls-Royce plc
Shell International Ltd
Sony Europe Limited
Syngenta Ltd
The Linde Group
UCB Pharma plc
Unilever plc
Xerox Ltd

Annex 2 - the Federation's best interpretation of Article 5(e) (see Section V)

Our best interpretation of the effect of Article 5(e) is as follows:-

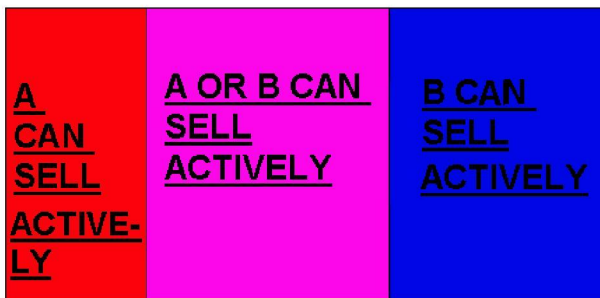
For the 7-year period of Article 4.1, it is permitted for each of two parties A and B to have exclusive active sales rights in sets of territories T_A and T_B respectively. *But* Article 5(e) has the following effect: if there exists a territory X not in set T_A or T_B , then *both* A and B must be entitled to address X with active sales.

The same would apply, *mutatis mutandis*, for customers.

The Venn diagrams below illustrate the same interpretation. In these diagrams, the outermost rectangle represents the set of all territories (or customers) relevant to trade within the EEA.



not hardcore restriction under new Art. 5(e)



not hardcore restriction under new Art. 5(e)



IS hardcore restriction under new Art. 5(e)