

## **LES Comments on:**

### **Draft EU Block Exemption Regulations for Research and Development Agreements and Specialisation Agreements and Draft Guidelines for the Assessment of Horizontal Co-operation Agreements**

#### **1. Respondent Details.**

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These are the comments of Licensing Executives Society (Britain and Ireland) ("LES (B&I)") on the draft EU Block Exemption Regulations for Research and Development Agreements and Specialisation Agreements and the Draft Guidelines for the Assessment of Horizontal Co-operation Agreements, as proposed by the European Commission.

LES (B&I) is the local chapter of Licensing Executives Society International (LESI). LESI is the world's leading association of technology transfer and licensing professionals, with over 11,000 members worldwide. The membership is mixed, not only geographically, but also in terms of members' backgrounds, including business people, professionals (lawyers, accountants and patent agents) and academics, drawn from a broad range of industry sectors. LES (B&I), the local chapter here, is one of the largest with some 500 members and its members are engaged in all the fields of activity listed above.

#### **2. Comments.**

*(References in parantheses are to the relevant sections of the drafts proposed by the Commission)*

##### **1. Draft Block Exemption for Certain Categories of Research and Development Agreements**

**Draft Recital (12) and draft Article 3(2)** refer to a novel pre-condition sought to be introduced by the Commission, namely, full disclosure of all existing and pending intellectual property rights '*in so far as they are relevant for the exploitation of the results by the other parties*', prior to starting the research and development.

The reason for the introduction of this proposed condition has not been fully explained or justified by the Commission. LES (B&I) is not aware of any instances - in the specific context of research and development agreements - whereby (for example) the exploitation of the results of a joint research and development project has been impeded because of a 'patent ambush'.

The inclusion of this condition appears to LES (B&I) to be acontextual, unnecessarily cautious and obstructive. The consequence of inadvertent non-compliance would potentially be very serious and so this pre-condition will have the effect of imposing upon the parties wishing to take advantage of the block exemption potentially onerous due diligence obligations, requiring the parties to seek specialist legal or other expert IP advice, in order to confirm that the pre-condition has been met. The situation where a final decision has not been taken as to whether or not to seek protection for a particular item of intellectual property, or where subsequently a decision is made to protect a particular item of intellectual property, is not addressed. Such situations would provide a further source of difficulties.

This was not required under the 'old' block exemption regulation and LES (B&I) suggests that the Commission needs to clarify what anti-competitive 'mischief' it is seeking to address with these provisions, with specific examples if possible, before introducing (into what should be a relatively simple block exemption) an additional 'layer' of legal complexity and bureaucracy.

**Draft Article 3(3)** presently requires – as a condition for exemption – that 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.

LES (B&I) suggests that this condition should be removed from Article 3.

Parties entering into a research and development agreement may not have equal bargaining power or indeed the same commercial need to have access to the results of the joint research and development. The Commission recognises this by carving out from the draft Article 3(3) provision '*research institutes, academic bodies or undertakings which supply research and development as a commercial service without normally being active in the exploitation of results*'.

LES (B&I) suggests that the Commission's present approach is both too prescriptive and unnecessarily complicated. If adopted, it may result in a number of research and development agreements unintentionally falling outside the block exemption. This is particularly pertinent, bearing in mind the fact that the draft block exemption is intended to *facilitate* collaboration and according to the Commission's Press Release (IP/10/489 of 4 May 2010) is premised upon making exemption more widely *available* to contracting parties, provided that the relevant market share thresholds are not exceeded.

If the Commission believes it to be necessary, a clause that limits access by one of the parties to the results of the joint research and development (i.e. a clause which

permits differential access) could instead be one of the ‘Excluded restrictions’ in Article 6 of the draft Block Exemption.

Finally, LES (B&I) notes the 25% market share threshold (for competitors) in **draft Article 4(2)** and observes that this is different to the 20% threshold for competitors in the Technology Transfer Block Exemption Regulation. LES (B&I) hopes that the Commission will eventually bring the latter into line with the 25% market share threshold in the new research and development agreement block exemption regulation.

## **2. Draft Block Exemption for Certain Categories of Specialisation Agreements**

LES (B&I)’s only comment on this draft block exemption is the market share threshold for the combined market share of the parties (in **draft Article 3**). This is set at 20%. This is (a) different from the 25% threshold chosen in the draft block exemption for research and development agreements (see above) and (b) given that it is unlikely that market power will arise at market shares below 25%, a threshold of only 20% is probably too low. An advantage of moving to a 25% threshold would also be to shorten the block exemption, by allowing **draft Articles 5(2) - 5(4)** to be combined and simplified.

## **3. Draft Guidelines on Horizontal Cooperation Agreements**

The key section of the draft Guidelines that is of interest to members of LES (B&I) – particularly those members who are intellectual property rights (IPR) owners that are active in the ICT sectors – is that related to Standardisation Agreements. LES (B&I) will confine its comments to these paragraphs of the **draft Guidelines (paragraphs 252-323)**.

LES (B&I) notes that the Commission is proposing a different – more prescriptive and less flexible – approach to agreements on standards in this guidance document than was previously the case in the ‘old’ guidelines (paragraphs 159-178). The laying down of ‘conditions’ in the draft Guidelines (at paragraphs 277-287) effectively sets the parameters for a standardisation agreements ‘safe harbour’. Because companies will wish to choose where possible to adopt policies which honour the Commission’s ‘safe harbour’ criteria, this will likely limit the freedom of companies participating in standard setting processes to negotiate agreements that are market driven and commercially optimised.

As a preliminary matter, it is unclear to the members of LES (B&I) why there is a need for a safe harbour approach for agreements on standards. The Commission’s press release (IP/10/489) refers to recent case-related experience, but the recent cases appear in the main to be directed towards relatively rare instances of behaviour in the standard setting context under Article 102 (abuse of dominance), rather than Article 101 (*note: this is reflected in the draft Guidelines themselves – see paragraph 262*).

As the draft Guidelines acknowledge (paragraphs 271-274), there are many different company business models and many ways of earning revenues, from those companies operating a ‘pure’ licensing model to those vertically integrated

companies that are focused on bringing new products to market. There are often many different commercial perspectives and trade-offs to be made in standard-setting negotiations. Flexibility has been the key to the success of these negotiations in the past. LES (B&I) believes that the proposed Guidelines risk discouraging such flexibility.

Turning to the proposed ‘safe harbour’ criteria, LES (B&I) has a number of comments.

- A ‘clear and balanced’ IPR policy does not *necessarily* require the prior, good faith disclosure of IP rights (**paragraph 281** of the draft Guidelines). Some standard setting organisations proceed on the basis of participation: companies participate in standard setting discussions, without necessarily knowing what IPRs are owned by the other participating companies and commit in advance to license only for what is essential to the standard. The draft Guidelines do not appear to cater for agreements reached in this way.
- There appears to be a *requirement* to disclose all relevant existing and pending IPRs before a standard is agreed (**paragraph 281** of the draft Guidelines). If this is what is meant, such an obligation will likely be a significant cost burden for some companies, especially smaller companies. If disclosure is intended to be *encouraged* (rather than mandated) by the Guidelines, this should be spelled out with greater clarity.
- The irrevocable FRAND commitment sought to be imposed (**paragraph 282** of the draft Guidelines) for essential IPRs could potentially lead to mischief, in that companies may be inclined to contend that an important technology is essential, simply as a negotiating tool to obtain a FRAND licensing commitment from a participating company on IPR that is of commercial interest (but which is *not* in fact essential). (It might even enable a company with a dominant position to abuse that dominance.) It is suggested that this paragraph of the Guidelines is unnecessary. It should be deleted. The compulsory licensing sanction that is being proposed would be best left for the parties involved in the standard setting negotiations to agree, if they see fit.
- The proposed wording in the last paragraph of **paragraph 283** of the draft Guidelines appears to be directed at dominant firms under Article 102 and as such, this wording appears to be inappropriate in an Article 101 guidance document. Similarly, references to (undefined) ‘abusive’ and ‘excessive’ royalty rates (**paragraphs 280, 283 and 285** of the draft Guidelines) appear to be out of place in Article 101 horizontal *agreements* guidance.
- The paragraphs directed at royalties, their relation to the value of IPRs and the resolution of royalty disputes (**paragraphs 284-285** of the draft Guidelines) are far too brief to represent an accurate summary of the processes for determining an appropriate royalty rate. It is suggested that these are matters for dispute resolution policies of the standard setting

organisations (or the Courts) and the brief descriptions included in the draft Guidelines are probably not helpful. They should be deleted.

***Further consultation needed***

The effect of the draft Guidelines (if implemented) will likely see companies gravitate towards a more rigid approach to standard setting. Furthermore, a number of standard setting organisations may feel that it is necessary to adopt a cautious approach and may seek to amend their existing policies, in order to bring them into line with the Commission's guidance, with potentially significant compliance cost implications for these organisations and their participating member companies.

The LES (B&I) therefore believes that if the Commission wishes to advocate such a significant change to its policies on standard setting agreements, it should only do so only after the final results of the European Commission's recently concluded "Consultation on the future of European standardization" are known and have been considered. This would allow those interested parties a longer period of time in which to engage properly with the Commission on these important issues, rather than allowing them to be imported almost 'by the back door' in a relatively short, general consultation on horizontal agreements. It would also enable the Commission to become properly informed about the breadth of different commercial approaches to the standard setting process and appropriate norms of company behaviour.

In conclusion, LES (B&I) is concerned that the proposed changes to the Commission's guidance on standardisation do not take into account the fact that most standard setting is ultimately pro-competitive for the consumer. Imposing a 'straight jacket' on the process by the 'back door' of antitrust guidance may have unintended consequences that will potentially impede the standard setting process and discourage standard setting bodies from decision making, not least by imposing the need for excessive and costly legal compliance checks.

Licensing Executives Society (Britain & Ireland)  
25<sup>th</sup> June 2010