Response of Intellectual Property Lawyers Association and Law Society of England & Wales to European Commission consultation on:
(1) draft Technology Transfer Block Exemption Regulation ("TTBER"); and
(2) draft Guidelines on Technology Transfer Agreements ("Guidelines")

Summary of key recommendations

A. Continue to adopt the approach of the 2004 TTBER in relation to “no challenge” clauses.
B. Do not introduce further restrictions on the terms that may be included in settlement agreements in respect of IP disputes.
C. Introduce a simpler (and more liberal) set of rules in the TTBER for ‘mid-level’ technology licence agreements.

1. Introduction

This is a joint response by the Law Society of England & Wales and the Intellectual Property Lawyers Association.

The Law Society of England & Wales (‘the Society’) is the representative body for 166,000 solicitors in England and Wales. The Society negotiates on behalf of the profession, lobbies regulators, Government and others and has a public interest role in working for reform of the law. The Society is registered in the Transparency Register with ID number 38020227042-38.

Its Intellectual Property Working Party (IPWP) contributed to this combined response. The IPWP comprises solicitors who practise in the intellectual property field: they come from a broad range of firms and have expertise across the full range of intellectual property law and practice. Collectively, the IPWP’s membership has experience of advising both large companies and SMEs, in the UK and overseas, and both IP owners and users.

The Intellectual Property Lawyers Association (IPLA) represents law firms in England and Wales with substantial practices in intellectual property litigation, who wish to lobby for improvements in IP law and practice. Some 66 firms are members of IPLA, and the vast majority of patent and other litigation and transactional work relating to intellectual property rights in England and Wales is handled by these member firms. Member firms act for a wide range of clients, from major multi-national groups and companies to SMEs and technology start-up companies, as well as universities and private inventors and investors. IPLA is registered in the Transparency Register with ID number 15066281874-49.

2. Summary of our views

2.1 Aspects of the Commission’s proposals that we welcome
2.1.1 *Continued use of TTBER and Guidelines.* We welcome the Commission’s proposals to continue with a TTBER for the period commencing 2014 and to continue issuing Guidelines on Technology Transfer Agreements.

2.1.2 *Drafting improvements.* We note that the wording of the TTBER and Guidelines has been clarified and sharpened in many areas, and we welcome the drafting improvements.

2.1.3 *Clarification of scope of TTBER.* In the TTBER, we note that the Commission has clarified whether the TTBER or another block exemption regulation is available in respect of licensing (a) as part of R&D agreements, (b) in the context of sub-contracting, and (c) in the context of software distribution, and we welcome the fact that the Commission has clarified its approach. We do, however, have some comments on the detailed wording, as mentioned below.

2.2 *Aspects of the Commission’s proposals where we recommend a different approach*

2.2.1 *Simpler rules for mid-level agreements.* We note that the draft TTBER and Guidelines largely follow the general approach taken in the current versions of those documents. We repeat the recommendation made in our response to the Commission’s 2012 Questionnaire (discussed further below), to liberalise the regime for what we call mid-level licence agreements, i.e. those agreements that neither cause major competition concerns nor are clearly outside the scope of Article 101. Parties to mid-level licence agreements (including managers of commercial companies such as SMEs and their general commercial lawyers) need a simple, clear set of competition rules that can be understood without the advice of an expert economist or specialist competition lawyer.

2.2.2 *‘Termination on challenge’ clauses.* We urge the Commission to reconsider its proposal to include in Article 5(1)(b) (i.e. as an excluded restriction) a provision that allows a party to terminate the licence agreement if the other party challenges the validity of the first party’s intellectual property. It seems to us that this proposal raises a fundamental issue of ‘freedom of contract’: EU competition laws should not present a party with the choice of either (a) being locked into a contractual relationship with another party that is its enemy in litigation, or (b) if it includes a commercially conventional right of termination in this situation, running the risk of a breach of those competition laws. The absence of such a clause is a significant disincentive to a licensor to enter a licence and this proposal may stifle the innovation that results from licensing.

2.2.3 *Settlement Agreements.* The inclusion of an expanded section on settlement agreements in the draft Guidelines is, in principle, welcome. The current enforcement activity and the Commission’s monitoring of pharmaceutical patent settlements gives rise to considerable uncertainty for companies which wish to settle litigation, in particular where one party or the other makes a concession of some kind, or where the parties enter into another agreement at the same time as settling a dispute. However, while the section is expanded, the amount of comfort given to companies entering into settlement agreements appears to be reduced, which is regrettable. We also have significant concerns about the how workable the amended proposals are in practice.
2.2.4 Other comments. We have some comments on some of the detailed proposals of the draft TTBER, as discussed below.

3. The problem of mid-level licence agreements

3.1 In 2012, we responded to the Commission’s Questionnaire to Stakeholders in relation to the Revision of the Rules for the Assessment of Licensing Agreements for the Transfer of Technology under EU Competition Law. In our response, as well as answering the detailed questions set out the questionnaire, we made some general recommendations for the new TTBER and Guidelines. These included the following recommendation:

‘The general approach of any new regulation should be to provide a clear “safe harbour” for most technology transfer agreements that are encountered in practice, based on criteria that can be readily applied by any commercial lawyer or business executive, without the need to consult an economist. The current regulation requires too much economic analysis and is therefore much too uncertain to provide a reliable safe harbour. This applies both to the question as to whether the parties are competitors (particularly potential competitors) in any market, and determining their respective market shares. These requirements are inherently difficult and expensive to assess in technology transfer agreements, and become particularly difficult when they must be assessed by reference to “technology markets”.

3.2 We continue to take the view that the TTBER and Guidelines (in both their current and proposed forms) fail to meet the concerns referred to in the previous paragraph.

3.3 We have the impression from the TTBER and Guidelines that the Commission has focussed on two categories:

(a) Licence agreements that give rise to serious competition law concerns (e.g. because the parties have significant market power) and which require a careful and expert analysis before deciding whether the terms are acceptable from a competition law standpoint; and

(b) Licence agreements that are clearly outside the scope of Article 101. In the words of the Guidelines, “the vast majority of licence agreements are pro-competitive” and the “great majority of licence agreements are compatible with Article 101”. It is not clear to us how the Commission has quantified these statements, or whether it is thinking of documents such as end user licence agreements for consumer software.

3.4 In our experience, most technology licence agreements on which we advise do not fall clearly into either of these categories, and instead occupy a middle ground where they probably don’t cause major competition concerns but are not so trivial as to clearly fall outside Article 101. In this submission we refer to these agreements as “mid-level licence agreements”.

3.5 The TTBER should, in our view, provide clear, simple rules for mid-level licence agreements that can be understood by the parties (including managers of SMEs and general commercial lawyers) and do not require the parties to take advice from expert economists and specialist
competition lawyers. In this context we note that the draft TTBER states that it should “take account of the need to simplify where possible this Regulation and its application”.

3.6 We consider that the Commission has focussed too much on the “worst case” when drawing up its rules (now and in 2004), yet those rules apply equally to mid-level licence agreements. That focus has moved the TTBER away from its original purpose of being a simple, self-contained “safe harbour”. Put another way, and in the words of the learned authors of Technology Transfer and the New EU Competition Rules\(^1\), “the block exemption is no longer useful as a source of legal protection on its own”\(^2\) and “the TTBER has practically no value other than as a reference for identifying hard core restraints”\(^3\).

3.7 Instead, the TTBER has become a kind of guidance note for economists and specialist competition lawyers – useful in that context and for agreements that may raise major competition concerns, but not practical for routine licence agreements that are being negotiated on a budget. Expert guidance of this kind is best placed in the Guidelines. The TTBER should take a simple, “tick box” approach.

3.8 Our view is that the current approach of the TTBER increases legal costs and reduces legal certainty when doing business in Europe, and can be contrasted with the regime in the USA, where mid-level licence agreements rarely require a competition law analysis.

3.9 An example of the complexity of the current rules is in the area of market shares. In our experience, market shares, particularly of technology markets, are extremely difficult to assess and apply to technology licence agreements, not least because of the following:

(a) Technology is often licensed before products are brought to market; very few people understand the concept of a technology market; and market shares are likely to change year-by-year over the lifetime of even the most routine of licence agreements. It is unrealistic to expect the parties to keep assessing their market shares over that lifetime.

(b) The market share “windows” that are covered by the TTBER are excessively restrictive, bearing in mind that the Notice on Agreements of Minor Importance already provides a de facto safe harbour for agreements where the parties have low market shares. They can be illustrated as follows:

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\(^1\) By Anderman and Kallaugher, Oxford University Press 2006

\(^2\) Anderman and Kallaugher, Oxford University Press 2006, Paragraph 1.17

\(^3\) Anderman and Kallaugher, Oxford University Press 2006, Paragraph 1.23
3.10 In practice, the red/brown section in this chart is a small window that is difficult to assess and even more difficult to predict over the lifetime of a licence agreement.

3.11 In our view, the competition rules should start from the assumption that a licence agreement that contains no hardcore clauses is within the block exemption unless a major competition problem is identified (e.g., a breach of Article 102).

4. Non-challenge clauses

4.1 We are very concerned about the new approach to non-challenge clauses. In the current TTBER, such clauses appear on the excluded restriction list (Article 5) but are exempt if they provide only for termination on challenge. Under the amended TTBER even such terminate on challenge clauses are removed from the scope of protection.

4.2 This new approach raises a fundamental issue of “freedom of contract”. It is noted that the circumstances in which even a dominant company can be compelled to deal with a third party are very limited. However, the approach of the draft TTBER and Guidelines is such that even a non-dominant licensor will be compelled to maintain relations with a licensee who attacks the existence of the licensed IPR. This is contrary to existing international practice and to the strong preference of the majority of companies. This preference can be seen across the board, including amongst those licensors which grant high value licences to specific IP rights for specific purposes and to those which wish to grant broad and relatively unrestricted cross-licences, e.g., with the aim of achieving “patent peace” between two companies and fostering the development of both parties’ technology. Indeed, almost every licence agreement known to the authors contains such a clause. The principle of “freedom of contract” (including freedom not to contract, or to end contractual relations) is of fundamental importance and must be respected by the Commission.

4.3 Paragraph 128 of the draft Guidelines suggests that the only circumstance in which the licensor may be entitled to terminate on challenge is where there is some other breach of the agreement. However, any such other breach might well give rise to a termination right in any event. The use of the Windsurfing test in this context is problematic; it suggests not only that private parties have some kind of obligation to raise invalidity proceedings in the public interest but also that it is possible to foresee the outcome of such proceedings. In reality,
there are very few cases, if any, where it is plain that an IP right was granted “in error”, particularly where more complex technology than that involved in the Windsurfing case is in play. If a licensee wants for commercial reasons to avoid or reduce its licence fees, challenging the patent will create very effective leverage for discussions, even if the grounds for a challenge are weak, as invalidity attacks are often very slow and/or expensive.

4.4 The wording that is being deleted has appeared in the block exemptions for patent and know-how licensing, for R&D and for franchising, for several decades (including even in the most recent R&D Block Exemption dating from only 3 years ago). In practice, a very large number of licence agreements applicable in the EU include a clause allowing termination if the licensee challenges the validity of the licensed IP. In addition, licence agreements of this kind are often global in scope. So far as the authors are aware, such provisions are standard around the world and are not liable to challenge under competition/antitrust rules of other jurisdictions. The discrepancy with the R&D Block Exemption in this respect could also lead to companies artificially structuring their agreements to fall within that regime. We recommend that the Commission should consider very carefully before changing a practice that has grown up in the light of EU competition law over many years.

4.5 We are also concerned about the effects on licences which are already in existence. Many such licences will not terminate for some time in the future (this is particularly the case for high value licences, e.g. in the pharmaceutical industry where the licence may be the basis for a licensee developing a new drug indication, something which takes a number of years). Many such licences also structure royalty payments in such a way that the majority of such payments are made later in the life of the licence (due to the need for the licensee to develop a product before facing substantial royalty payments). In future, licensors will be likely to insist on higher payments at an earlier stage of the licence due to the significantly increased incentive for a licensee to challenge a licensed patent to avoid making royalty payments. Existing licensors do not have this option. The short transitional regime suggests that such terms of existing licences will become potentially unenforceable as of 30 April 2015. This is a very serious retroactive alteration to the rights of licensors which might not have granted the licence at all, or might have granted it on significantly different terms, if they had foreseen that such standard terms would become unenforceable.

4.6 We are concerned that this new approach will lead to a reduction in licensors’ willingness to license their technology to companies in the EU outside their own corporate group, and/or will affect licensors’ incentives to agree to flexible royalty metering regimes which benefit licensees. This has the potential to discourage licensing and hence the innovation that is made possible through the sharing of technology. Many parties will be compelled to find an alternative way to terminate a contract on challenge, for example by insisting on the reservation of broad termination rights without cause. This will have the perverse result of decreasing certainty for licensees and potentially of reducing uptake of licences. The Commission should avoid making changes that are likely to result in gamesmanship and reduce respect for the rule of law.

4.7 It may be helpful to give a couple of examples of the issues that the new approach will create:
Example 1

A small licensor (SME Ltd) grants an exclusive licence to a larger company (MegaCorp SA) to develop technology through to commercialisation using experience and resources that the SME does not have. MegaCorp takes over responsibility for prosecuting the applications and maintaining the granted patents in the portfolio (this is a typical provision, for which there are usually good commercial reasons, e.g. if MegaCorp is developing the licensed product for sale it will have a better idea of how to tailor the portfolio to achieve the strongest protection for the final product).

MegaCorp has some success with the product developed on the basis of the licensed technology, but later in the life of the licence, MegaCorp finds that its sales volumes or prices are reducing as a result of competition from alternative products using a different technology. The patents are therefore no longer providing true commercial exclusivity. MegaCorp therefore looks for a way to reduce its royalty burden. It has obtained detailed knowledge in managing the portfolio and developing the technology, and therefore decides to use this to attempt to knock out SME’s patents a few years before patent expiry. It does not have strong grounds for the challenge but starts proceedings in the EPO which take years to resolve and discourages other parties from seeking a licence. The SME is pressured to agree to premature termination of the licence from the higher late stage royalties.

Example 2

A Doctor develops a treatment and obtains a patent on the treatment. The Doctor grants an exclusive worldwide licence to a pharma company. The pharma company takes over prosecution and maintenance of the Doctor’s patent as the pharma company has an experienced patent department and a significant interest in making sure the patent is properly looked after, given the huge costs of developing the treatment and obtaining regulatory approval.

The licence contains royalties and substantial milestone payments payable when the treatment receives regulatory approval in certain countries. Payments then continue for as long as the patent remains in force.

During the development trials various medical issues with the treatment emerge. The pharma company overcomes these issues and is able to obtain its own additional patents covering the way in which the issues were overcome (e.g. formulation patents / patents covering methods of administration). As a result of the medical problems encountered, development and regulatory approval of the treatment took a long time, with approval being obtained only towards the end of the life of the Doctor’s patent.

Due to the Doctor’s limited means and lack of knowledge of the patent system, the Doctor’s patents have certain weaknesses. The invention was a true breakthrough in treatment for patients with the disease but the Doctor had treated patients before filing the patent. Accordingly, there is a potential argument that there was prior disclosure of the treatment. This is by no means certain to succeed as there is a strong counter-argument that what the patients learned would not have been an effective prior disclosure of the invention for the purposes of patent law. The pharma company
learns about these issues as a result of taking over prosecution of the patents.

The pharma company believes that its own improvement patents give it effective exclusivity. Accordingly, it does not need to rely on the Doctor’s remaining patent. As a result, the pharma company has an incentive to revoke the Doctor’s patent. If it does so successfully it will not need to pay the substantial milestones and royalties during the remaining life of the Doctor’s patent. The Doctor will then have received only very limited income from the patent and will likely be deterred from making further inventions. If the pharma company tries to revoke the Doctor’s patent and fails then the licence would continue and the pharma company’s only loss would be legal costs which would be very small in comparison with the substantial milestones and royalties at stake. Even if the challenge is unsuccessful, the costs of defending it are prohibitive for the Doctor.

A right for the Doctor to terminate the licence if the pharma company challenged the patent would have protected the Doctor as the pharma company would not have taken the risk that the Doctor’s patent would be upheld and the pharma company would be left with no licence in its biggest market.

4.8 These are not hypothetical scenarios but are closely based on real situations. Towards the end of a licence, licensees often make hard-nosed decisions about how to avoid paying royalties and the authors of this submission have advised on these sorts of scenarios. This sort of situation is particularly problematic in cases where royalty and milestone payments are weighted towards the end of the life of a licence. As explained above, this is often the case where the licensee has some product development to do (and/or marketing authorisations to obtain) before it has a marketable product. The licensee understandably does not want to make substantial royalty payments until it is receiving income from a product (and indeed the Technology Transfer Guidelines accept that royalty payments can generally be structured fairly flexibly, including payment after patent expiry if that is the most appropriate way to meter use – paragraph 173 of the new draft Guidelines). If it can then, at this stage, attack the patent without any risk of adverse consequences, it may obtain all the benefit of the licence with none, or little of the cost, whilst the licensor is left out of pocket and is deterred from future licensing or even from future innovation. The change would particularly prejudice SMEs who are licensors, as they are least able to defend an attack on their patent portfolio by a large licensee. The SME would also suffer increased costs if they cannot pass on the burden of developing the patent portfolio for fear the licensee would gain “inside” knowledge and be free to attack the portfolio later.

4.9 The current status quo (acceptance of terminate on challenge provisions) has represented a constructive middle way between a strongly pro-IP owner’s position (which would allow even absolute non-challenge clauses) and a more strongly pro-implementer position. The authors note that there has been a shift in the new draft TTBER and Guidelines towards implementers not only in this respect, but also in relation to the amended treatment of grant-backs. At least so far as terminate on challenge clauses are concerned, the Commission has not carried out any economic or empirical study of the effects on incentives to license and to innovate, and on the European economy, of making this change. The proposed change represents a win-win position for licensees, particularly where they are a
significantly larger company than the technology owner. Apart from the costs of litigation, a licensee has nothing to lose by challenging the licensed IP: if they win, they no longer have to pay royalties; whereas if they lose, they only face the continued payment of royalties under the deal they originally signed up to.

4.10 In conclusion, we believe that the position in the current TTBER and guidelines of accepting terminate on challenge provisions is the right one. In reality, if a licensee genuinely believes an IP right to be invalid, it may commence invalidity proceedings in any event given that it would in such circumstances be confident that any infringement action against it would fail. In cases where the outcome of invalidity proceedings is less plain (experience suggests that this would be the vast majority of cases, at least where patents are concerned⁴), there seems to be no compelling reason for favouring actions which will destabilise a contractual relationship for a possible benefit of an uncertain nature for unknown third parties. We strongly urge the Commission to think again about its new approach to terminate on challenge clauses which will prejudice IP owners and licensees.

5. Settlement Agreements

5.1 The inclusion of an expanded section on settlement agreements in the draft Guidelines is, in principle, welcome. The current enforcement activity and the Commission’s monitoring of pharmaceutical patent settlements gives rise to considerable uncertainty for companies that wish to settle litigation, in particular where one party or the other makes a concession of some kind, or where the parties enter into another agreement at the same time as settling a dispute. The fact that the Commission recognises that settlement agreements are “in principle a legitimate way to find a mutually acceptable compromise to a bona fide legal disagreement” is welcome. As is, in principle⁵, the recognition that “In cases where, in the absence of the licence, it is likely that the licensee could be excluded from the market, access to the technology at issue for the licensee by means of a settlement agreement is generally procompetitive”.

5.2 However, we have three key concerns about the new approach, discussed below:

- It is premature;
- There has been an unjustified reduction in the scope of the guidance given; and
- The principles are insufficiently clear to be applied in practice.

The new approach is premature

⁴ This is recognised in Annex III of “Study on the Interplay between Standards and Intellectual Property Rights (IPRs)”, a report prepared for DG Enterprise by Fraunhofer Fokus/Dialogic (April 2011).

⁵ Please see further below as to one area of uncertainty in this provision.
5.3 The current draft seeks to develop the law in a way which has not yet been established by the Court of Justice / General Court. We assume that the draft reflects the Commission’s position in the ongoing cases that the Commission is bringing in this area, but note that these cases are very likely to be the subject of appeals which may well affect how the law is applied in this area. Pending the outcome of such appeals, we would urge the Commission to adopt a conservative approach to the guidance given, and to ensure that it is clear and readily understandable. At present, this part of the Guidelines does not, in our view, fulfil this aim.

**Unjustified reduction in the scope of the guidance given**

5.4 One concern is that less, rather than more, guidance is given by the new draft.

5.5 First, it appears that unlike the existing Guidelines, in which paragraph 209 has been widely understood by practitioners to have general applicability to settlement agreements regardless of whether a licence is involved, the new draft purports to exclude such a reading by means of footnote 81 which states “The TTBER and its Guidelines are without prejudice to the application of Article 101 to settlement agreements which do not contain a licensing agreement”. This provides less, rather than more, guidance and does not assist companies which wish to settle litigation to know whether a settlement agreement will be at risk of competition law challenge.

5.6 The new exclusion of non-assertion agreements from the scope of the guidance on non-challenge provisions is also regrettable, and unexplained by the Commission. Non-assertion agreements have elements of settlement and licence (often relatively unrestrictive). They may be used in circumstances where two companies have broad patent portfolios which could impact on a number of different business areas in circumstances where the companies wish to achieve patent peace, but do not wish to establish a complex metering arrangement across their different patent and product portfolios. Quite often, the ability to agree a non-assertion arrangement rather than a licence facilitates settlement as there is no acknowledgment that a licence is needed. There seems no justification for drawing a distinction between non-assertion and licence agreements and removing the option is likely to make settlement more difficult. In the authors’ experience, such agreements are generally pro-competitive as their purpose is to leave companies free to act independently on the market.

**The guidance is insufficiently clear and lacks practical utility**

5.7 The current draft contains a number of passages which are difficult to understand or interpret with sufficient certainty. The key difficulties are detailed below.

5.7.1 Paragraph 220 refers to “the general public interest to remove invalid intellectual property rights”. As noted in connection with our comments on non-challenge provisions above, companies are not endowed with second sight as to the outcome of future invalidity proceedings. Until the conclusion of relevant judicial/patent office invalidity proceedings, IP rights which have been duly granted are presumptively valid. Given that settlements of disputes relating to IP rights are tolerated as a matter of principle, it is unclear how private
parties which are already in a dispute about the applicability of those rights are to evaluate what the outcome of the litigation would have been if it had continued.

5.7.2 The draft refers to a public policy imperative, but there is also a contrary public policy benefit to permitting parties to withdraw pending litigation, and national court rules often encourage this (or even mandate the parties to attempt to settle) on the basis that it frees up court and party resources. Provided settlement agreements do not have any impact on the ability of third parties to bring future invalidity proceedings, it should be accepted that the public policy arguments in favour of removing invalid IP rights have no part to play in the assessment of settlement agreements.

5.7.3 Paragraph 221 refers to the situation where “in the absence of the licence, it is likely that the licensee could be excluded from the market” and states that in such circumstances a licence agreement is likely to be pro-competitive. However, certain current Commission investigations and the recent preliminary reference from the German Court (Huawei v. ZTE) concern the ability of holders of standard-essential patents to obtain injunctive relief on those patents. Depending on the outcome of these cases, it may in future be determined that such patentees have no right to exclude infringers (and can only claim royalties). Licences granted by such patentees should not be regarded as any less pro-competitive for this reason.

5.7.4 Paragraph 222 refers to the relevance of blocking positions for the assessment of licences granted in the context of settlement agreements. The meaning of the sentence “In these cases, it is particularly necessary to assess whether the parties are competitors, also absent a possible blocking position” is wholly unclear. The position in paragraph 33 of the draft amended Guidelines (and indeed in the current Guidelines) is that where there is a blocking position, the parties are to be regarded as non-competitors. By contrast, paragraph 222 could be taken to suggest that any possible blocking position should be ignored in assessing whether the parties are competitors or not.

5.7.5 It is important for the Commission to clarify what it means here. If the Commission intends to suggest that the existence of a blocking position should be ignored when considering settlement agreements, this will create considerable difficulties as it would mean that the vast majority of settlement agreements would have to be considered as if the parties were competitors and would bring a disproportionate number of licences into the category of agreements which are assessed under the stricter rules applicable to such agreements. In our view, this is wholly inappropriate. The rationale for making a distinction between licences concluded in the context of a settlement of litigation and those where there is no settlement has not been clearly articulated, and such a distinction is not established in the case law (in fact, if anything, Bayer v. Sülhofer establishes the contrary). In fact, the second sentence of this paragraph states that “Licensing in the context of settlement agreements is treated like other licence agreements”. Clarification is required.

5.7.6 Paragraph 223 concerns so-called “pay-for-restriction” settlements. The somewhat cautious approach taken by the draft (such agreements “may under certain circumstance [sic] be caught by Article 101(1)”) is to be welcomed.
5.7.7 However, this brief paragraph in fact provides very limited guidance and has little utility in its current form. There are two main problems.

5.7.8 First, the reference to the concept of “delayed” or “limited” market entry is unclear. A licensee might be considered to be “delayed” only if the licence imposes restrictions going beyond the period of IP protection (i.e. after patent expiry). If this is the intended meaning of this wording, then the idea can be endorsed, as there is clearly a potential for adverse effects on competition if a patentee seeks to extend the scope of its monopoly by agreement. If, however, the concept of delay is to be determined by reference to a supposed delay after the date on which the licensed IP right might have been revoked following the conclusion of invalidity proceedings, then the concept is much more questionable. Any such concept of delay would be based on the assumption that the IP right would have been revoked if proceedings had continued to their conclusion, which is not a fair assumption in the vast majority of cases. Similarly, if “limitation” is viewed by reference to the situation in which the patent or IP right in question does not exist, this necessitates the unfair assumption that the IP right is in fact invalid and appears to endorse the second guessing of the outcome of court/patent office proceedings.

5.7.9 Secondly, the concept of “inducement” is very difficult to understand. It is not sufficient for the Commission to point to the existence of a payment to infer that the licensee has accepted “more restrictive settlement terms than would otherwise have been accepted based on the merits of the licensor’s technology”, as there may be a number of reasons why a payment may be made, and a number of reasons why restrictions (which may be standard restrictions for a licensee) may be accepted. In addition, any payment or other “inducement” does not itself alter the effect upon competition of the clauses of an agreement – even if a licensee did accept more restrictive terms, these will only have an effect on competition if they extend beyond the scope of the intellectual property rights in dispute, or if an inappropriate assumption about the validity of the licensed IP right is made.

5.7.10 It is also unclear how the idea of non-financial inducement (the draft refers to the provision of an inducement “financially or otherwise”) is to be understood. The draft Guidelines address the situation where a licence is granted in the context of a settlement agreement; it is unclear from this paragraph whether a licence could itself be regarded as an inducement and whether, for example, the level of royalties payable under any such licence are required to be assessed as against the royalties which might have been payable in the absence of the settlement agreement, an exercise which would be fraught with difficulty.

5.7.11 Paragraph 226 introduces the concept of IP rights which “were the centre of the dispute”. This phrase is very unclear and in any event sits uneasily with the following sentence in which it is (rightly) accepted that one purpose of settlement agreements may be the avoidance of future disputes. It cannot be excluded that a dispute concerning one patent may be effectively settled only if the settlement agreement also covers closely related patents on which potential future disputes could be expected. Licence grants which are linked to settlement agreements may also need to cover more technology than was involved in the dispute, if they are to be useful to the licensee. Further guidance on this situation would be useful.
5.7.12 In addition, it would be helpful if paragraph 226 could clarify the position on settlement agreements with EU-wide (or global) reach where they have arisen out of national litigation. It would seem reasonable for companies to be able to settle potential disputes in other jurisdictions arising out the same technology (where there is an obvious risk of future disputes) and it would be desirable for the Commission to provide companies with useful guidance by confirming this point.

5.7.13 Paragraph 227 concerning non-challenge clauses in settlement agreements raises a number of the same issues as discussed in the context of non-challenge provisions above, and in relation to the concept of “inducement” which is referred to again in this context. The example given of when a non-challenge clause in a settlement agreement may affect competition is again liable to generate considerable uncertainty. The concept of when a licensor “could reasonably be expected to know that the licensed technology does not meet the respective legal criteria to meet patent protection” is very vague and could again suggest that private parties, and indeed the competition authorities, are deemed to be capable of carrying out their own evaluations of patentability in place of the competent authorities. This approach risks having the unfair result of rendering non-challenge clauses unenforceable and licensors\(^6\) potentially liable to be fined, for example in circumstances where one individual within a company has at some time expressed some measured doubt over the validity of a licensed patent. It is also a particularly onerous provision for companies with very large patent portfolios, as in the IT and telecoms industries, which often favour the grant of broad and relatively unrestrictive cross-licences.

5.8 We urge the Commission to consider these issues carefully, and to seek to produce guidance which is more capable of being applied in practice, and which offers more, rather than less, guidance than under the current Technology Transfer Guidelines.

6. Other problematic points

6.1 Licensing in R&D agreements. If we have understood correctly, the revisions in Recital (7) and Article 9 of the TTBER, and in paragraph (58) of the Guidelines, are intended to state that licensing terms in R&D agreements and specialisation agreements do not qualify for block exemption under the TTBER; instead one should consider whether the block exemption regulations for R&D agreements and specialisation agreements, respectively, apply, and if they do, look at the licensing terms in those regulations. If this is the intention, it could be more clearly stated; currently, the cited references read as if disqualification under the TTBER only occurs if the licence is found in an agreement that receives exemption under one of those other two block exemptions.

6.2 Licensing in software agreements. It would be helpful if the Commission could further clarify, perhaps in the Guidelines, what categories of software licence agreement are within

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\(^6\) Presumably licensees, which could not have had this information and which did not benefit from the restriction, should be exonerated from this approach – but this is not made clear.
the scope of the TTBER. The most obvious category, other than software distribution agreements (which are now to be excluded from the TTBER), is end-user licence agreements (EULAs), which in the vast majority of cases seem unlikely to breach Article 101. Moreover, according to the Guidelines (but not the TTBER itself) EULAs would also seem to be excluded from the TTBER, particularly where the licence is provided in a shrink-wrap form. The example given in section (52) of the Guidelines of software licensing that is within the TTBER is where the software is incorporated by the licensee in a contract product. This seems to relegate software licensing to the category of ancillary IP licensing, which is mentioned in paragraph (51) of the Guidelines. Is the Commission having second thoughts about treating software licensing as a primary type of technology licensing for the purposes of the TTBER, which it first decided to do in the 2004 TTBER? If so, this should be more clearly stated.

6.3 Competing technology used only for in-house production. We assume that the Commission has some practical example in mind that has caused it to tighten up the criteria for exemption in new Article 3(2) of the TTBER. The commentary in paragraph (72) of the Guidelines seems rather theoretical. In general, we are opposed to further limits to the availability of the block exemption.

6.4 Passive sales in other licensee’s territories during first two years of sale. We note that a restriction on passive sales into another licensee’s territory for the first two years of sale has been removed from the list of exceptions to the hardcore provisions under Article 4(2)(b) of the TTBER. Paragraph (117) of the Guidelines now provides that restrictions of this kind may be treated as outside Article 101(1) in limited situations, and that where such situations apply the restriction may “generally” fall outside Article 101(1) for up to 2 years. This new reference seems rather strange. Clearly the Commission is no longer prepared to automatically accept a 2 year restriction on passive sales, and requires an individual, economic justification for any such restriction. If that is the case, why bother mentioning 2 years in the Guidelines? If a justification can be made in an individual case for a period of 2 years, presumably a justification can also be made in another individual case for 2 years 3 months, 2 years 6 months, or longer periods.

6.5 Licensee improvements. We note that the Commission is abandoning the distinction between severable and non-severable improvements, which has featured in previous TTBERs, and is now stating that assignment or exclusive licensing of any kind of improvements by the licensee is outside the block exemption. This seems to us a move in the wrong direction. Typically, as long as the licence agreement remains in force, the licensee will be operating under the terms of the agreement and will not be competing with the licensor. Once the licence agreement has come to an end, the licensor needs to find a new licensee for his technology. He needs to be able to license a package of technology, including the further developments that the first licensee made while his licence continued. This is pro-competitive as it increases the likelihood of the technology being licensed again. For example in the pharmaceutical sector it is essential that the licensor is in a position to offer the new licensee the drug development data that the first licensee generated, otherwise he will waste a large amount of money and time in repeating clinical trials and meanwhile the remaining duration of the licensed patents is reducing.

6.6 Drafting comments on IP terms. We note that the TTBER has introduced a definition of “technology” which is, in effect, a definition of the various types of intellectual property that
protect technology, but is distinct from the separate definition of “intellectual property rights” that appears in the TTBER. We don’t think the drafting quite works. For example, when the term “technologies” is used in Article 1(1)(k) it appears to be being used as a general expression, meaning technical developments, rather than in the sense defined in Article 1(1)(b). We recommend that the defined term “technology” be changed to “technical IP” or perhaps “technology IP”. Whatever defined term is used, it should be used in Article 2(2), line 3, in place of the current phrase “intellectual property right”. Similarly the reference to “other intellectual property rights” in the definition of “technology transfer agreement” now reads very oddly as the “intellectual property rights” definition has been expanded in the draft TTBER from one focussing on ancillary, non-technology IP (eg trade marks) into a generic definition of IP. We recommend that there should be a thorough legal review of the various IP-related definitions and how they are used in the TTBER.