ORGALIME

Comments on the Draft Block Exemption Regulation on the Application of Article 81(3) of the Treaty to Categories of Technology Transfer Agreements

Orgalime Position Paper
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1. Introduction

Orgalime represents the interests of the European mechanical, electrical, electronic and metalworking industries at the level of the EU. Orgalime's members include, at the present time, 34 national trade federations representing some 130,000 companies in 23 European countries. These industries, which include mainly small and medium sized companies, employ some 7.3 million people and account for around 1,200 billion Euro in the GNP, that is over a quarter of the output and a third of the exports of manufactured products of the EU.

Orgalime in general welcomes the Commission's efforts to modernise the block exemption regulation on transfer of technology with a view to simplifying it and making it clearer. We particularly welcome the Commission's flexible approach by including only a limited number of black clauses. However, Orgalime is concerned that the proposed Regulation might lead to legal uncertainty for companies or hamper industry's capacity to innovate and exploit the results of R&D. Orgalime refers in this context to UNICE's position paper. Like UNICE, Orgalime has come to the conclusion that the current proposal unduly limits pro-competition licence agreements and does not meet companies' need for clear and easily applicable European rules.

While fully supporting UNICE's views, Orgalime, however, wishes to highlight the following aspects.

2. General remarks

Owners of exclusive Intellectual Property Rights may forbid third parties to do anything that would infringe their rights. If, however, they grant a licensee the right to use their innovation, this is potentially pro-competitive. Technology licence agreements introduce new products to existing markets or even create entirely new product markets. They also ensure that large investment in duplicate research becomes superfluous. Competition law should exercise its control function only if agreements are concluded that exceed the legally granted sphere of protection of the rights in question.

If the EU is to become the most dynamic economy worldwide, it is not only important that new technologies are being developed, but it is also essential that their quick dissemination be significantly promoted. It is therefore important to create appropriate framework conditions facilitating the transfer of technology to third parties. As holder of an Intellectual Property Right, a licensor must be offered adequate incentives to allow others the use of his technology. In this context, it is important to remember that even restricted competition is economically preferable to no competition at all (i.e. the innovator refusing to grant a licence). It is the licensor alone who decides whether or not he will allow others to share his innovations.

Compared to other agreements, licensing entails a much higher risk because if a contract fails, the technological information once transferred cannot be retrieved. This is another reason why licensors need a high degree of legal certainty.

However, the draft block exemption regulation and the draft guidelines focus mainly on the risks arising from certain clauses in license agreements and less on the resulting economic benefits. Past experience does not justify such a critical approach. A licensor should be encouraged to share technological information with other parties. A licensor reading the guidelines as they stand at the moment might possibly gain the impression that licensing as such is an illegal act.

3. Fundamental Concerns

Orgalime's position is based on the following fundamental concerns:

a. Definitions

Art. 1 (1) (g) imposes a very restrictive definition of know-how compared to the existing block exemption regulation 240/96. It should no longer be considered “substantial” unless it includes information which is indispensable for the manufacture or provision of the contractual products. Previously, this applied to “useful” know-how and we believe there is no need to amend the definition.

b. Market share thresholds

According to Art. 3 of the draft Regulation, the determination of market shares may become necessary with respect to the product market, the technology market and, in individual cases, also the innovation market. However many companies find it extremely difficult to determine only the **product market,** especially as they have to take into account potential competition. When concluding a licence agreement, it is often virtually impossible to assess to what extent a product could be replaced by another, especially as it is frequently an innovation for which no substitute exists. It is even more difficult to assess whether or not this could be the case with respect to potential future competition. Legal uncertainty is almost inevitable. Furthermore, past decisions adopted by the Commission prove that companies’ and competition authorities’ views with respect to the assessment of market shares are often quite dissimilar.

The licensing of existing patents and know-how is covered by the **technology market**. Here, as is the case for the product market, a hypothetical monopolist would be determined if he raises royalties by increments of 5% to 10%. The guidelines do not explain in sufficient detail how the market determination is to be implemented in practice.

The **innovation market** criterion is even less adapted to the practical aspects of licensing which require simple standards to be applied. The guidelines lack a definition of the innovation market as well as clear-cut rules on how to carry through delimitation of a market.

One must also take into account the fact that in the case of new products – which are often the subject of a licence – higher market shares, or even a monopoly, are reached quite easily. Any such market conditions are typical when concluding a licence agreement and do not necessarily lead to prohibited market power. This is particularly true if niche markets, that have no effect with respect to competition law, are created by new products or processes. The introduction of rigid market thresholds is thus inappropriate.

Licence agreements between competitors should be assessed more stringently than licence agreements between non-competing parties. In many cases, however, it is a licence that promotes competition between competing undertakings. This applies, for example, if a company acquires a patent licence from its competitor with the intention of using it for the development of its own product that is subsequently put on the market. In this case, it is difficult to understand why more stringent criteria should apply between competitors.

The market share thresholds of 20% and 30% have been fixed rather arbitrarily. The Commission obviously intended to adapt the rules applying to the transfer of technology to those of the block exemption regulation on vertical agreements. However the two regulations have distinctly different backgrounds that cannot be easily compared. Fixed market share thresholds may be an adequate tool to assess distribution agreements. This does not apply to technology transfer agreements that are extremely difficult to assess. Rules that are so inflexible may, in the long run, reduce the technology flow within the EU and, as a result, halt the dissemination of scientific and technological progress. Licensors may prefer to transfer their technology to licensees outside the EU where more flexible rules are available. Alternatively, licensors may decide to keep their technology for themselves, thus causing a considerable loss to the overall economy and welfare. To adapt the market share thresholds to those of other block exemption regulations does not take into account the particular merits of licence agreements and constitutes another drawback compared to the more extensive Regulation 240/96. In the light of the new Regulation 1/2003, which imposes on companies the decision on the admissibility of a restrictive agreement, it would be necessary to adopt a technology transfer Regulation that is easier to handle and not one that considerably obscures assessment of the relevant facts.

This is why the introduction of market share thresholds should be entirely abandoned. Doing so would minimise uncertainty in determining the relevant markets.

c. Hardcore restrictions

An express possibility for exemption of second source limitations needs to be included in Art. 4.1. of the draft regulation, as these clauses are of major importance in practice. The wording of Art. 4.1. (d), according to which the licensee's ability to exploit his own technology must not be restricted, unless such restriction is "indispensable" to prevent the disclosure of the licensed know-how to third parties, is far too narrow. The word "indispensable" should be replaced by "suitable".

With respect to territorial restrictions within the meaning of Art. 4.2. (b), the proposed Regulation should be amended in such a way that the licensor may prohibit passive sales to another territory. This provision of Regulation 240/96 has stood the test of time, and enables the licensee to penetrate the market with the product in question. Only No. 93 of the guidelines provides that Art. 81 (1) of the Treaty is not applicable to restrictions on passive sales during a period of two years following the date on which the licensed product was first put on the market. To ensure legal certainty, an appropriate clause should be included in the new block exemption regulation for technology transfer agreements. Furthermore, a period of two years is relatively short. In this context, it would seem appropriate to maintain the tried and tested period of five years stipulated in Regulation 240/96.

d. Protection of vested rights

Art. 9 (2) of the new block exemption provides that agreements exempted pursuant to the previous legislation are illegal as of May 2004, if they do not fulfil the requirements of the new Regulation. However it is inappropriate to deny existing contracts any protection of vested rights. Even negligible clauses of a contract would give rise to re-negotiation of ongoing agreements, if they should not altogether be called into question. This provision is a source of much uncertainty; we believe that it would be appropriate to grant old agreements legal protection of their vested rights throughout their currency.

4. Conclusions

The positive aspect of the draft new block exemption Regulation for technology transfer agreements is that it focuses on only a few major black clauses and thus provides more flexibility for the drafting of licence agreements. In addition, technology transfer agreements can be concluded for a longer period of time, i.e. for as long as the relevant protection right is available. The arbitrary period of ten years no longer exists in this context.

Due to the particular features underlying the product, technology and innovation markets and the resulting difficulties in their determination, it would be advisable to dispense with the system of market share thresholds. This is the only way to provide companies with a higher degree of legal certainty and prevent licensing of new technologies, which entails pro-competitive effects, being classified as restrictive to competition. This would enable potential licensors to deal flexibly with the new technology transfer Regulation in their contracts and would further encourage them to actually grant these licences. The Regulation and the guidelines should contribute to pursuing this aim: they should not give the impression that licensing technology is – as a rule – a dubious process. This is not only not at all in line with economic reality but worse may lead to a situation where licensors prefer to keep their technology for themselves or transfer it to licensees outside the EU where more flexible rules are available.

Such a situation would not promote the competitiveness of our industry and would, in our opinion, run contrary to the objectives developed in the Lisbon agenda.