

Deutsche Vereinigung  
für gewerblichen Rechtsschutz  
und Urheberrecht e.V.

Deutsche Vereinigung für gewerblichen Rechtsschutz und Urheberrecht  
Hohenstaufenring 30-32 • 50674 Köln

---

European Commission  
– Directorate –General IV/Competition -  
Director-General Philipp Lowe  
Rue Joseph II/Jozef II-Straat 70

B-1000 Brussels  
Belgium

Sitz Berlin  
Hauptgeschäftsstelle Köln

50674 Köln, den **tt.01.jjjj**  
Hohenstaufenring 30-32  
Telefon (0221) 650 65-151  
Telefax (0221) 650 65-205  
e-mail: office@grur.de  
www.grur.de

Unser Zeichen:  
(Bei der Antwort bitte angeben)

**Draft of a Commission Regulation on the application of Art. 81 Par. 3 of the EC Treaty to categories of technology transfer agreements; ABl. C 235/11 of 01.10.2003**

Dear Director-General,

In the Official Journal of 1.10.2003, the Commission published the draft of a Commission Regulation on the application of Art. 81, Par. 3, of the EC Treaty to categories of technology transfer agreements: (hereinafter referred to as TTBER) and requested interested circles and institutions to comment on the outline.

The German Association for Intellectual Property and Copyright Law (GRUR) is a scientific association whose purposes according to its statutes, includes the counselling of the organs of the legislature on questions of intellectual property. Its members include representatives of all the professional groups with an interest in intellectual property, lawyers and patent agents, judges, professors, civil servants of the special authorities and the ministries concerned with relevant questions as well as company representatives. German Association for Intellectual Property and Copyright Law has, therefore, also traditionally expressed its opinion on all draft legislation affecting the protection of intellectual property. Since the adoption of the TTBER in its existing form also, and in particular, against the background of the far-reaching decentralisation of the application of the cartel law associated with Regulation 1/2003, has profound changes in the assessment of

technology transfer agreements as a consequence, our association's special committee on cartel law, which consists of members specialised in questions of cartel law, concerned itself very extensively in a meeting with the draft as well as with the draft of the Guidelines and, on the basis of the draft prepared by a working group of the committee, produced this expert opinion.

Technology transfer agreements are desirable from the point of competition policy because they promote a widespread use of new technologies, which is regularly of benefit to the market economy and also to the consumers. Therefore, the tendency of the draft to free technology transfer agreements from excessive regulation and to recognise them, on principle, as promoting competition and not as restricting competition, is to be welcomed. An earlier opinion of the EU Commission which was critical of license agreements, in particular, of exclusive license agreements, is rightly not maintained in the draft under the impression of the jurisdiction of the European Court of Justice.

The association therefore welcomes the intention of the Commission to simplify the exemption preconditions for technology transfer agreements. With consideration for the Regulation 1/2003, the association also recognises the necessity to replace the present system of the opposition proceedings, even if opposition proceedings as such have proved themselves and, in particular, provided the contract parties with the necessary legal certainty in situations which were difficult to be judged legally.

In the opinion of the German Association for Intellectual Property and Copyright Law, a new Block Exemption Regulation must satisfy four requirements, in particular:

- Recognition of the competition-promoting effect of technology licenses
- Simplification of the prerequisites for an exemption
- Guarantee of legal certainty for the parties to the contract
- Guarantee of the coherent application of Community law by the national authorities and courts

In the opinion of the association, the draft on hand still requires various corrections to do justice to these requirements.

#### **A. TRANSITION TO A MARKET SHARE-RELATED EXEMPTION SYSTEM**

The transition from the previous system of exemption of enumerative listed facts of the case in connection with the opposition proceedings to a system of market share-related criteria will not do justice to the requirements of a simplified procedure. The assumption of the system of the Block Exemption Regulation for vertical agreements based on market share limits for technology transfer agreements does not take account of the special competition framework conditions of technology transfer agreements. The association has already, on the occasion of the discussion of the drafts which led to the current TTBER (240/96), which originally was also based on market share criteria, persistently warned against the adoption of such concepts (cf. expert opinion of 9.05.1994). Two aspects are essentially decisive in this respect: firstly, the reservations of the Commission expressed in the market share reference, against the exclusive utilization right of the owner of the licensed right or the lack of a relationship between market shares and the competition-inhibiting effect of a technology transfer agreement and secondly, the lack of practicability of the market share criterion.

1. According to the permanent jurisdiction of the European Court of Justice, it must be assumed that the owner of the intellectual property rights is free in the utilization of his rights. Based on this jurisdiction, the principle has been established that the owner of the intellectual property right – rather than to restrain the use of the intellectual property right by third parties – may subject the licensee to far-reaching restrictions. This far-reaching liberty of the licensor in the design of the license conditions is based on the idea that patent license agreements as an emanation of the right of ownership are desirable in terms of competition policy because they cause a widened use of new technologies which benefit the market economy and thus regularly also the consumers. A connection of any kind whatsoever between market shares and undesirable competition effects of technology transfer agreements does not exist. It is to be feared that a too restrictive exemption Regulation will permanently prevent a willing licensing practice. This is all the more likely in that the licensor cannot usually simply “retrieve” a

license once it has been granted due to associated disclosure of business secrets, production know-how etc. in the event of invalidity according to Art. 81 Par. 2 EGV. License-holders will therefore, insofar as uncertainties about the legal position remain, in case of doubt in future not issue a license before they come in the danger that the agreement is ineffective.

This can also not be countered by the fact that an exemption in excess of the scheduled market shares in the future system of the Regulation 1/2003 is not ruled out. In the opinion of the association, the national authorities and courts will essentially orientate themselves in their application of the law on the Block Exemption Regulations. Should individual agreements not satisfy the prerequisites of the Block Exemption Regulations, the national authorities and courts will make increased demands on the exposition of the exemption preconditions by the parties to the contract. This is all the more valid, as the draft of the guidelines generally takes a critical look from a competition point of view of cases, in which the market shares are exceeded.

2. Notwithstanding this objection to a market share-related strategy, the prerequisites for the exemptions in detail are neither clearly recognizable nor practically manageable.

For the licensor, who should be encouraged by the TTBER to further disseminate his technology, it is frequently impossible to determine the market share(s) of the market participant(s) in such a way that he can be sure that he remains below the market share threshold for the product market. Therefore, the fixing of a market share threshold for the product market is already a problem. Everybody who, for competition law reasons, must deal with markets in which no market statistics provide the necessary transparency, will have considerable difficulties in stating his market share anything like precisely. Authority to clarify is exclusively the reserve of the cartel authorities. The parties to the contract will therefore, in cases of doubt, fail in the calculation of the market shares; at all events, especially in borderline cases, a greater degree of uncertainty will remain.

Even if one were not to share this doubt, at all events the market share threshold of 20% or 30% is much too low and does not do justice to the desired market policy effects of technology transfer agreements. In the preparatory drafts of the current

TTBER 240/96, which was finally not further pursued as a result of considerable doubts of the circles of industry concerned, correspondingly also considerably higher market shares (40% or 60%) were planned. A clear increase in the market shares is to be recommended particularly in view of the partly very narrow market demarcation in the practice of the Commission. Even products whose production is protected by corresponding patents not infrequently form a market of their own. Inventors even expressly strive to invent a unique product, in order afterwards to profit from the invention for the duration of the patent right. In other words: the more unique the invention is, the higher the product market share is, in case of doubt. Therefore, the product market share frequently corresponds with a special need for protection of the rights of the patent-holder and a need of the market for licensing which is to be welcomed from a competition law point of view.

3. Quite special doubts are directed meanwhile at the market share thresholds in the so-called technology market. Often the parties to a license agreement, as is well-known to the members of the association as practitioners in patent license law, which other owners of technical products are (or would be) willing and in a position to grant a license. In the technology market there is a typical lack of transparency, there is frequently no reliable "market information". Frequently there can even be doubts as to whether a "market" actually exists in the sense of a dependence of supply and demand based upon mutual information. An extreme case is certainly provided here by know-how facts of the matter at other companies, the existence of which is unknown to the licensor and licensee, alone by definition, because otherwise they would no longer be secret.

Furthermore, there one further essential aspect: the presence of the licensed technology on the product market referred to in Art. 3 Par. 3, is no indication of a threat to competition. On the contrary, the level of the presence, particularly, indicates that the desired aim of a distribution of the new technology has proved successful. It is, therefore, wrong, on principle, to assign the presence of the licensed technology on the product market with a threatening effect on competition.

In particular, it is wrong to regard the presence of the licensed technology on the product market as an indication of a “market share” on the “technology market”; in reality such an interdependence does not exist. An old technology widely distributed on the market can have hard time when faced with the offer of a new technology on the “technology market” and to a certain extent, represent a “past-related snapshot”, beyond which the “technology market” has long since progressed, whose effects on the product market can only occur with a temporal delay. In addition, it must be taken into account that license agreements are particularly designed with the objective of contributing to an extension of the presence of the licensed technology on the product market. The concept of the BER assumes a rather static market share which, given a (probably unexpected) exceeding of the market share threshold, can lead, with a certain temporal delay, to a revocation of the exemption. On the other hand, the presence of a specific technology on the product market at the time of the conclusion of the license agreement is typically based on a growth (extension of the basis of use), in other words, dynamic, which as already explained is to be welcomed from the point of view of market policy.

## **B. INDIVIDUAL ASPECTS**

### **1. AREAS OF APPLICATION**

With respect to software licenses, the area of application of the TTBER should be more clearly distinguished from the BER vertical agreements (2790/99). According to Art. 1 b TTBER, software licenses are also “technology transfer agreements” if they are associated with the production or provision of “contract products”, in other words, of products which are produced or provided with the transferred technology (Art. 1d) TTBER). The vertical BER 2790/99, in contrast, covers the sale and acquisition of software on carriers, or pre-installed on purchased computers - No, 40, 41 of the vertical guidelines ABI.EC. 2000 C 291/9.

Software is mainly passed on in three forms of business type, all three of which is usually described as “license”, however in the jurisdiction is often treated as purchase of goods:

- (1) transfer to computer manufacturers for the equipping of newly manufactured computers: they appear to be licenses in the sense of TTBER. In their case up to

now there has been the problem that the computer manufacturer is subjected to broad non assertion obligations with respect to his own intellectual property rights.

- (2) transfer to dealers, often in exchange for a one-off payment, for passing on to the end-user – probably a case for the vertical BER
- (3) transfer to end-users, often in return for a one-off payment. These transfers are often called a “license” but are treated by the jurisdiction as a purchase. Problems exist, thereby, with respect to CPU clauses, upgrade clauses, re-sale prohibitions and service dependence.

In none of these contracts does the modality of the transfer, whether it be on a carrier, a carrier for further copies or by download, play a role. It remains unclear, in which cases the TTBER and in which cases the BER vertical agreements (2790/99) shall be applied. This applies particularly to group (3).

In addition, it is questionable whether the problems of a patent license are sufficiently comparably with those of software licenses. While with patent licenses it is a matter of the arrangement of a production on one's own responsibility, in the case of software licenses it is usually a question of simple use contracts (however, with tangible dependencies).

## **2. COMPETITION RESTRICTIONS**

The association is of the opinion, that the enumeration of clauses contained in the guidelines which, on principle, can be regarded as unobjectionable in terms of competition law, should be extended and defined more precisely. This would serve the purposes of legal certainty and legal clarity and thus promote the conclusion of license agreements. Apart from that there is a danger that national authorities and courts, which have to judge the permissibility of license contractual agreements, based on the lack of a reference to clauses as unobjectionable in terms of competition law, would draw a conclusion about their questionability in terms of competition law. This weighs all the more heavily, because according to Art. 3 of Ordinance 1/2003, it is incumbent on the companies that the preconditions for exemption of Art. 81 Par. 3 EC are fulfilled.

In detail the association would like point out the following:

- Admittedly the draft of the guidelines assumes that “as a rule” it is left to the contracting parties to a license agreement to fix the license fees and conditions of payment. However, the consideration of the mutual granting of licenses already appears to qualify this principle to a considerable extent. Even more legal uncertainty is created due to the fact of the considerations in nos. 149 and 150 of the guidelines on the license fee liability in excess of the period of the licensed protection rights and of the agreement on license fees on the basis of all products irrespective of their actual use.
- The consideration in no. 166 of the guidelines on the production restrictions in license agreements between non-competitors will de facto lead to a situation in which above a level of 30% the national courts, as a rule, will refuse an individual exemption, although it is it is not easy to understand that as a consequence of production restrictions a reduced technology-internal competition is created between licensees.
- The restrictions of usage referred to in no. 170 pp. of the guidelines do not represent a restriction of competition, irrespective of whether they are agreed between competitors or non-competitors. The jurisdiction of the ECJ is clear in this respect. For this reason the restrictions with respect to license agreements between competitors described in no. 172 should be deleted without replacement.
- The restriction to the personal use (no. 175 pp. of the guidelines) in license agreements between competitors opens up the possibility for the competitor to improve the products produced by him through the use of the third-party technology. It is a matter primarily, therefore, of a promotion of competition and not a restriction of the competitor. However, the licensor can, on the other hand, have a considerable interest that the licensee does sell the products with the licensed technology (for the purpose an end of assembly in his products) to third parties. In particular, the remarks under no. 177 suggest that with a market share of over 20% technology transfer licenses to competitors will no longer be granted, on principle, in order to avoid the undesired, according to the guidelines possibly not to be ruled out supply of products with the licensed technology to third-party competitors.

- The considerations in no. 188 pp. of the guidelines on prohibitions of competition do not correspond with the needs of practice. As a rule, licensors want to protect themselves through prohibitions of competition against licensees using the know-how transferred to them also in the production of products of other licensors with whom they are in competition. In particular, the explanations under no. 190 (“the greatest danger for competition”) will, as a rule, discourage national courts in cases of exceeding the market share limits, from accepting the prerequisites of Art. 85 Par. 3 EC Treaty.
- Finally, the considerations on “regulation of claims and disclaimer agreements” are remote from actual practice, because the mutual granting of licenses provided for in no. 197 of the guidelines without any restrictions in many cases does not particularly correspond with the interests of one party to the proceedings and thus the conclusion of process-ending, mutual license agreements is frequently hindered rather than simplified.

### **3. EXCLUSIVE LICENSES**

Exclusive licenses are an indispensable element of the utilisation of intellectual property rights. The TTBER considerably reduces the field of application of the group exemption between competitors, for whom the market share threshold of 30% is exceeded, in comparison with Ordinance 240/96. This is not in keeping with the judgement of the ECJ “Maize Seeds” (Rs 258/78 Slg. 1982, 2015) and also contradicts the principle that the owner of a commercial protection right must be free to utilise his right in such a way that he agrees an exclusive license with a competitor.

In detail: in Art. 4 (2) b, the TTBER regulates express and limiting sales restrictions in foreign territories in territorially exclusive licenses between non-competitors. The guidelines explain in this connection in no. 81, 82 and 152 – 156, that the Commission thus e contrario associates with it the interpretation of the regulation, that the exclusive license between competitors continues to be restricted, that namely it falls under Art. 81 (1) EG and is not group exempted according to Art. 81 (3) EC, if it is a matter of a full exclusive license, in other words, exclusive also against the patent owner, on the other

hand, exempted up to 20% joint market share, if it is a matter of an EU-wide sole license, because that represents a sales restriction according to Art. 4 (1) C BER.

With respect to the aim and object of a technology transfer regulation it does not make sense to permit the full transfer of the protection right (for a one-off payment), while however regarding the full exclusive license a *maiores ad minus* as prohibited. The interpretation applied by the Commission contradicts the principle that the owner of an industrial property right must be free to utilize his right in such a way, that he agrees on an exclusive license with a competitor. Competitors, in particular, in specific cases frequently offer the best possible guarantee for a successful market introduction and sales with the licensed product, which is of benefit to the licensor in form of correspondingly high license fees. In Addition, it is unimportant for the competition whether the recipient pays in a lump sum on full transfer or in regular instalments in case of a licence. Simply between the parties to the contract it is more difficult to agree on a fair lump sum *ex ante*.

Both full exclusive licenses as well as sole licenses for specific territories, even between competitors, are not restraints of trade under primary law according to Art 81 (1) EC, if the freedom of trade is not affected on the second level, among the buyers of the license products. This was decided by the ECJ in Rs. 258/78 Slg. 1982 2015 = GRUR Int. 1982, 539 – Maize seeds for an exclusive territorial license of the French seed marketing company to the German seed marketing company Nungesser. The primary law interpreted so binding interpreted takes precedence over the secondary law, in other words, the TTBER in every interpretation. The Guidelines do not have legal force. They are simply a considerable but legally non-binding interpretation by the Commission. Primary law interpreted by the Court of Justice always takes precedence over it. If the full exclusive license is first hand, also the territorial and also between competitors, permissible according to primary law, then the restrictions for non-competitors in Art. 4 (2) b TTBER are contrary to primary law.

#### **4. POOL AGREEMENTS**

The association particularly welcomes the fact that in the Guidelines the Commission intends to apply the principles of the TTBER correspondingly to pool agreements. But also

in this connection, the market share limits prove to be a grave obstacle to the foundation of patent pool groups.

## **5. TRANSITION PERIOD**

The transition period provided for in Art. 9, is already unreasonably brief because the Group Exemption Ordinance 240/96 has a term up to 31.3.2006. Parties to a contract whose contents are subject to BER 240/96, could therefore place their trust on the conclusion of the contracts that their contracts are exempted at all events up to 31.3.2006. With Art. 9 an infringement of the thus created protection of ownership. Irrespective of that, however, the transition period is too short also for such agreements which on grounds of exceeding the market share threshold are no longer exempted in groups. The association suggests the extension of the transition period for such contracts which are no longer covered by the new Group Exemption Regulation to 31.3.2008.

Dr. Kunz-Hallstein

President

Loschelder

Secretary-General

Dr.