SLAUGHTER AND MAY

The EU competition rules on intellectual property licensing

A guide to the European Commission's Technology Transfer Block Exemption Regulation and competition issues relating to IP licensing and enforcement

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Contents

1. Intellectual property rights and EU competition law

1.1 Intellectual property rights (IPRs) confer an exclusive legal right on the owner to exploit the patent, copyright, design right, trade mark or other IPR in question. The IPR owner is unilaterally able to prevent unauthorised use of its intellectual property and has a monopoly over whether to exploit it itself or through licensing to third parties.

1.2 When considering IPRs within the framework of EU law, the following two sets of rules are relevant:

- The competition rules: EU competition law aims to protect competition in markets throughout the EU and reduce barriers to cross-border trade, with a view to promoting the efficient use and dissemination of goods and services. Although these objectives may sometimes appear at odds with the aims of intellectual property laws (which seek to encourage and reward innovation by IPR owners), both EU competition law and intellectual property legislation share broadly the same basic policy objectives of promoting consumer welfare and ensuring the efficient allocation of resources. The main EU competition rules are contained at Article 101 TFEU, which prohibits anti-competitive agreements, and Article 102 TFEU, which prohibits the abuse of a dominant position.

  - Since the licensing of IPRs is brought about by means of agreements, Article 101 is the principal instrument for regulating such forms of collaboration from a competition law perspective. Although EU competition policy accepts that some contractual limitations on the parties are necessary to protect IPRs, other restrictions can raise competition concerns.

  - In exceptional cases, the way in which a company exploits its IPRs may also raise Article 102 issues, for example if competitors seeking to develop activities on a market that is dominated by a particular undertaking cannot do so unless they are granted access to essential IPRs owned by that dominant undertaking (e.g. by being granted licences to relevant patents or copyright material). The European Courts have considered the circumstances in which a refusal to license can constitute an abuse in a number of important cases and these are discussed towards the end of this publication.

- The rules on free movement of goods: Articles 34 to 36 TFEU prohibit Member States from imposing unjustified barriers to cross-border trade. While Article 36 permits the adoption of legislation by Member States to protect IPRs, this is subject to the limitations imposed by the TFEU's free movement objectives. The European 'exhaustion of rights' principle means that IPRs cannot be enforced to prevent the marketing of goods in one Member State if those goods have previously been marketed in another Member State by, or with the consent of, the owner of the relevant IPR.

1.3 This publication considers the application of the EU competition rules to the exploitation of IPRs through the granting of licence agreements to third parties. Such agreements, particularly exclusive licences, often impose restrictions on how the licensee can exploit the IPRs that may be caught by Article 101(1) (and may therefore be unenforceable unless they satisfy the exemption criteria of Article 101(3)); in some cases, they may even raise issues under Article 102.

1.4 The Technology Transfer Block Exemption Regulation (TTBER) sets out the basis for exemption of agreements relating to certain technology (essentially patents, proprietary know-how, software copyright and certain design rights), offering a 'safe harbour' from the prohibition contained in Article 101(1).[1] The current TTBER came into force on 1 May 2014. It is accompanied by a detailed set of guidelines (Technology Transfer Guidelines) that explain the Commission's approach to the licensing of IPRs under Article 101, including an assessment of how the TTBER applies and how agreements that do not meet the criteria set out in the TTBER should be analysed when applying Article 101.[2] The Technology Transfer Guidelines, which are binding on the Commission, are an essential point of reference in assessing the legality of restrictions contained in licence agreements outside the safe harbour of the TTBER.

[1] Commission Reg. (EU) 316/2014 (OJ 2014 L93/17, 28.3.2014).

[2] Guidelines on the application of Art. 101 of the Treaty on the Functioning of the European Union to technology transfer agreements (OJ 2014 C89/03, 28.3.2014).

2. Technology transfer agreements and the TTBER

Features of technology transfer agreements

2.1 Technology transfer agreements usually involve the grant by the IPR owner (the licensor) of a licence to a third party (the licensee) authorising the licensee to exploit the IPRs by manufacturing, marketing and selling certain goods or services (the contract products). The TTBER applies to agreements concerning "technology rights" including software copyright, design rights, utility models, patents and/or know-how. The licensing of trade marks, copyright or other IPRs is not covered by the TTBER unless it is directly related to the production or sale of the contract products.

2.2 Technology transfer agreements have a number of special features:

- they involve the licensing of IPRs, usually in return for the payment of royalties (e.g. on a per unit or lump sum basis). The licensee acquires the right to manufacture the goods or otherwise use the licensor's technology. The licensor therefore needs to exercise a certain amount of continuing control over the licensee to safeguard its IPRs;

- they differ from true assignments of IPRs, under which ownership is transferred completely to another party (often in exchange for a single upfront payment).[3] An assignor or vendor of IPRs generally has less scope to restrict the purchaser's use of the rights transferred; and

- they can bring about a cross-fertilisation of ideas, insofar as the licensee may further develop the technology. This can result in the parties subsequently cross-licensing their respective IPRs and possibly granting licences to third parties.[4]

2.3 The TTBER is only available for technology transfer agreements between two parties. The Technology Transfer Guidelines do, however, provide guidance for the appraisal of multi-party agreements. For example, while the TTBER does not apply to agreements setting up technology pools nor to licensing out from these pools,[5] the Guidelines provide a 'safe harbour' so that the creation and operation of such pools should fall outside of Article 101(1) if they fulfil certain conditions.[6]

2.4 The TTBER only applies to licence agreements entered into for the purpose of producing the contract products. Where the parties do not exploit the licensed technology (for example, if the intention is simply to block the development of a competing technology), the agreement will not be covered by the TTBER. Furthermore, when competing parties fail to exploit the licensed technology, this could arouse suspicions of disguised anti-competitive conduct.

[3] Assignments of technology rights may constitute technology transfer agreements under the TTBER where part of the risk associated with the exploitation of the technology remains with the assignor.

[4] See para. 3.18 below on the grant-back of licences to improvements or new applications of the licensed technology.

[5] Technology Transfer Guidelines, para. 247. Licensing out from the pool is considered to be a multi-party agreement as the contributors commonly determine the conditions for licensing the technology package.

[6] Technology Transfer Guidelines, para. 261. The conditions (irrespective of the market position of the parties) are that: (a) participation in the pool creation process is open to all interested technology rights owners; (b) sufficient safeguards are adopted to ensure that only essential technologies (which are therefore necessarily also complements) are pooled; (c) sufficient safeguards are adopted to ensure that exchange of sensitive information (such as pricing and output data) is restricted to what is necessary for the creation and operation of the pool; (d) the pooled technologies are licensed into the pool on a non-exclusive basis; (e) the pooled technologies are licensed out to all potential licensees on fair, resonable and non-discriminatory (FRAND) terms; (f) the parties contributing technology to the pool and the licensees are free to challenge the validity and the essentiality of the pooled technologies; and (g) the parties contributing technology to the pool and the licensee remain free to develop competing products and technology.

Does the TTBER apply to the agreement?

2.5 A technology transfer agreement could potentially fall within the terms of several block exemption regulations. The TTBER confirms that it does not apply to licence agreements that fall within the terms of the research and development block exemption or the specialisation agreements block exemption.[7]

2.6 Furthermore, it is necessary to consider whether or not the technology licence in question is caught by Article 101(1) in the first place. This involves considering the following preliminary points:

- Is there an agreement between two or more independent undertakings? For example, intra-group licences are not caught by Article 101(1);

- Is the licence or agreement capable of affecting trade between Member States to an appreciable extent? Technology licences are more likely to affect inter-State trade if they are concluded between undertakings from different Member States or form part of a technology-licensing network that extends beyond a single Member State. Much will depend on whether the licensor's IPRs are protected in more than one Member State, so giving the parties scope to control the extent to which individual licensees' activities are restricted to particular geographic areas within the EEA; and

- Does the licence or agreement have as its object or effect the prevention, restriction or distortion of competition to an appreciable extent in a relevant market within the EEA? Restrictions relating solely to the exploitation of technology in markets outside Europe will not be caught by the Article 101(1) prohibition unless they are capable of having an effect within the EEA.

2.7 In relation to the third point, some agreements may not restrict competition at all. For example, restrictive provisions may not be caught by Article 101(1) where the restriction is objectively necessary for the existence of an agreement. Here the question is not whether the parties in their particular situation would not have accepted to conclude a less restrictive agreement, but whether, given the nature of the agreement and the characteristics of the market, a less restrictive agreement would not have been concluded by undertakings in a similar setting. The Technology Transfer Guidelines also recognise that exclusive licensing between non-competitors will normally either fall outside Article 101(1) or meet the Article 101(3) extension criteria.[8]

2.8 Furthermore, a licensing agreement may fall outside Article 101(1) if the likely negative effects on competition are not appreciable. Many technology licensing agreements will fall within the scope of the Commission's Notice on agreements of minor importance, known as the *De Minimis* Notice.[9] The *De Minimis* Notice, which was revised in 2014, states that agreements between SMEs (small and medium-sized enterprises with fewer than 250 employees and annual turnover not exceeding €50 million or assets not exceeding €43 million) are not normally capable of affecting trade between Member States and will not normally merit investigation.[10] It also confirms that larger companies should not face investigation where the parties' combined market shares in the relevant markets do not exceed certain thresholds; these are 10% for agreements between actual or potential competitors (or where it

[7] See Slaughter and May publication on *The EU competition rules on horizontal agreements*.

[8] Technology Transfer Guidelines, para. 194.

[9] Notice on agreements of minor importance which do not appreciably restrict competition under Article 101 of the Treaty on the Functioning of the European Union (De Minimis Notice) (OJ 2014 C291/1, 30.8.2014) adopted on 25 June 2014, replacing the 2001 version. The *De Minimis* Notice is accompanied by a Commission Staff Working Document that aims to help companies assess whether or not the *De Minimis* Notice applies to their agreement.

[10] This is based on the definition of SME in the Annex to Commission Recommendation 2003/361 (OJ 2003 L124/36, 20.5.2003).

is difficult to classify the status of the parties) and a 15% for agreements between non-competitors.[11] An agreement can only benefit from the *De Minimis* Notice if it does not have as its object the prevention, restriction or distortion of competition. Furthermore, it must not contain any 'hardcore' restrictions such as price fixing or market sharing restrictions. Agreements that exceed the thresholds set out in the *De Minimis* Notice do not necessarily have appreciable restrictive effects but an individual assessment will be required.

2.9 The status of a technology transfer agreement may change over the lifetime of the agreement, for example, if the market shares and the business of the parties change.

[11] The thresholds are reduced to 5% when competition is restricted in the relevant market by the cumulative effect of parallel agreements entered into by different suppliers or distributors. The *De Minimis* Notice states that a cumulative foreclosure effect is unlikely to exist if less than 30% of the relevant market is covered by parallel agreements having similar effects.

3. The safe harbour of the TTBER and the three-stage analysis

3.1 The TTBER is consistent with the Commission's approach in other block exemption regulations, seeking to apply an economic effects approach to analysing agreements rather than concentrating on legal form.[12] It is primarily concerned with prohibiting 'hardcore' restrictions such as price fixing, output or sales restrictions and market sharing. Any restriction not expressly prohibited by the TTBER is permitted, provided the agreement as a whole satisfies the TTBER 'safe harbour' criteria. This requires an analysis of the competitive position of the parties and technology in the relevant markets.

3.2 Consistent with its more economic and effects-based approach towards vertical agreements and horizontal cooperation, the Commission is more inclined to accept that technology licences between non-competitors, even if exclusive, generally do not restrict competition.[13]

3.3 The TTBER provides a blanket exemption or 'safe harbour' for all technology transfer agreements falling within its scope (see paragraph 6) and meeting certain criteria. In assessing whether an agreement falls within the safe harbour, it will be necessary to consider the following three steps (see flowchart on next page):

- whether the parties to the agreement are competitors;
- what market shares are attributable to each party; and
- whether the agreement contains any problem clauses (hardcore or excluded restrictions).

The distinction between competitors and non-competitors

3.4 In determining whether the parties to the agreement should be treated as competitors for the purposes of applying the TTBER, it is necessary to review competition both on the relevant market where the technology rights are licensed (the relevant technology market) and on the relevant market where the contract products are sold (the relevant product market).

3.5 Competition on the relevant technology market is assessed by reference only to actual competition on the relevant geographic market.[14] In other words, the parties will be considered to be competitors where the licensee already licenses out its technology and the licensor seeks to grant a licence for a substitutable technology to the licensee.[15] The parties are not considered to be competitors where they both hold IPRs to a substitutable technology but the licensee does not license out its technology to third parties.

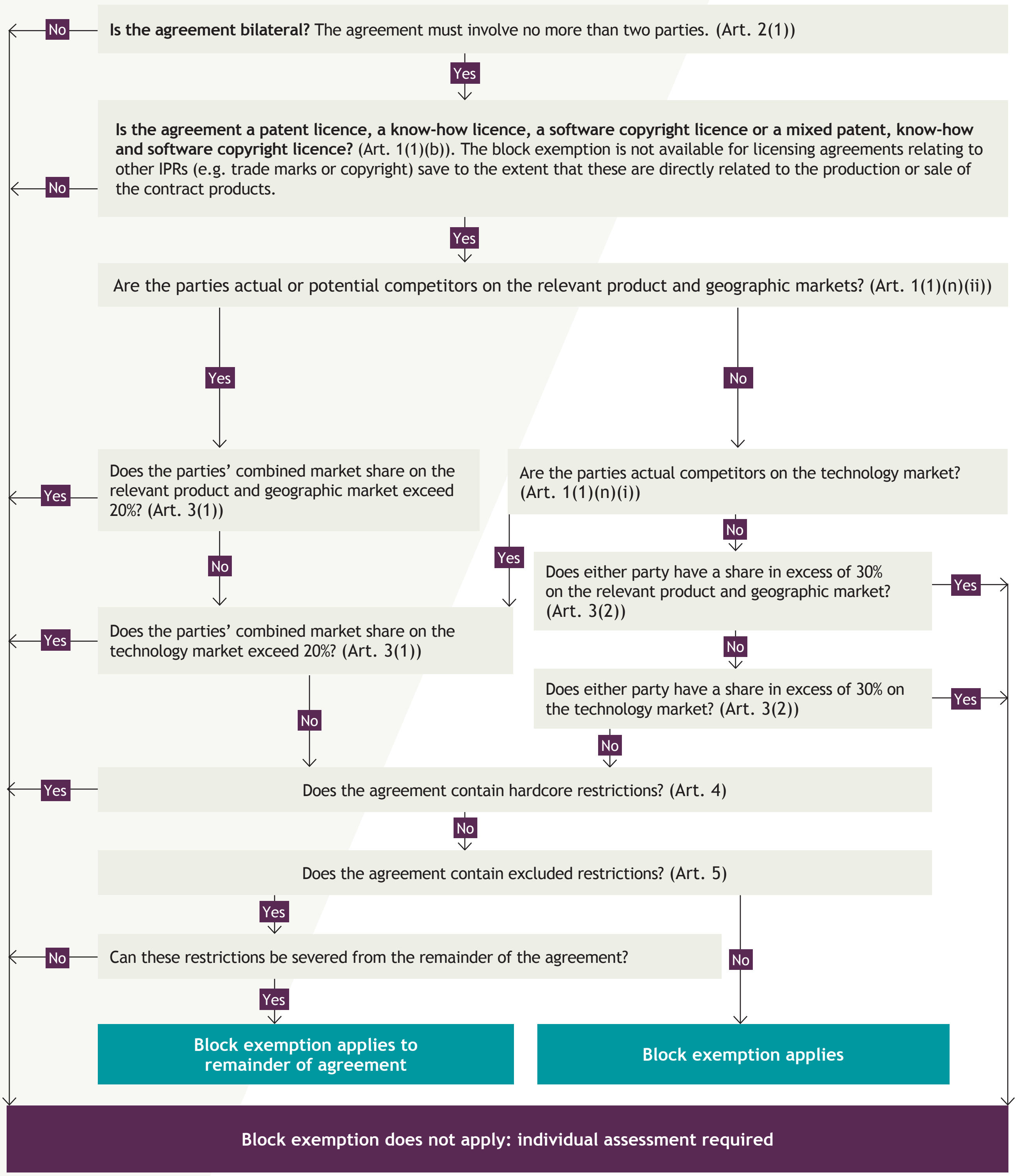
[12] This ensures that undertakings have greater commercial freedom in drafting their agreements by removing the straitjacket approach that used to exist under the earlier 1996 Technology Transfer Block Exemption Regulation.

[13] See Slaughter and May publication on *The EU competition rules on vertical agreements*, in particular para. 1.5 for a description of the distinction between vertical and horizontal agreements. Also see Slaughter and May publication on *The EU competition rules on horizontal agreements* (e.g. at Part A.3 of Table 1.1).

[14] Technology Transfer Guidelines, para. 36.

[15] Technology Transfer Guidelines, para. 35.

Technology transfer block exemption flowchart



3.6 Competition on the product market is assessed by reference to both actual and potential competition on the relevant geographic markets. Where the parties are active on the same geographic market for substitutable products, they will be considered to be actual competitors. Equally, where one party would be likely to undertake the necessary investment to enter the relevant market within a short period of time (usually one to two years) in response to a small but significant non-transitory increase in prices (known as the "SSNIP" test), the parties will be considered to be potential competitors on the product market and therefore competitors for the purposes of assessment under the TTBER.[16]

3.7 The competitive status of the parties is assessed at the time of conclusion of the agreement. If they are non-competitors at the outset but subsequently become competitors during the lifetime of the agreement, the agreement will continue to be assessed as one between non-competitors unless it is subsequently renewed or materially amended.[17] Competitors may also become non-competitors due to the obsolete or uncompetitive nature of the licensee's technology; in this case, the classification of the relationship will change into one between non-competitors.

Market share thresholds

3.8 The TTBER's safe harbour is only available to agreements between parties meeting particular market share thresholds. The threshold tests apply to the parties' shares of both the technology and the product markets. For agreements between competitors, the combined market shares of the parties must not exceed 20%. For agreements between non-competitors, neither party must have a share in excess of 30%. Where an agreement initially falls within the market share threshold but subsequently exceeds it, the safe harbour will continue to apply for a further two years.[18]

3.9 Exceeding the market share thresholds does not give rise to a presumption that the agreement will fall foul of Article 101(1) or be incapable of exemption under Article 101(3) in the absence of hardcore restrictions. Individual assessment will be required, taking account of the principles set out in the Technology Transfer Guidelines.[19]

3.10 Calculating a party's market share on the technology market involves an assessment of all sales of products incorporating the licensed technology on downstream product markets. Account must therefore be taken both of sales by the licensor of the relevant product and of sales by any licensees. When assessing the size on the total technology market, account must be taken of all substitutable technologies, including those that are currently only being used in-house.[20] Market shares are calculated on the basis of sales for the preceding calendar year, which means that in respect of new technologies that have not yet generated any sales, a zero market share will be assigned.[21]

3.11 The market share on the relevant product market consists only of that party's sales of the relevant product on the relevant geographic market. This will include not only products incorporating the licensed technology but also any substitutable products using alternative technology.

[16] Technology Transfer Guidelines, para. 31.

[17] Technology Transfer Guidelines, paras. 38 and 39.

[18] TTBER, Art. 8(e); Technology Transfer Guidelines, para. 90.

[19] Technology Transfer Guidelines, para. 43. Also see Chapter 5.

[20] Technology Transfer Guidelines, para. 88.

[21] TTBER, Art. 8(b); Technology Transfer Guidelines, para. 90.

Hardcore restrictions

3.12 As the TTBER draws a distinction between agreements between competitors and those between non-competitors, there are two separate lists of hardcore restrictions – contained in Article 4(1) for agreements between competitors and in Article 4(2) for agreements between non-competitors. Agreements including any of these restrictions will fall outside the safe harbour of the TTBER and in most circumstances will not satisfy the criteria for exemption under Article 101(3) TEFU.

3.13 In general terms, the TTBER treats reciprocal agreements less favourably (or more strictly) from a competition perspective than non-reciprocal agreements, on the basis that there is greater potential for market foreclosure when competing technologies are cross-licensed.[22]

3.14 Likewise, there are more hardcore restrictions for agreements between competitors, reflecting the Commission's view that agreements between competitors generally pose a greater risk to competition than those between non-competitors.

3.15 The following are the hardcore restrictions for agreements between competitors:

- Price fixing or any other restrictions of a party's ability to determine its prices when selling to third parties. This could be attempted:

  - directly: where the agreement contains fixed, minimum, maximum or recommended prices; or

  - indirectly: where the agreement applies disincentives for one party to deviate from a price level, e.g. by increasing the royalty rate if product prices fall below a certain level.

  This hardcore restriction also covers agreements where royalties are calculated on the basis of all product sales, irrespective of whether the licensed technology is being used. These types of arrangement raise the costs of using the licensee's own competing technology and therefore restrict competition that would exist in the absence of such agreements.

- Limitations on output (i.e. on how much a party may produce and/or sell), other than limitations on output in a non-reciprocal agreement or imposed on only one of the licensees in a reciprocal agreement.

- Allocation of markets or customers, other than:

  - an obligation not to produce in the exclusive territory reserved for the other party or a ban on active and passive sales into the exclusive territory or to the exclusive customer group reserved for the other party (non-reciprocal agreements only);

  - a ban on active (but not passive) sales by the licensee into the exclusive territory or to the exclusive customer group of another licensee (non-reciprocal agreements only). It is a condition, however, that the protected licensee was not a competitor of the licensor at the time its own agreement was concluded;

[22] Reciprocal licences are cross-licences (whether in the same or separate contracts) where the licensed technologies are competing technologies or can be used to produce competing products. Non-reciprocal agreements can be either a one-way arrangement or a cross-licence of non-competing technology or technology that cannot produce competing products. Cross-licensing arrangements may therefore be non-reciprocal depending on the nature of the licensed technology. Furthermore, a non-reciprocal agreement may become reciprocal at a later stage, such that previously permitted restrictions become hardcore restrictions.

- an obligation on the licensee to produce for its own use only (provided the licensee is not restricted in selling contract products as spare parts for its own products); or

- an obligation on the licensee to produce only for a particular customer where the licence was granted to create an alternative source of supply for that customer (non-reciprocal agreements only).

• Restrictions on exploiting technology, including restrictions on the licensee's ability to exploit its own technology or restrictions on either party's ability to carry out research and development (except where they are necessary to prevent disclosure of licensed know-how to third parties).

3.16 The following are the hardcore restrictions for agreements between non-competitors:

• Price fixing: between non-competitors, the agreement can impose a maximum or recommended price (provided that this is not directly imposing a fixed or minimum price).

• Restrictions on passive sales relating to the territory into which, or on the customers to whom, the licensee may passively sell, except:

- restrictions on passive sales into the exclusive territory/customer group reserved to the licensor;

- an obligation to produce the licensed products only for the licensee's own use (provided the licensee is not restricted in selling the contract products as spare parts for its own products);

- an obligation to produce only for a particular customer where the licence was granted to create an alternative source of supply for that customer;

- restrictions on sales to end users by a licensee operating at the wholesale level; or

- restrictions on sales to unauthorised distributors by members of a selective distribution system.

• Restrictions on active or passive sales to end-users by licensees which are members of a selective distribution system operating at the retail level of supply (although it is permitted to include a clause prohibiting a licensee from operating out of an unauthorised place of establishment).

Excluded restrictions

3.17 Finally, it is necessary to consider whether the agreement contains any excluded restrictions within the meaning of Article 5 TTBER. These are clauses that are generally not harmful to competition, but for which individual assessment is required. The presence of excluded restrictions does not prevent the TTBER applying to the remainder of the agreement provided that the excluded restrictions can be severed as a matter of law.

3.18 The excluded restrictions are:

• exclusive grant-backs by the licensee: a requirement on the licensee to assign or exclusively license-back any of its own improvements or new applications of the licensed technology. The exclusion previously only applied to grant-backs relating to severable improvements. Non-exclusive grant-backs continue to benefit from the TTBER;

- no challenge clauses: any obligation on the licensee not to challenge the validity of the licensor's IPRs or, in the case of non-exclusive licences, clauses that allow the licensor to terminate in the event of a challenge. The TTBER continues to apply where termination rights are included in an exclusive licence; and

- restrictions on exploiting technology: this is a hardcore restriction for agreements between competitors (see paragraph 3.15) but is an excluded restriction for agreements between non-competitors. It includes restrictions on the licensee's ability to exploit its own technology or restrictions on either party's ability to carry out research and development (except where necessary to prevent disclosure of licensed know-how to third parties).

4. Withdrawal and disapplication of the TTBER

4.1 The Commission and the Member States' NCAs may withdraw the benefit of the TTBER in respect of any particular agreement. NCAs can only withdraw the benefit of the TTBER where the relevant geographic market is no wider in scope than the territory of the Member State in question and must give prior notification to the Commission of their intention to withdraw.[23]

4.2 Although in practice the TTBER is extremely unlikely to be withdrawn, Article 6 states that withdrawal may be warranted in the following circumstances:

- where access of third parties' technologies to the market is restricted, e.g. by the cumulative effect of parallel networks of similar restrictive agreements prohibiting licensees from using third party technologies; or
- where access of potential licensees to the market is restricted, e.g. by the cumulative effect of parallel networks of similar restrictive agreements preventing licensors from licensing to other licensees or because the only technology owner licensing out relevant technology rights concludes an exclusive licence with a licensee who is already active on the product market on the basis of substitutable technology rights.

4.3 Under Article 7, the Commission may also pass a Regulation to exclude from the scope of the TTBER parallel networks of similar agreements covering more than 50% of a relevant market. There is no obligation on the Commission to act where the 50% threshold is exceeded and disapplication will only be appropriate where it is likely that access to the relevant markets or competition in those markets is appreciably restricted.[24]

[23] Arts. 11(4) and 29(2), Council Reg. (EC) 1/2003 (OJ 2003 L1/1, 4.1.2003).

[24] Technology Transfer Guidelines, para. 152.

5. Assessment outside the TTBER

Impact on competition

5.1 If an agreement falls outside the safe harbour of the TTBER (e.g. because the market share thresholds are exceeded or the agreement is between more than two parties) an individual assessment is required. This involves an assessment of whether the agreement falls within the prohibition contained in Article 101(1) at all and, if so, whether it satisfies the Article 101(3) exemption criteria. Unless the agreement contains hardcore restrictions, there is no presumption that it infringes Article 101.

5.2 The Technology Transfer Guidelines provide an additional safe harbour for agreements outside the TTBER where, in the absence of hardcore restrictions, there are four or more independently controlled technologies in addition to and substitutable for the technology controlled by the parties to the agreement.[25]

5.3 The Technology Transfer Guidelines also state that most exclusive agreements between non-competitors will be found to fall outside Article 101(1) or to satisfy the exemption criteria of Article 101(3).[26] As a consequence, the Commission will only exceptionally intervene against exclusivity in agreements between non-competitors irrespective of the territorial scope of the licence. Exceptional instances are likely to relate to circumstances where either the licensor or the licensee enjoys an appreciable degree of market power.

5.4 Agreements between competitors have a greater propensity to infringe Article 101(1), so therefore require careful analysis by reference to the principles contained in the Technology Transfer Guidelines. The following factors are likely to be particularly relevant:

- the nature of the agreement;
- the market position of the parties;
- the market position of competitors;
- the market position of buyers of the licensed products;
- the existence (and extent of) any entry barriers; and
- the maturity of the market.

Relevant restraints

5.5 The Technology Transfer Guidelines contain an overview of the types of restraints commonly contained in licence agreements, including royalty and non-compete obligations, exclusive licensing and sales restrictions, output restrictions, field of use restrictions, captive use restrictions, and

[25] Technology Transfer Guidelines, para. 157. A technology will be substitutable with another if they are regarded by the licensees as interchangeable with the licensed technology rights by reason of the technologies' characteristics, their royalties and their intended use – and if it is one to which other licensees could switch in response to a small but permanent increase in the royalties.

[26] Technology Transfer Guidelines, paras. 194-195.

tying and bundling.[27] In most cases, these restraints are block exempted up to the market share thresholds contained in the TTBER (although some variations may constitute hardcore restrictions under Article 4 TTBER).

Royalty and non-compete obligations

5.6 Royalty and non-compete obligations outside the scope of the TTBER only raise concerns where they may lead to foreclosure or (in the case of non-compete obligations) facilitate collusion. Where there are appreciable foreclosure effects (for example, where the licensor enjoys a position of market power or where a substantial number of licensees are already tied to one or, in the case of cumulative effects, more sources of technology), such provisions will be caught by Article 101(1) and will be unlikely to fulfil the conditions of Article 101(3).

Exclusive licences and sales restrictions

5.7 As noted above (see paragraph 5.3), the Commission will only exceptionally intervene against exclusive licensing between non-competitors as these agreements will almost always fall outside Article 101(1), or will satisfy the conditions of Article 101(3).

5.8 For exclusive licensing between competitors, to the extent that a sales restriction is not a hardcore restriction under Article 4 TTBER, the Commission will consider the competitive significance of the licensor. Where the licensor has a limited market position on the product market or lacks the resources to effectively exploit the technology in the licensee's territory, the agreement is unlikely to infringe Article 101(1). All sales restrictions in reciprocal agreements between competitors are hardcore restrictions, as are passive sales restrictions designed to protect other licensees both in non-reciprocal agreements and in agreements between non-competitors.

5.9 To the extent that they are not hardcore restrictions under Article 4 TTBER, sales restrictions between non-competitors or those in non-reciprocal agreements between competitors are only likely to raise concerns where one or both parties have a significant degree of market power or where there are cumulative effects arising from similar agreements concluded by licensors together holding a strong position on the market.

Output restrictions

5.10 Reciprocal output restrictions in licence agreements between competitors constitute a hardcore restriction under Article 4 TTBER. However, output restrictions on only one of the licensees or in non-reciprocal agreements or in agreements between non-competitors are block exempted up to the market share thresholds. Beyond those market share thresholds, Article 101(3) is likely to apply where, for example, the licensor's technology is substantially better than the licensee's and where the limitation substantially exceeds the licensee's output before conclusion of the agreement, as the effect of the restriction will be limited. Between non-competitors, output restrictions can reduce intra-technology competition but the effect on competition will depend on the market position of the parties. It is also relevant to consider whether the output restrictions are combined with exclusive territories or exclusive customer groups, as this will increase the restrictive effects.

[27] Technology Transfer Guidelines, paras. 184-233.

Use restrictions

5.11 Field of use restrictions limit exploitation by the licensee to one or more particular technical fields of application. They are not output restrictions nor customer restrictions and indeed may have pro-competitive effects by encouraging the licensor to grant licences outside its main area of activity. The main concern is that they may lead to the licensee ceasing to be a competitive force outside the licensed field of use. It is relevant to consider whether the restrictions are symmetrical or asymmetrical.[28] While often falling outside Article 101(1), care should be taken to ensure that the restrictions are not serving as a cover to an underlying market sharing arrangement, e.g. where the licensee scales back activities beyond the licensed field of use without business justification.

5.12 Captive use restrictions can have serious negative market effects when the licensor has a significant degree of market power on the component market in agreements between competitors (i.e. where the licensee and licensor are actual or likely suppliers of the component).[29] They may also raise concerns in agreements between non-competitors by excluding the possibility of arbitrage between licensees and restricting intra-technology competition on the market for the supply of inputs. However, these restrictions may promote pro-competitive licensing, according to whether the licensor is itself a supplier of components. If it is a supplier of components, the restrictions will normally not be restrictive of competition or will meet the requirements of Article 101(3) (provided the licensee is not restricted from selling the licensed product as spare parts for its own products). If the licensor is not a supplier of components on the relevant product market, the conditions of Article 101(3) are not met as there is a less restrictive alternative (i.e. restricting the licensee from selling into customer groups reserved for the licensor).

Tying provisions

5.13 The main restrictive effect of tying and bundling is foreclosure of competing suppliers of the tied and/or bundled products.[30] For tying to raise concerns, the licensor must have a significant degree of market power in the tying product so as to restrict competition in the tied product. For appreciable foreclosure effects to occur, the tie must also cover a certain proportion of the market. Tying can however give rise to efficiency gains where the tied product is necessary to ensure that production quality standards are maintained or if it allows for more efficient exploitation of the licensed technology. In such circumstances, tying will either not be restrictive of competition at all, or may be covered by Article 101(3).

Specific guidance on settlement agreements and technology pools

5.14 The Technology Transfer Guidelines specifically consider the issue of licensing within settlement agreements.[31] Settlement agreements are, in principle, a legitimate way to resolve disputes, and licensing in the context of such agreements is generally not restrictive of competition

[28] Symmetrical field of use restrictions apply where the parties can use each other's technology within the same field of use. Conversely, asymmetrical restrictions allow one party to use the licensed technology within one field of use, while the other can use it within another field of use.

[29] Captive use restrictions limit production of the licensed product to the quantities required for the production of the licensee's own products and for the maintenance and repair of those products.

[30] Tying relates to the practice of making the licensing of one technology conditional upon the licensee also taking a licence for another, potentially unrelated, technology. Bundling refers to the practice of only selling two technologies or a technology and a product together as a bundle.

[31] The Technology Transfer Guidelines are stated to be without prejudice to the application of Art. 101 to settlement agreements that do not contain a licensing agreement.

(particularly if it allows a party access to a market that it would not have in the absence of the agreement). However, individual terms of settlement agreements may be caught by Article 101(1) and should be assessed in the same way as other licence agreements. The Technology Transfer Guidelines address three specific issues:

- Pay for delay or Pay for restriction: If a settlement agreement provides for the licensing of technology rights but with terms that limit or delay the licensee's ability to launch a product, this could constitute market allocation or market sharing (particularly if the parties are actual or potential competitors and there was a significant value transfer to the licensee).

- Cross-licensing: Parties should analyse the possible anti-competitive effects of any cross-licensing arrangements in a settlement agreement. In this context, the parties' incentives to innovate will be an important consideration; if the cross-licensing prevents one party from gaining a competitive lead over the other, this will adversely affect competition and be unlikely to satisfy the requirements of Article 101(3).

- Non-challenge clauses: The guidance accepts that non-challenge clauses are an inherent part of settlement agreements. Nevertheless, there may be specific circumstances where such clauses are anti-competitive (for example, where IPRs were granted following the provision of incorrect or misleading information).

5.15 Finally, the Technology Transfer Guidelines provide guidance for technology pools – where two or more parties license a package of technologies to other contributors to the pool and to third parties.[32] They recognise the benefits of technology pools, including creating a one-stop shop for licensees, reducing transaction costs and imposing limits on cumulative royalties. However, pools could amount to a price-fixing cartel (where they are predominantly composed of substitute technologies) or lead to foreclosure of alternative technologies. The Technology Transfer Guidelines establish a safe harbour for the creation and operation of licensing pools if certain conditions are met.[33] Outside the safe harbour, it is still possible to fulfil the conditions of Article 101(3) and the guidelines provide guidance on when this may be the case. Following the creation of a technology pool, the licences agreed by the pool with third party licensees must also be assessed. The guidelines set out the main principles that the Commission will use to assess the competitive effects of licensing activities out of the pool and provide guidance on the setting of royalty rates for the technology package in question.

[32] Technology Transfer Guidelines, paras. 244-273.

[33] Technology Transfer Guidelines, para. 261.

6. Article 102 (abuse of a dominant position)

Refusals to license and compulsory licensing

6.1 For Article 102 issues to arise in the assessment of IPRs, there must first be an undertaking that enjoys a dominant position in a relevant product and geographic market. The question of whether the refusal by a dominant undertaking to grant a licence to a third party can amount to an abuse under Article 102 has been considered in some detail by the European Courts, which have consistently held that the refusal by a dominant firm to license IPRs constitutes an abuse within Article 102 only in exceptional circumstances.

6.2 In *Volvo v Veng*, despite finding that Volvo's refusal to license the design of the body panels to its cars was not an abuse of a dominant position, the Court of Justice (CJ) held that a refusal could be abusive in certain circumstances such as an arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level or a decision no longer to supply spare parts for a particular model, even though many cars of that model were still in circulation.[34]

6.3 Upholding this position, in *Magill* the CJ confirmed the earlier conclusion of the General Court (GC) that the refusal by the relevant organisations in the United Kingdom and Ireland to grant licences to third parties to reproduce their copyright television schedules was abusive as the exceptional circumstances set out in *Volvo v Veng* had been met.[35] The complainant had requested a licence to provide a new comprehensive TV listings magazine (previously the listings were only available in separate guides for each TV broadcaster). In short, there was no objective justification for the refusal to license, which given the lack of any potential substitute prevented the appearance of a new product. As a consequence, the TV broadcasters excluded all competition on the market in question, reserving its exploitation to themselves.

6.4 Taking this one step further forward, in *Bronner* the CJ held that the test for absence of any potential substitute is only met where there is no viable alternative that can be objectively sustained on the market.[36] In this case, a newspaper publisher had refused a competitor access to the only nationwide home delivery service, but the CJ held that the refusal was not abusive as the home delivery service was not indispensable (there were substitutes and no technical, legal or economic obstacles rendering the creation of a competing system impossible or even unreasonably difficult).

6.5 These basic principles were reiterated by the GC in *Microsoft*. The case concerned Microsoft's appeal against the Commission's decision that it abused its dominant position by refusing to license the specifications required to ensure full inter-operability with the Microsoft Windows operating platform to manufacturers of rival work group server operating systems.[37] The GC held that a refusal by a dominant undertaking to license an IPR amounts to an abuse under Article 102 where the refusal is not objectively justified and the following three conditions are met:

- the refusal relates to a product or service indispensable to the exercise of a particular activity on a neighbouring market;

[34] Case 238/87 *AB Volvo v Erik Veng (UK) Ltd*, judgment of 5 October 1988.

[35] Cases C-241 and C-242/91P *RTE and ITP v Commission*, judgment of 6 April 1995. See also the CJ's judgment of 29 April 2004 in *IMS* (Case C-418/01 *IMS Health GmbH & Co v NDC Health GmbH & Co.*).

[36] Case C-7/97 *Oscar Bronner GmbH & Co. v Mediaprint Zeitungs und Zeitschriftenverlag GmbH*, judgment of 26 November 1998.

[37] Case T-201/04 *Microsoft v Commission*, judgment of 17 September 2007. Microsoft did not appeal the judgment to the CJ's.

- the refusal is of such a kind as to exclude any effective competition on that neighbouring market; and
- the refusal prevents the appearance of a new product for which there is potential consumer demand.

6.6 The GC found that all three criteria were satisfied and that Microsoft's refusal to license the inter-operability information was not objectively justified. Regarding the first criterion, it found that Microsoft's near monopoly of the client PC operating system market meant that it was able to impose Windows domain architecture as the "*de facto* standard" for work group server operating systems. Regarding the second, it clarified that it is not necessary that competitors have been eliminated nor that their elimination is imminent. The objective of Article 102 is to safeguard the competition that still exists on the relevant market and therefore what matters is that the refusal is liable or likely to eliminate all effective competition on the market. The retention by rivals of the dominant firm of a marginal presence in certain niches of the market is not sufficient for there to be effective competition. The GC made clear that the third criterion includes preventing technological development of existing products, as well as preventing the appearance of entirely new products. Rival work group server operating systems were available; however, Microsoft's refusal to license the inter-operability information prevented its rivals from developing work group server products with enhanced features – for which there was customer demand – for use with Microsoft Windows domain architecture.

6.7 There remains some doubt whether the above three criteria are necessary conditions for a finding of abuse or whether there can be other exceptional circumstances in which a refusal by a dominant undertaking to license IPRs can constitute an abuse within Article 102. The earlier case law is not clear on the point and the GC did not need to decide the issue in *Microsoft* (as it found that the three criteria were satisfied on the facts).

6.8 In conclusion, while it is clear that in certain circumstances competition law can require a dominant undertaking to license its IPRs to third parties, those circumstances will be dependent on the facts in each case.

Standard essential patents

6.9 In 2012 the Commission launched separate Article 102 investigations into Samsung and Motorola in connection with the licensing of their standard essential patents (SEPs) – i.e. patents that are necessarily infringed during the process of implementing an industry standard, and in respect of which the patent holders had previously given commitments to license on fair reasonable and non-discriminatory (FRAND) terms. The Commission's investigations focused on whether the parties had violated Article 102 by seeking injunctive relief on the basis of their SEPs.

6.10 In 2014 the Commission issued its landmark decisions:[38]

- In the *Samsung* case, the Commission accepted binding commitments from Samsung not to seek injunctive relief in the EEA for five years on the basis of any of its relevant SEPs against any company that agrees to a particular licensing framework (which also provided for a negotiation period of up to 12 months and, if no agreement can be reached, third party determination of FRAND terms).

- In the *Motorola* case, the Commission concluded that the seeking of injunctive relief on the basis of SEPs can amount to an abuse under Article 102, where no objective justification exists. In this regard, the Commission referred to a SEP holder being entitled to seek and enforce an injunction against potential licensees that are "unwilling" to enter into a licence on FRAND terms.

6.11 The question of what constitutes "willingness" on the part of a potential licensee is a complex one that needs to be determined on a case-by-case basis. The Commission, however, made clear that where a potential licensee submits to third party determination of FRAND terms, they will be considered a willing licensee.

6.12 This question has also been considered by the CJ following a preliminary reference from the Landgericht Dusseldorf in the *Huawei v ZTE* case.[39] In 2015 the CJ issued its ruling, setting out the circumstances in which a SEP holder will not abuse its position when seeking injunctive relief:

- the SEP holder must notify the potential licensee of the SEPs that are being infringed;

- if the potential licensee expresses a willingness to conclude a licence agreement, the SEP holder must provide a written licence offer to the licensee;

- the potential licensee must then respond to the offer "diligently" and "in good faith", without engaging in delaying tactics (albeit the CJ does not elaborate on what may be considered to be a delaying tactic). If the licensee does not accept the offer, it must make a written counter-offer on FRAND terms; and

- if the potential licensee continues to use the SEP before a licensing agreement has been concluded, it must, from the point at which its counter-offer is rejected, provide appropriate security.

6.13 The CJ also held that if no agreement is reached, the parties "may, by common agreement" request a third party determination of the licence terms. In addition, it held that potential licensees are allowed to challenge validity or essentiality in parallel to negotiations, or to reserve the right to challenge in the future.

6.14 The CJ's ruling provides some further helpful practical guidance regarding licensing negotiations, but still leaves open a number of areas of uncertainty that will in due course need to be addressed by national courts in future SEP litigation.

[38] Case AT.39985 *Motorola - Enforcement of GPRS standard essential patents,* Commission Decision of 29 April 2014; Case AT.39939 *Samsung - Enforcement of UMTS standard essential patents,* Commission Decision of 29 April 2014 (see IP 14/490).

[39] Case C-170/13 *Huawei Technologies Co. Ltd v ZTE Corp.*, ZTE Deutschland GmbH, judgment of 16 July 2015. The preliminary reference arose from an action brought before the Landgericht Düsseldorf by Huawei, seeking injunctive relief against ZTE for infringement of one of Huawei's SEPs. The Düsseldorf court requested guidance from the CJ on the circumstances in which a SEP holder can bring an action for an injunction.

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