

The EU Competition Rules on Intellectual Property Licensing

A guide to the European Commission's
Technology Transfer Block Exemption
Regulation

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Intellectual property rights and EU competition law

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 thus able unilaterally to prevent unauthorised use of its intellectual property and has a monopoly over whether to exploit it itself or through licensing to third parties.
2. EU competition law aims to protect competition on 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 can sometimes seem to be at odds with the aims of intellectual property laws (which seek to encourage and reward innovation by protecting IPR owners), both EU competition law and intellectual property legislation do share broadly the same basic policy objectives of promoting consumer welfare and an efficient allocation of resources.
3. When considering IPRs within the framework of EU law, the following two sets of rules are relevant:
 - (a) *The rules on free movement of goods*: Articles 34 to 36 of the Treaty on the Functioning of the European Union ("TFEU") prohibit Member States from imposing unjustified barriers to cross-border trade. Although Article 36 permits Member State legislation protecting IPRs, it also provides that this is subject to the limitations imposed by the Treaty's free movement objectives. It follows that 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; and
 - (b) *The competition rules*: The main EU competition rules are contained at Article 101 TFEU (on anti-competitive agreements) and Article 102 TFEU (on abuse of market power). 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 which 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 further towards the end of this publication.

4. This publication considers the application of the 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 which may be caught by Article 101(1) and which therefore may be unenforceable unless they satisfy the exemption criteria of Article 101(3); in some cases, they may even raise issues under Article 102.
5. The Technology Transfer Block Exemption Regulation (TTBER)¹ sets out the basis for exemption of agreements relating to certain technology (essentially patents, proprietary know-how, software copyright and certain design rights) according to pre-determined criteria, offering a 'safe harbour' from the prohibition contained in Article 101(1). The TTBER came into force on 1 May 2004 and is accompanied by a detailed set of guidelines which explain the Commission's approach to the licensing of IPRs under Article 101, including an assessment of how the TTBER applies and how agreements not meeting the criteria set out in the TTBER should be analysed for compliance with Article 101.² These 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, particularly now that parties to an agreement can no longer seek an individual exemption under Article 101(3) from the Commission.³

¹ Reg. 772/2004 (OJ 2004 L123/11, 27.04.2004).

² Commission Notice (OJ 2004 C101/2, 27.04.2004).

³ Following the "modernisation" of the European competition rules under Council Reg. (EC) 1/2003 which came into force on 1 May 2004.

Technology transfer agreements and the TTBER

FEATURES OF TECHNOLOGY TRANSFER AGREEMENTS

6. Technology transfer agreements usually consist of the granting by the IPR owner (the licensor) of a licence to a third party (the licensee) under which the licensee is authorised to exploit the IPRs by manufacturing, marketing and selling the goods or services in question. The TTBER applies to agreements concerning the following IPRs: software copyright, designs and utility models, patents and know-how. The licensing of trade marks, copyright and other IPRs is not covered by the TTBER unless the licensing is ancillary to the licensing of the technology covered by the block exemption.
7. Technology transfer agreements have a number of special features:
 - (a) 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 in order to safeguard its IPRs;
 - (b) They differ from true assignments of IPRs, under which ownership is transferred completely to another party (usually in exchange for a single payment upfront). An assignor or vendor of IPRs generally has less scope to restrict the purchaser's use of the rights transferred; and
 - (c) 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.

DOES THE AGREEMENT GIVE RISE TO COMPETITION ISSUES AT ALL?

8. Before considering the detailed provisions of the TTBER, 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:
 - (a) Is there an agreement between two or more independent undertakings? For example, intra-group licences are not caught by Article 101;

- (b) 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 which 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
- (c) Does the licence or agreement prevent, restrict or distort 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.
9. The EU's Court of Justice has recognised that 'open' exclusive licences of IPRs can fall outside the Article 101(1) prohibition altogether, particularly if they involve the introduction and protection of new technology in the licensed territory.⁴ Under such an open licence, the licensor undertakes not to exploit the licensed IPRs in the licensed territory nor to grant further licences there – but under terms where individual licensees within the EEA retain the freedom to respond to orders from customers outside their respective territories. This principle is also enshrined in the Technology Transfer Guidelines, in which the Commission recognises that exclusive licensing between non-competitors will either fall outside Article 101(1) or will be exempted under Article 101(3).⁵ As a consequence, the Commission will only exceptionally intervene against exclusivity in agreements between non-competitors irrespective of the territorial scope of the licence.
10. Many technology licensing agreements are covered by the Commission's 2001 Notice on agreements of minor importance.⁶ This Notice confirms that the Commission will not initiate proceedings under Article 101 against 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).⁷ Likewise, it confirms that larger companies may rely on this Notice 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 is difficult to classify the status of the parties) and 15% for agreements between non-competitors. Furthermore, an agreement can only benefit from the Notice where it does not contain any 'hardcore' restrictions such as price fixing or market sharing restrictions.
11. Technology licensing agreements above the Notice's *de minimis* market share thresholds may raise Article 101(1) issues if the licensor and/or licensee are already significant players on the market(s) affected by the licence, in particular if they are competitors. Likewise there may be issues if the technology relates to an entirely new product or service, since in such a case the relevant market shares could be substantial even at the outset of the agreement.⁸ Nevertheless there is no presumption that agreements above these market shares

⁴ *Maize Seed/Nungesser* [1982] ECR 2015.

⁵ Technology Transfer Guidelines, paragraph 165.

⁶ *De minimis* Notice (OJ 2001 C368/07, 22.12.01).

⁷ This definition is based on the definition of SME in the Annex to Commission Recommendation 2003/361 (OJ 2003 L124/36, 20.05.03).

⁸ This is an important issue for innovation industries such as the biotechnology sector.

will fall foul of Article 101(1) or be incapable of exemption under Article 101(3) in the absence of hardcore restrictions; individual assessment is required.

12. 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.⁹ Moreover, the Guidelines provide for an additional safe harbour for agreements falling outside the TTBER in the absence of hardcore restrictions where there are four or more independently controlled technologies in addition to and substitutable for the technology controlled by the parties to the agreement.¹⁰

⁹ See separate 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 separate Slaughter and May publication on *The EU competition rules on horizontal agreements* (e.g. at Part A.3 of Table 1.1).

¹⁰ Technology Transfer Guidelines, paragraph 131.

The safe harbour of the TTBER and the 3 step test

13. The TTBER is consistent with the Commission's approach in other block exemption regulations,¹¹ seeking to apply an economic effects approach to analysing agreements rather than concentrating on legal form.¹² It is concerned primarily 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.
14. The TTBER is only available for agreements between two parties. It therefore expressly does not apply to licences setting up 'technology pools' (i.e. the pooling of technologies with the aim of licensing the package of IPRs to third parties)¹³. However, the TTBER is available for any individual licences granted by the pool to third party licensees.¹⁴
15. 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 further the flowchart at Appendix 1):
 - (a) whether the parties to the agreements are competitors or non-competitors;
 - (b) what the market shares attributable to each party are; and
 - (c) whether the agreement contains any problem clauses (hardcore or excluded restrictions).

THE DISTINCTION BETWEEN COMPETITORS AND NON-COMPETITORS

16. In determining whether the parties to the agreement should be considered to be competitors or non-competitors, it is necessary to review competition both on the relevant technology market and on the relevant

¹¹ Vertical Restraints (Reg. 2790/1999 (OJ 1999 L336/21, 29.12.99); Specialisation Agreements (Reg. 2658/2000 (OJ 2000 L304/3, 05.12.00); and Research and Development Agreements (Reg. 2659/2000 (OJ 2000 L304/7, 05.12.00).

¹² This ensures that undertakings have greater commercial freedom in drafting their agreements by removing the straitjacket approach which used to be required (for example under the previous 1996 technology transfer block exemption regulation).

¹³ See further paragraph 45 under 'Assessment outside the TTBER' below.

¹⁴ Technology Transfer Guidelines, paragraph 212.

product (and geographic) markets. If the parties are competitors at either level they will be competitors for the purpose of the TTBER.

17. Competition on the relevant technology market is assessed by reference only to actual competition and on a world-wide basis. 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 one party does not license out its technology to third parties.
18. Competition on the relevant product market is assessed by reference to both actual and potential competition on relevant geographic markets. Where the parties are presently 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 product and/or geographic market within a short period of time (i.e. one to two years) in response to a small but significant 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
19. The competitive status of the parties need only be assessed at the time of conclusion of the agreement. Accordingly, if the parties are non-competitors at the outset but subsequently become competitors during the life-time of the agreement, the agreement will continue to be assessed as one between non-competitors unless it is subsequently renewed or materially amended.¹⁷

THE MARKET SHARE THRESHOLDS

20. Article 3 of the TTBER confines the scope of the safe harbour to agreements between parties meeting particular market share thresholds. These threshold tests apply to the parties' shares of both the technology and the product markets. In the case of agreements between competitors, the combined market shares of the parties must not exceed 20%. In the case of 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.
21. It should be noted that 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.¹⁸

¹⁵ Technology Transfer Guidelines, paragraph 28.

¹⁶ Technology Transfer Guidelines, paragraph 29.

¹⁷ Technology Transfer Guidelines, paragraph 31.

¹⁸ Technology Transfer Guidelines, paragraph 65. Also see paragraphs 37-45 under 'Assessment outside the TTBER' below.

22. Calculating the 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.
23. 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.¹⁹ Market shares are calculated on the basis of sales for the preceding calendar year, which means that in respect of new technologies which have not yet generated any sales, a zero market share will be assigned.²⁰
24. 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.

THE HARDCORE RESTRICTIONS

25. As described above, the TTBER draws a distinction between agreements between competitors and those between non-competitors. Consequently there are two separate lists of hardcore restrictions contained in Article 4(1) for agreements between competitors and 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).
26. In general terms, the TTBER treats reciprocal agreements (i.e. where there is a two-way flow of technology or cross-licences, whether in the same or separate contracts) less favourably (or more strictly) from a competition perspective than non-reciprocal agreements (i.e. where the technology flows one-way only, or where there is a two-way flow on non-competing technologies). This is on the basis that there is greater potential for market foreclosure when competing technologies are cross-licensed.
27. Equally, 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.
28. The following are the hardcore restrictions for agreements between competitors:
 - (a) *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

¹⁹ Technology Transfer Guidelines, paragraph 23.

²⁰ TTBER, Article 8(1); Technology Transfer Guidelines, paragraph 70.

- **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 restrict competition because they raise the costs of using the licensee's own competing technology and restrict competition that would exist in the absence of such agreements;

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

(c) *Allocation of markets or customers*, other than:

- i. an obligation on the licensee to exploit the licensed technology within one or more technical fields of use only;
- ii. an exclusive territorial or field of use grant to a licensee in a non-reciprocal agreement. Only a sole licence is exempted if the agreement is reciprocal;
- iii. a ban on active and passive sales by the licensor and/or the licensee into the exclusive territory of the other (non-reciprocal agreements only);
- iv. a ban on active (but not passive) sales by the licensee into the exclusive territory 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;
- v. an obligation on the licensee to produce for its own use only (provided the licensee is not restricted in selling products as spare parts); or
- vi. an obligation on the licensee to produce only for a particular customer (non-reciprocal agreements only).

(d) *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).

29. The following are the hardcore restrictions for agreements between **non-competitors**:

(a) *Price fixing* (other than imposing a maximum price or a recommended retail price);

(b) *Allocation of markets or customers* on the territory into which, or on the customers to whom, the licensee may passively sell, except:

- i. restrictions on passive sales into the exclusive territory/customer group reserved to the licensor;
- ii. restrictions on passive sales into the exclusive territory/customer group reserved to another licensee for a period of two years from the date on which the protected licensee first markets the licensed products within its exclusive territory;
- iii. an obligation to produce the licensed products only for the licensee's own use (provided the licensee is not restricted in selling the licensed product as spare parts for its own products);
- iv. an obligation to produce only for a particular customer;
- v. restrictions on sales to end users by a licensee operating at the wholesale level;
- vi. restrictions on sales to unauthorised distributors by members of a selective distribution system; or
- vii. 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

30. Finally, it is necessary to consider whether the agreement contains any excluded restrictions within the meaning of Article 5. These are clauses which 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.

31. The excluded restrictions are:

- (a) *Exclusive grant backs by the licensee*: a requirement on the licensee to assign or exclusively license-back any of its own severable improvements or new applications of technology. An improvement will be severable if it can be exploited without infringing the licensed technology (or the IPRs protecting that technology);
- (b) *No challenge clauses*: any obligation on the licensee not to challenge the validity of the licensor's IPRs (provisions allowing the licensor to terminate on a challenge are permitted); and
- (c) *Restrictions on exploiting technology*: this is a hardcore restriction for agreements between competitors (see paragraph 28(d) above) 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).

Withdrawal and disapplication of the TTBER

32. The Commission and the Member States' national competition authorities (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.²¹
33. Although in practice the TTBER is extremely unlikely to be withdrawn, Article 6 states that withdrawal may be warranted in the following circumstances:
- (a) 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;
 - (b) 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
 - (c) where the parties refrain from exploiting the licensed technology without any objectively valid reason (where this occurs in agreements between competitors, it may be an indication that the licensing arrangements are a disguised cartel).
34. 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 generally only be appropriate where it is likely that access to the relevant market(s) is appreciably restricted.²²

²¹ Article 11(4), Regulation 1/2003, OJ 2003 L1/1, 04.01.03.

²² Technology Transfer Guidelines, paragraphs 123-129.

Assessment outside the TTBER

IMPACT ON COMPETITION

35. If a technology transfer 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 will need to be conducted of whether it is compatible with Article 101. This will involve 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 an agreement falling outside the block exemption infringes Article 101(1).
36. The Technology Transfer Guidelines 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).²³ The exceptional instances where such agreements fall within Article 101 are likely to relate to circumstances where either the licensor or the licensee enjoys an appreciable degree of market power. Agreements between competitors have a greater propensity to fall within Article 101 and therefore will require careful analysis by reference to the principles contained in the Technology Transfer Guidelines. The following factors are likely to be particularly relevant to an assessment of agreements outside the TTBER:
- (a) the nature of the agreement;
 - (b) the market position of the parties;
 - (c) the market position of competitors;
 - (d) the market position of buyers of the licensed products;
 - (e) entry barriers;
 - (f) the maturity of the market; and
 - (g) other factors, such as the duration of the agreements and the existence of similar agreements in the market.

²³ Technology Transfer Guidelines, paragraph 165.

RELEVANT RESTRAINTS

37. The Technology Transfer Guidelines also 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, tying and bundling.²⁴ It should be noted that these common restraints are all block exempted up to the market share thresholds contained in the TTBER.
38. Royalty and non-compete obligations outside the scope of the TTBER will only raise concerns where they may lead to foreclosure effects. 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

39. As noted above (see paragraph 36) 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). In respect of exclusive licensing between competitors, 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 effectively to exploit the technology in the licensee's territory, the agreement is unlikely to infringe Article 101(1).
40. Whilst sales restrictions in reciprocal agreements between competitors are hardcore restrictions, those 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. Non-exclusive licence agreements will almost never cause competition concerns in the absence of hardcore restrictions.

OUTPUT RESTRICTIONS

41. Article 4(1)(b) of the TTBER states that reciprocal output restrictions in licence agreements between competitors constitute a hardcore restriction. However, output restrictions on one of the licensees in a reciprocal agreement and those in non-reciprocal agreements and 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 e.g. the licensor's technology is substantially better than the licensee's and where the limitation substantially exceeds the licensee's output prior to conclusion of the agreement, as the effect of the restriction will be limited. Whilst such restrictions can reduce intra-technology competition between

²⁴ Technology Transfer Guidelines, paragraphs 156-203.

licensees, the effects on competition will depend on the market position of the licensor and the licensees and whether the restrictions are combined with exclusive territories or exclusive customer groups, in which case the restrictive effects will be increased.

USE RESTRICTIONS

42. Field of use restrictions limit exploitation by the licensee to one or more particular fields. They are potentially of concern where they may lead to the licensee ceasing to be a competitive force outside the licensed field of use. Whilst 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.
43. Captive use restrictions²⁵ 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). 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. Where the licensor is a supplier of components, captive use restrictions will normally 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. Where the licensor is not a supplier of components, the availability of a less restrictive alternative (i.e. restricting the licensee from selling into certain customer groups reserved for the licensor) will normally mean that the conditions of Article 101(3) are not met.

TYING PROVISIONS

44. The main restrictive effect of tying and bundling²⁶ is foreclosure of competing suppliers of the tied product. In order 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. In order 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 for instance the tied product is necessary to ensure that production quality standards are maintained. In such circumstances, tying will either not be restrictive of competition at all, or will be covered by Article 101(3).

²⁵ An obligation to 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.

²⁶ 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.

TECHNOLOGY POOLS

45. Finally, the Technology Transfer Guidelines provide some useful pointers for an assessment of possible competition issues arising in technology pools (where two or more parties license one or more technologies to other contributors to the pool and third parties).²⁷ In short, where a technology pool is composed only of technologies that are essential and therefore by necessity also complementary, the creation of the pool is likely to fall outside Article 101(1). In contrast, where the pool includes substitute technologies, the Commission considers not only that it will be caught by Article 101(1), but also that the conditions of Article 101(3) are very unlikely to be satisfied.

²⁷ Technology Transfer Guidelines, paragraphs 210-222.

Article 102 (abuse of a dominant position) and compulsory licensing

46. For Article 102 issues to arise in the assessment of IPRs, there must be an undertaking which enjoys a dominant position in a relevant product and geographic market and an abuse of that dominant position.²⁸ The question of whether the refusal by a dominant undertaking to grant a licence to a third party can be considered to be an abuse within Article 102 has been considered in some detail by the European courts, notably by the General Court in the *Microsoft* case.²⁹
47. The courts have consistently held that the refusal by a dominant firm to license IPRs constitutes an abuse within Article 102 only in exceptional circumstances.
48. 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 ECJ 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.³⁰
49. Upholding this position in *Magill*, the ECJ confirmed the earlier conclusion of the General Court 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.³¹ The complainant had requested a licence in order to provide a new comprehensive television 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.³²

²⁸ See separate Slaughter and May publication *An Overview of the EU Competition Rules* for more details.

²⁹ Case T-201/04 *Microsoft v Commission*. Microsoft did not appeal the judgment to the ECJ.

³⁰ Case 238/87 AB *Volvo v. Erik Veng (UK) Ltd* [1988] ECR 6211.

³¹ See also the ECJ's judgment in *IMS* (Case C-418/01 *IMS Health GmbH & Co. V. NDC Health GmbH & Co.*).

³² Cases C-241 and C-242/91P *RTE and ITP v. Commission* [1995] ECR I-743.

50. Taking this one step further forward in *Bronner*, the ECJ 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.³³ In this case, a newspaper publisher had refused a competitor access to the only nationwide home delivery service, but the ECJ 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).
51. These basic principles were reiterated by the General Court 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.³⁴ The General Court held that a refusal by a dominant undertaking to license an IPR is an abuse under Article 102 where the refusal is not objectively justified and the following three conditions are met:
- (a) the refusal relates to a product or service indispensable to the exercise of a particular activity on a neighbouring market;
 - (b) the refusal is of such a kind as to exclude any effective competition on that neighbouring market; and
 - (c) the refusal prevents the appearance of a new product for which there is potential consumer demand.
52. The General Court 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.
53. The General Court 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.

³³ Case C-7/97 *Oscar Bronner GmbH & Co. v. Mediaprint Zeitungs und Zeitschriftenverlag GmbH* [1998] ECR I-7791.

³⁴ Commission Decision of 24 March 2004 in Case COMP/C-3/37.792 *Microsoft*.

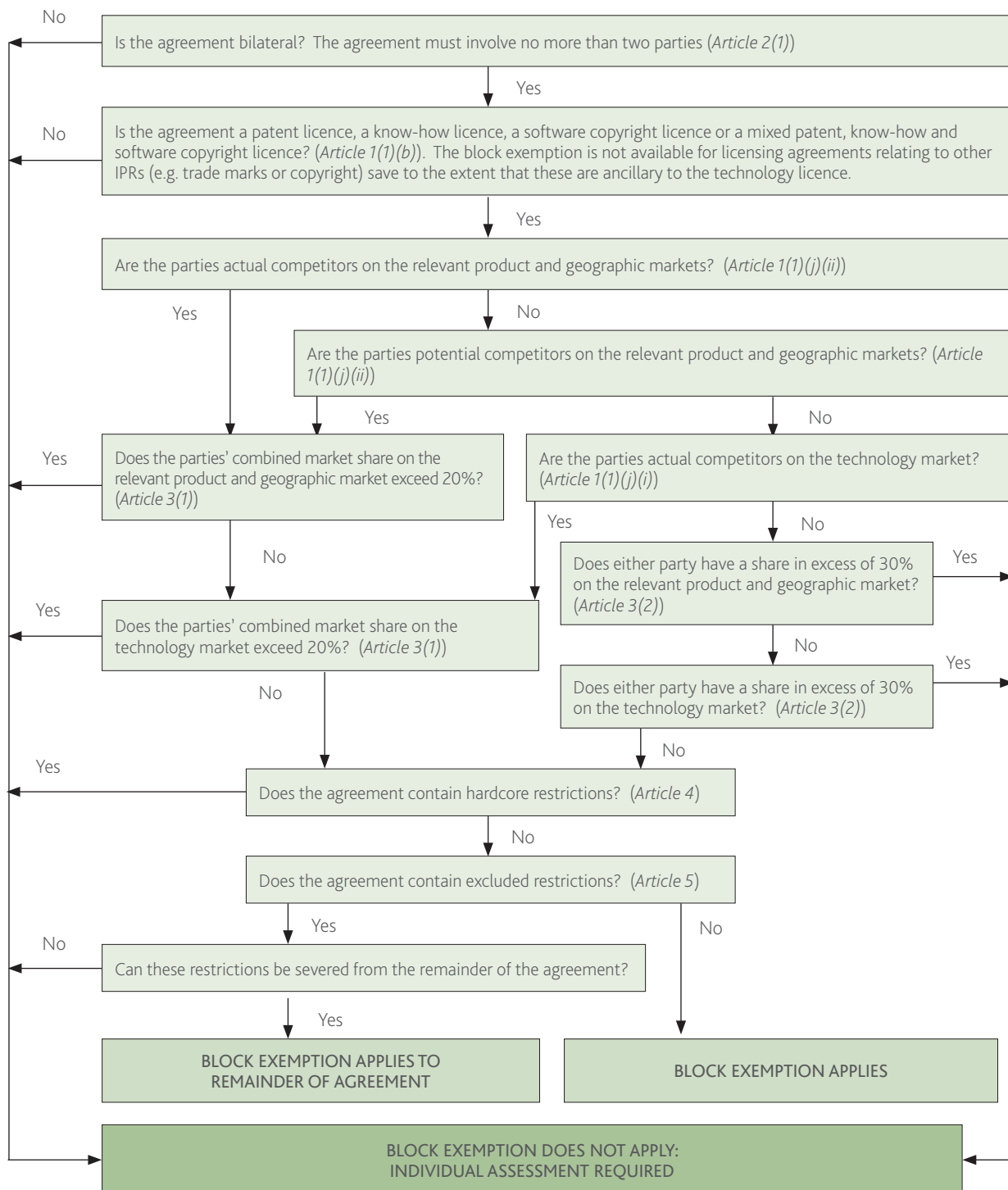
54. There remains some doubt whether the three criteria set out above are necessary conditions for a finding of abuse or whether there can be other exceptional circumstances in which a refusal by a dominant firm to license IPRs can constitute an abuse within Article 102. The earlier case law is not clear on the point and the General Court did not need to decide the issue in *Microsoft* (as noted above, it found that the three criteria set out in paragraph 51 above were satisfied on the facts).
55. In conclusion, whilst 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 dependant on the facts in each case.

Slaughter and May
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Appendix 1: technology transfer block exemption flowchart



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