February 13, 2012

The Sections offer these latest comments in the hope that both the Commission and U.S. authorities will continue to refine and harmonize their approaches to technology transfers, particularly as the Commission considers how to assess technology transfer agreements after the expiration of the current TTBER in April 2014.

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1 The public consultation was announced at http://ec.europa.eu/competition/consultations/2012_technology_transfer/index_en.html. We refer herein to the relevant provision of the EC Treaty and interpretative Guidelines as “Article 81,” when discussing the adoption of the TTBER, which was the relevant Article at the time of promulgation. When discussing Article 81’s application in practice we refer to it by its current designation, Article 101.

2 The April 2002 comments are available at http://www.americanbar.org/content/dam/aba/administrative/antitrust_law/comments_ectechblock.authcheckdam.pdf.

3 The November 2003 comments are available at http://www.americanbar.org/content/dam/aba/administrative/antitrust_law/comments_ttber.authcheckdam.pdf.
I. Overview and Summary

The Sections believe that the current TTBER and Guidelines have generally functioned well and encouraged procompetitive licensing transactions. The Sections particularly applaud the Commission’s recognition that (1) licensing typically leads to integration of complementary assets and dissemination of innovations, and is generally pro-competitive; (2) licensing benefits consumers through the reduction of costs and the introduction of new products, and promotes greater investment in research and development by increasing expected returns; and (3) anticompetitive effects are most likely where there is market power, which patents do not necessarily create.

The Sections see no reason for fundamental revisions or departure from the general principles expressed in the TTBER and Guidelines; accordingly, the following comments focus on specific areas where additional guidance or clarification, and occasionally changes in emphasis, may help foster the TTBER’s and Guidelines’ goals. Specifically, the Sections recommend that the Commission

- Strengthen the analysis used to define competitors, particularly where two parties occupy blocking positions to one another (Section II.A);
- Reconsider the TTBER’s and Guidelines’ singular focus on market share thresholds, expanding the focus to include consideration of the number of alternative R&D efforts instead of market share (Section II.B);
- Encourage a more lenient view of grant-backs, especially those involving severable improvements (Section III.A);
- Clarify certain aspects of the guidelines on settlements and non-assertion agreements (Section III.B);
- Encourage an effects-based analysis of the inclusion of substitutes in technology pools and offer guidance on the circumstances in which pool members can respond to patent assertions by third parties (Section III.C);
- Offer guidance on the treatment of agreements outside the scope of the TTBER, focusing in particular on the distinction between hardcore and non-hardcore restrictions, and on field of use limitations (Section III.D).

The Sections also offer observations on the study on competition and patent law (Section V).  

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II. Application of Current TTBER and Guidelines

A. Distinction Between Competitors and Non-Competitors

The Sections agree that licenses involving non-competitors should be analyzed more leniently than those involving competitors. The Sections also agree with the Guidelines’ attention to whether the parties would have been competitors in a relevant market in the absence of the license agreement, so that situations involving blocking patents or “drastic innovations” should be treated as licensing between non-competitors. In addition to its conceptual soundness, this approach helps to harmonize EU and US guidance on the issue.

1. Harmonizing the TTBER and the Guidelines

The Sections respectfully suggest, however, that the Commission could clarify and make the TTBER more consistent with the Guidelines. Specifically, the Guidelines state that “[i]n some cases it may also be possible to conclude that while the licensor and the licensee produce competing products, they are non-competitors on the relevant product market and the relevant technology market because the licensed technology represents such a drastic innovation that the technology of the licensee has become obsolete or uncompetitive.” The TTBER contains no corresponding language. The Sections suggest that it should.

2. Burden of Proof for Blocking Positions or Drastic Innovation

The Sections agree with the Guidelines’ conclusions that (a) parties owning blocking patents should not be considered competitors, and (b) where the licensor has achieved such a drastic innovation that the technology of its licensee has become obsolete, the parties likewise should not be considered competitors. The Guidelines, however, reserve such treatment as non-competitors for only the clearest cases, and may impose a more demanding burden of proof on this issue than is necessary to achieve the Commission’s objective of promoting procompetitive licensing agreements. In assessing whether a blocking position exists or whether parties are non-competitors due to drastic innovation, respectively, the Commission will:

- rely on objective factors as opposed to the subjective views of the parties,

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5 Guidelines ¶¶ 26-33.

6 The U.S. antitrust enforcement agencies “ordinarily will treat a relationship between a licensor and its licensees, or between licensees, as horizontal when they would have been actual or likely potential competitors in a relevant market in the absence of the license.” U.S. Dep’t of Justice & Fed. Trade Comm’n, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY at ¶3.3 (1995) (“US Guidelines”), available at http://www.justice.gov/atr/public/guidelines/0558.htm.

7 Guidelines ¶ 33.

8 Guidelines ¶¶ 32-33.

9 The Commission deleted an assumption that technologies that are technologically substitutable are potentially competing “unless the parties provide convincing evidence of the existence of a blocking position.”
• consider relevant evidence defined as “court decisions including injunctions and opinions of independent experts,”

• consider “other convincing evidence, including expert evidence from the parties that they have or had good and valid reasons to believe that the blocking position exists or existed,”

• reject a “drastic innovation” argument unless at the time of the conclusion of the agreement (or some later relevant time) it is “obvious” that the licensee’s technology is obsolete or uncompetitive, and

• treat settling parties as competitors or will impose significant limits on their licensing restraints even if they are not competitors.10

While appearing to allow consideration of “other convincing evidence,” the Guidelines’ definition of “relevant evidence” and description of other convincing evidence might suggest only an expert can provide this “other” evidence necessary to prove a blocking position or drastic innovation.

The Sections see no reason to imply that other forms of relevant evidence, such as testimony from the parties, other licensees and actual or potential customers, could not establish the parties’ status as non-competitors. As the Sections noted in their 2003 comments, requiring a licensor to locate a court judgment or an “independent” expert opinion to establish the existence of a blocking position,11 exacerbates the risk and creates disincentives to licensing. Parties enter into licenses in part to reduce the risks associated with uncertainty. Thus, requiring parties to identify blocking patents and confirming their blocking status through opinions of experts, whose independence will be “closely examined,” imposes a burden that undermines the risk-mitigation aspect of licensing. This high burden of proof may also cause the licensor to avoid more capable licensees who possess the skills and assets needed to commercialize a technology efficiently, in favor of another who may have lesser skills and assets but is less likely to be classified as a competitor. And the Guidelines may make it more difficult for a company with obsolescing technology to adopt a competitor’s superior technology, essentially disincentivizing necessary adaptability.

The Guidelines may also discourage portfolio licensing to the detriment of innovation in industries in which such licensing is common to facilitate design freedom. In many innovative industries, licenses are granted for portfolios of patents held or acquired during a specified period. The practice can provide the freedom to innovate without the need to design around the licensor’s patents, and thereby avoid a costly redesign around the licensor’s patents in the event of a licensor suing for infringement. And, finally, the rules may discourage settlements of disputes.

10 Guidelines ¶¶ 32-33.

11 Guidelines ¶ 32.
The Sections therefore recommend that the Guidelines lower the burden of proving a noncompetitive relationship by: (1) allowing consideration of the reasonable beliefs of the parties at the time of the license, beyond expert evidence; (2) lowering the standard from “convincing evidence of the existence of a blocking position” to “evidence that the parties had a reasonable basis to believe a blocking position more likely than not exists;” (3) allowing “other circumstantial evidence” to be used in addition to judicial decisions and expert opinion; (4) changing the standard for showing a “drastic innovation” from “obvious” to “more likely than not;” and (5) treating parties settling a patent dispute in the same way that parties entering a license prior to a dispute are treated.

B. Market Definition and Market Share Calculation

As the Sections noted in 2003,\textsuperscript{12} the use of market-share thresholds as a condition of an exemption substantially decreases the utility of the TTBER. Markets are not easy to define and market shares are not easy to measure, particularly in technology markets in which market definitions change at a rapid pace. The dynamic nature of shares in technology markets may most affect, for example, the utility of Article 8 of the TTBER, which can remove an exemption if the parties’ market shares grow, subject to a transitional period.\textsuperscript{13} In counseling on a proposed license agreement, competition lawyers will therefore have to advise their clients that the exemption may eventually be lost. This contingency may cause the parties to negotiate the license agreement to comply with the more restrictive general principles of Article 101, as explained in the Guidelines, rather than to comply with the TTBER. License agreements could thereby take unnecessarily conservative approaches on the possibility that a single indicia of the parties’ market power – market share – might increase in the future.

The Sections therefore respectfully renew the suggestion made during the 2003 review that the Commission analyze the licensing agreements beyond a singular focus on market share. The Sections believe that the Commission could improve the TTBER by applying the exemption when several technologies controlled by non-parties to the licensing agreement can serve as substitutes for the licensed technology at a comparable cost to the user.\textsuperscript{14} This would enable lawyers to counsel their clients where the ultimate market shares that any particular technologies will achieve are still unpredictable. In addition, the Sections encourage the Commission to consider expanding the conditions under which it will issue informal guidance in this context beyond the limitations set forth in the Informal Guidance Notice.

\textsuperscript{12} November 2003 comments, n.3 \textit{supra} at 9.

\textsuperscript{13} The Sections commend the Commission for amending the current TTBER to not limit this extension to a growth of no more than 5%, but respectfully suggest that further improvements could be made to achieve the overall goals of promoting pro-competitive licensing.

\textsuperscript{14} \textit{See} US Guidelines ¶ 4.3; U.S. Dep’t of Justice & Fed. Trade Comm’n, \textsc{Antitrust Guidelines for Collaborations Among Competitors} at ¶4.3 (2000) (“US Joint Venture Guidelines”), available at http://www.ftc.gov/os/2000/04/fcdojguidelines.pdf. At the least, if the Commission retains the primary reliance on market share, the market shares should be considered only at the commencement and renewal of a license, so that the parties have certainty during the term of the license.
III. Provisions of the Current TTBER and Guidelines

The current TTBER and Guidelines represent a significant improvement over the former regime, but the Sections believe there are various provisions that could be amended to better advance the Commission’s goal of facilitating procompetitive technology transfer agreements. The Sections’ comments focus on the treatment of grant-backs, settlement agreements, technology pools, and the guidance relevant to agreements outside of the TTBER.

A. Grant-Backs

1. Exclusive Grant-Backs of Severable Improvements

In the 2004 Guidelines, the Commission recognized that non-exclusive grant-backs, even if non-reciprocal and covering severable improvements, “may promote innovation and the dissemination of new technology.”\(^{15}\) Further, the Commission recognized that exclusive grant-backs covering non-severable improvements “are not restrictive of competition within the meaning of Article 81(1) since non-severable improvements cannot be exploited by the licensee without the licensor’s permission.”\(^{16}\) Accordingly, these types of grant-backs are appropriately block exempted.

As with non-exclusive grant-backs of severable improvements, exclusive grant-backs of such improvements may be procompetitive. The Commission has broadly defined “severable improvements” to mean “an improvement that can be exploited without infringing the licensed technology.”\(^{17}\) A severable improvement may thus include complementary technology, and the Commission has recognized that the bringing together of complementary technologies through licensing may be procompetitive.\(^{18}\) Grant-backs covering such complementary but severable improvements are similarly procompetitive.

The Commission, however, reasoned that “an obligation to grant the licensor an exclusive license to severable improvements of the licensed technology or to assign such improvements to the licensor is likely to reduce the licensee’s incentive to innovate since it hinders the licensee in exploiting his improvements, including by way of licensing to third.”\(^{19}\) This fails, however, to take into account that an exclusive grant-back of severable improvements (as opposed to an assignment) could preserve some of the licensee’s incentives to innovate. The licensee may have an incentive to innovate and file patents for defensive purposes, which could be a driver of innovation in technology-rich industries.\(^{20}\) Moreover, depending on the scope, an exclusive grant-back may still

\(^{15}\) Guidelines ¶ 109.
\(^{16}\) Id.
\(^{17}\) TTBER at Article 1(1)(n).
\(^{18}\) Guidelines ¶ 17.
\(^{19}\) Guidelines ¶ 109.
preserve the licensee’s incentives to innovate to license the technology outside of the field of use or territories covered by the grant-back.

The Sections thus encourage the Commission to refine its discussion of the conditions under which such grant-backs are subject to an individual exemption. In particular, the Commission should make clear that the analysis of exclusive grant-backs covering severable improvements is governed by general principles of competition law without any presumption that they harm competition. Thus, such factors as the scope, terms, and duration of the grant-back as well as the market position of the parties should be considered. Moreover, we encourage the Commission to consider refining the following statements in its current Guidelines.

- The Commission should recognize that the licensor may have provided consideration for such grant-backs. The 2004 Guidelines state, that “the existence and level” of consideration for such a grant-back “may be a relevant factor in the context of an individual assessment under Article 101. When grant-backs are made against consideration it is less likely that the obligation creates a disincentive for the licensee to innovate.” Consideration for the grant-back, however, can also be reflected in the rate and terms of the license itself—i.e., what the licensee has to pay the licensor. The Sections believe that this should be expressly acknowledged in the guidelines.

- The 2004 Guidelines state, “The stronger the position of the licensor, the more likely it is that exclusive grant-back obligations will have restrictive effects on competition in innovation. The stronger the position of the licensor’s technology the more likely it is that the licensee will be an important source of innovation and future competition.” The Sections respectfully submit that the licensor’s position may not always be the only indicator of whether the licensee will be an important source of innovation. That question may also turn on the licensee’s resources and ability to innovate. The Commission should thus focus attention on determining (1) whether the licensee is likely to be an important source of relevant innovation, by examining such evidence as the licensee’s R&D program and the R&D programs of other firms in the area; and (2) whether the grant-back is likely to deter the licensee’s innovation, by examining such evidence as the field of use and territories covered by the grant-back, the reasons the licensee agreed to the grant-back, its strategic plans, the licensee’s R&D plans before and after the grant-back, whether the licensee has incentives to innovate and patent for defensive purposes, and whether the licensor and licensee may have joint R&D activity.

21 Guidelines ¶ 110.
23 Guidelines ¶ 110.
2. Grant-Backs and Sharing of Technological Improvements

The Sections continue to be concerned about the statement that the “risk of negative effects on innovation is higher in the case of cross licensing between competitors where a grant-back obligation on both parties is combined with an obligation on both parties to share with the other party improvements of his own technology. The sharing of all improvements between competitors may prevent each competitor from gaining a competitive lead over the other … .” The Commission does make clear that “the parties are unlikely to be prevented from gaining a competitive lead over each other where the purpose of the license is to permit them to develop their respective technologies and where the license does not lead them to use the same technological base in the design of their products. This is the case where the purpose of the license is to create design freedom rather than to improve the technological base of the licensee.”

The Sections submit, as they did in their 2003 comments, that some industries in which it is common for there to be cross-licenses to entire portfolios, including future patents, are very innovative and fiercely competitive. And this circumstance is not necessarily related to whether the parties are seeking “design freedom rather than to improve the technological base of the licensee.” This is because incentives to innovate in some industries are not driven by patents, and the incentives to patent in some industries are not related to protecting innovation. Accordingly, we submit that the issue should appropriately be examined in light of the characteristics of the industry concerned and the actual impact of each license term on the parties’ incentives.

C. Settlement Agreements

The Guidelines address settlements and non-assertion agreements in paragraphs 204 to 209. The Guidelines rightly recognize that licensing as part of settlement is beneficial in facilitating the end to a dispute over the scope of intellectual property right protection. However, the Guidelines qualify their recognition of the benefits of settlement with a statement that “the individual terms and conditions of such agreements may be caught by Article [101].” The Sections have several suggestions for additional guidance and clarification in this area.

24 Guidelines ¶ 110.
25 Id.
27 Guidelines ¶ 204 (“Licensing may serve as a means of settling disputes or avoiding that one party exercises his intellectual property rights to prevent the other party from exploiting his own technology. Licensing including cross licensing in the context of settlement agreements and non-assertion agreements is not as such restrictive of competition since it allows the parties to exploit their technologies post agreement.”)
28 Guidelines ¶ 204.
1. Evidentiary Issues

The Guidelines provide that the TTBER applies to settlements “provided that the agreement does not contain any hardcore restrictions of competition as set out in Article 4 of the TTBER.” They go on to state that “[t]he hardcore list of Article 4(1) may in particular apply where it was clear to the parties that no blocking position exists and that consequently they are competitors. In such cases the settlement is merely a means to restrict competition that existed in the absence of the agreement.”

The Sections agree that, where the underlying litigation is a “sham,” any putative “settlement” is seriously problematic. It appears that by referring to situations “where it was clear to the parties” that no blocking position exists the Commission is contemplating a sham settlement. In cases which fall short of a sham settlement or vexatious litigation, it is difficult to contemplate situations where “it was clear to the parties” that no blocking position exists. Such clarity may only be obtained by pursuing the actual litigation which the license is itself designed to avoid.

The Guidelines could therefore benefit from a clear and unequivocal statement that parties acting in good faith do not have clarity on whether they are in a blocking position. For example, parties may be prepared to litigate even where they are not confident that a patent is “rock solid.” There may also be uncertainties about the relevant market definition or the scope of patent coverage, for example, which are issues in genuine dispute. As described below, a settlement license in these circumstances, with or without restrictions on a party’s commercial freedom, may still not restrict competition that existed in the absence of the license due to the inherent uncertainties of litigation.

3. Future Developments

In the opinion of the Sections, the Guidelines as currently drafted risk creating a presumption that licenses that extend to future developments will tend to be difficult to justify under EU competition law. The Guidelines state:

“Where under the agreement the parties are entitled to use each other’s technology and the agreement extends to future developments, it is necessary to assess what is the impact of the agreement on the parties’ incentive to innovate. In cases where the parties have a significant degree of market power the agreement is likely to be caught by Article [101(1)] where the agreement prevents the parties from gaining a competitive lead over each other. Agreements that eliminate or substantially reduce the possibilities of one party to gain a competitive lead over the other reduce the incentive to innovate and thus adversely affect an essential part of the competitive process. Such agreements are also unlikely to satisfy the conditions of Article [101(3)]. It is particularly

29 Guidelines ¶ 205 (emphasis added).

30 This is an extremely high standard, applying the principles in Case T-111/96 ITT Promedia v. Comm’n, 1998 ECR II-2937.
unlikely that the restriction can be considered indispensable within the meaning of the third condition of Article [101(3). The achievement of the objective of the agreement, namely to ensure that the parties can continue to exploit their own technology without being blocked by the other party, does not require that the parties agree to share future innovations.\(^\text{31}\)

The treatment of licenses of future developments could benefit from a clear statement of the circumstances in which such licenses may be precompetitive and satisfy the indispensability criteria in Article 101(3). For example:

- The extensive lead time for R&D and obtaining patents means that a party may not be prepared to commit to investments without being assured that it is protected against future challenges by those who have invested or have raised disputes in the area.

- At the time a patent application is filed the ultimate scope of protection may be unclear, not least since it will be open to the patentee to amend the claims during the process. Hence a license of patent applications and patents ultimately granted will often be indispensable as a condition to ending a dispute.

- Unpublished patent applications that were not available at the time of settlement may emerge at a later date, after a party has invested. If no license was obtained by the conclusion of the relevant litigation, this may render the investment futile. Accordingly, the Guidelines should be amended to say that licenses for future relevant or derivative intellectual property rights may be essential to settle litigation and, as such, can be compatible with Article 101.

4. Licenses of Intellectual Property Rights Not in Dispute

The Guidelines do not deal expressly with the assessment of licenses of IPR that are not in dispute in the relevant litigation. However, an issue that has come up in practice concerns parties settling other IPR disputes in the context of one broad “umbrella” settlement license.

For example, in the process of settling a dispute relating to Patent A, B or C, the parties may decide to resolve all outstanding claims between them. As such, the settlement licenses may extend to Patents or Trade Marks D, E or F. Such licenses should not be deemed anticompetitive for the sole reason that they are not aimed at removing a blocking position that was clear to the parties in the relevant piece of litigation. In fact, the contrary is true: such licenses avoid costly and disruptive potential litigation and divert resources from dispute resolution to other business and competitive priorities. Therefore, by analogy with the treatment of licenses of future developments, the Sections believe that the Guidelines could benefit from a clear statement that settlement licenses extending to other IPR disputes may be compatible with Article 101.

\(^{31}\) Guidelines ¶ 208 (emphasis added).
5. Royalties

Paragraph 207 of the Guidelines provides that “Article [101(1)] is particularly likely to apply where the parties share markets or fix reciprocal running royalties that have a significant impact on market prices.” The qualification that this would be the case where the mechanism has a “significant impact on market prices” is not controversial. However, an issue that has come up in practice is the extent to which the use of reciprocal running royalties can be compatible with Article 101.

The Sections suggest that the Guidelines be amended to state that there is no presumption of price fixing through the mere use of reciprocal or running royalties. Licensing parties, particularly where licenses are concluded in the context of a settlement, should have at their disposal the full suite of commercial and financial mechanisms to address any disparity in their respective portfolios. This does not obviate the need to appraise the relevant contractual and payment mechanisms in the full legal and economic context but recognizes the commercial reality that the use of lump sums or upfront payments may not always be commercially rational behavior. If these were the only lawful solutions available, this would be likely to restrict the opportunities available to licensing parties to settle, particularly smaller companies who cannot afford upfront balancing payments.

6. Competition Investigations into the Pharmaceutical Sector

Since the TTBER and Guidelines were adopted, the Commission has undertaken an extensive competition inquiry into the pharmaceutical sector, launched several follow-on individual antitrust investigations into settlements between branded and generic drug manufacturers, and pursued patent monitoring exercises. The Commission will undoubtedly consider whether these investigations have revealed general principles regarding the interaction of competition and patent law (whether in the pharmaceutical sector or beyond) that would be worth including in the Guidelines.

As the Commission is aware, the settlement of patent disputes in the pharmaceutical sector – and especially among generic and branded drug manufacturers – continues to be an area of intense debate in the United States. Agencies, courts, and legislators have considered similar fact patterns as those presented in Europe, but under a pharmaceutical regulatory regime which – to the Sections’


knowledge – differs in important respects from regulation in effect in most Member States. The law remains unsettled. Given the wide range of opinions among its members, the Sections take no position on the proper treatment of patent settlements in the pharmaceutical sector. Should the Commission decide to include guidance on pharmaceutical patent settlements in the 2014 Guidelines, the Sections look forward to reviewing the results of the Commission’s experience in this area.

B. Technology Pools

In the current Guidelines, the Commission recognizes that technology pools (typically referred to as patent pools in the U.S.) have the potential to “produce pro-competitive effects, in particular by reducing transaction costs and by setting a limit on cumulative royalties to avoid double marginalization.” The Commission’s appreciation of the competitive benefits from the formation of technology pools has only become more relevant in light of the recent increase in patent-related disputes in areas such as mobile wireless devices, many of which involve patents claimed to be essential to implement standards in mobile devices.

In light of the recognized competitive benefits of technology pools, competition law enforcement should move away from the historical suspicion of technology pools and aim to isolate specific situations in which pools are likely to harm competition. The current Guidelines generally follow this approach, but retain several presumptions of competitive harm – discussed below – that warrant reevaluation as the Commission embarks on its revision of the current regime. The risk that presumptions will deter the formation of procompetitive pools is particularly high given, as the Commission correctly notes, the difficulty participants in pool formation face in determining whether particular technologies are substitutes or complements and whether particular

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35 For example, U.S. law accords the first manufacturer to file a marketing authorization application for a generic version of an existing branded drug (know as an “Abbreviated New Drug Application” or “ANDA”) 180 days of marketing exclusivity. To the Sections’ knowledge, such a rule does not – or at least not typically – exist in EU Member States.

36 Questions that have arisen in the United States include, e.g., (i) whether settlements that remain within the exclusionary scope of the patent in dispute (e.g., by restricting only conduct that falls within the claims of the patent) are outside the reach of antitrust law so long as the litigation itself is not a sham; (ii) whether the transfer of value from the (branded) patent owner to the (generic) challenger as a result of a settlement merits a presumption of anticompetitive effect; (iii) whether the strength of the patent in dispute should be subject to examination in follow-on antitrust investigations or litigation; (iv) whether settlements that potentially delayed entry by the generic manufacturer should be considered illegal if the settlement allows entry within the temporal scope of the patent; and (v) how to measure delayed entry in these circumstances.

37 Guidelines ¶ 214.

technologies will or will not prove essential to implement a standard that forms the basis of a pool. Specifically:

- Paragraph 219 of the Guidelines creates a presumption that the inclusion of substitute technologies in a pool “constitutes a violation of Article [101](1)” and that “it is unlikely that the conditions of Article [101](3) will be fulfilled in the case of a pool comprising to a significant extent substitute technologies.” We acknowledge the potential for competition law concerns arising from “sham” technology pools formed to combine competing technologies. Nevertheless, as paragraph 218 of the 2004 Guidelines recognizes, distinguishing between substitute and complementary patents can be difficult. In view of this difficulty, we propose that, instead of presuming that the inclusion of potentially substitutable patents violates competition law, the Commission instead adopt an effects-based analysis that includes consideration of whether potentially substitutable technologies (whether or not included within the same technology pool) are available for licensing outside the pool, and on what terms.40

- Similarly, we encourage the Commission to reconsider the statement in paragraph 221 that, “when a pool encompasses non-essential technologies, the agreement is likely to be caught by Article [101](1) where the pool has a significant position on any relevant market.” We note that potential licensees concerned with the risk of infringement seek broad protection by favoring pools that include non-essential patents.41 For pools that contain non-essential patents, but also satisfy the condition of paragraph 222(b) that licenses to the non-essential patents are available for licensing outside the pool, the analysis of whether the inclusion of non-essential patents in a pool restricts competition should turn on whether licensees that choose not to accept the pool license, and instead license pooled patents from individual licensors, are nonetheless able to compete effectively with pool licensees in the downstream market(s) for products that implement the technology included in the pool.

- An issue not addressed directly in the Guidelines, but which has recently emerged as an impediment to pool formation, is the extent to which joining a pool limits the right of a

39 Guidelines ¶ 222.

40 An effects-based approach to the inclusion of substitute patents would appear to be consistent with the U.S. antitrust agencies' position. The U.S. agencies have stated that pools consisting only of complementary patents are "least likely to prove anticompetitive," but nevertheless have emphasized that previous agency guidance "should not be interpreted to exclude the possibility of including some substitute patents in the pool.” U.S. Dep’t of Justice & Fed. Trade Comm’n, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION at 77, 78 (2007). Instead, the agencies "will consider the inclusion of some substitutes as one of the many factors in their rule of reason analysis of any pooling agreement." Id. at 78.

41 Consistent with the guidance given by the Antitrust Division of the US Justice Department in a series of business review letters, pool administrators commonly require that each participant in pool formation be independently determined to own at least one essential patent. However, because determining whether particular patents are essential can be difficult, pool licensees find pools that contain both patents that have independently determined to be essential and other patents to be more attractive than pools that contain only patents that have independently been determined to be essential.
licensor to respond, unilaterally and independently, to patent assertions by terminating the rights of the asserting entity under the patents the licensor has contributed to the pool. Concerns with maintaining defensive positions are much on the mind of patentees at a time when strategic patent assertions are increasing. To encourage pool formation, the Guidelines should address these concerns.

One of these concerns relates to the set of potential patent asserters against which pool participants can defend themselves by suspending a license to patents included in a pool. The Guidelines wisely note that “[i]t is legitimate for [pool licensors] to ensure that the exploitation of the pooled technology cannot be held up by licensees that hold or obtain essential patents.”42 In the technology industry, it is common for manufacturing to be outsourced to third parties who license patents they require to make products, including from technology pools, but who transfer the products they make to others for sale under the transferee’s brand. Patentees that own patents that would be infringed by the manufacturer of devices sold under a brand other than the licensee’s brand may be discouraged from joining pools if by doing so they lose the ability to respond to assertions by both their licensees (as paragraph 228 permits) and their licensees’ customers (who may have stronger patent positions than the licensees do).

To the extent that Paragraph 228’s reference to “licensees” reflects an inadvertent limitation of the right of pool participants to respond to patent assertions by the customers of pool licensees, the Commission could usefully clarify that no such limitation was intended. Such a clarification would encourage participation in pools by making clear to patentees considering joining a pool that doing so does not require them to surrender defensive protections which are especially valuable in today’s contentious patent environment.

C. Individual Assessment of Agreements Outside of TTBER

The Sections commend the Commission’s efforts to provide extensive guidance about its analytical approach to various licensing terms that do not fall within the ambit of the exemptions provided under the TTBER. The Sections offered detailed comments in 2003 about particular provisions, a number of which were accepted. Here, the Sections offer additional observations about why and how the Commission might usefully update its Guidelines to clarify that provisions that do not qualify for block exemption are not necessarily subject to as strict or negative a review as might be inferred from its 2004 statements.

1. Hardcore Versus Non-Hardcore Restrictions

The Commission’s delineation of restrictions into hardcore and non-hardcore served the useful purpose of enhancing the predictability of the applicable legal rules. Although paragraph 130 of the Guidelines states helpfully that no presumption of an infringement attaches to agreements that

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42 Guidelines ¶ 228 (emphasis added).
fall outside the scope of the block exemption, it limits this acknowledgement to agreements that “do not contain hardcore restrictions of competition.” Insofar as this caveat may be read as suggesting that any agreement that contains a hardcore restriction would constitute an infringement on its face, without reference to the legal and economic context of the agreement and the possibility of efficiency justifications, the Sections suggest that it would be too limiting both as a matter of law and as a matter of sound competition policy. 43 The Sections also believe that the caveat sends too restrictive a signal to national courts that may not have the economic expertise formed by many years of experience with competition law, and may view the categorization of certain license restrictions as hardcore as establishing conclusively that such limitations on license rights are anticompetitive. 44

The European Court of Justice recently confirmed in Case C-501/06 P GlaxoSmithKline v. Commission that, “in order to assess the anti-competitive nature of an agreement, regard must be had inter alia to the content of its provisions, the objectives it seeks to attain and the economic and legal context of which it forms part . . . .” 45 Moreover, as the General Court stated in Case T-168/01 GlaxoSmithKline v. Commission, even infringements by object may satisfy the Article 101(3) 43 While the Guidelines also state in paragraph 14 that an assessment of underlying facts and circumstances “may be required before it can be concluded whether a particular restriction constitutes a hardcore restriction of competition,” that statement concludes that all license provisions that the Guidelines treat as hardcore “are restrictive by their very object.” Guidelines ¶ 14. The Guidelines also suggest that it is not necessary to examine whether such provisions have restrictive effects on competition (¶15), despite recognizing that license agreements have substantial procompetitive potential (¶ 17). While the Guidelines state in general terms (¶18) that the procompetitive effects must be balanced against a license’s restrictive effects in the context of what is now Article 101(3), they say that only in “exceptional circumstances” would the four conditions of Article 101(3) be satisfied. The Sections respectfully submit that this characterization could lead national courts and parties to conclude that certain license provisions that are procompetitive in nature would be deemed to constitute infringements by object.

44 Paragraph 12 of the Guidelines presents two tests for assessing license terms. The first is whether a license “restrict actual[s] or potential competition that would have existed without the contemplated agreement.” This test is similar to that used in the U.S. Antitrust Guidelines for the Licensing of Intellectual Property, and appropriately focuses on whether an agreement diminishes competition that would have existed in its absence. Without such diminution, an agreement cannot harm competition. The second test asks whether “the agreement restric[s] actual or potential competition that would have existed in the absence of the contractual restraint(s).” This alternative test has the potential to condemn a license agreement that enhances competition because it does not enhance competition as much as a future reviewer of the license might speculate that it could have done. By opening agreements to second guessing about what might have been negotiated instead of focusing on the effects of the actual agreement, this approach reduces the predictability of the guidelines and may discourage firms from entering into some procompetitive license agreements.

45 2009 E.C.R. I-09291 at ¶ 58 (stating for example case 320/87, Ottung v Klee, the Court of Justice determined (at ¶ 18) that a clause in a patent license prohibiting the manufacture and marketing of the products in question after termination of the agreement “may, depending on the legal and economic context in which the agreement was concluded, restrict competition within the meaning of Article 85(1)” (now Article 101(1)). Significantly, the Court went on to explain at paragraph 59 that “the Court has already held that, in principle agreements aimed at prohibiting or limiting parallel trade have as their object the prevention of competition.” Id. at ¶ 59.
exemption criteria – “[a]ny agreement which restricts competition, whether by its effects or by its object, may in principle benefit from an exemption.”  

It is particularly important to allow consideration of the specific circumstances of particular license agreements because, as the Sections understand, the European courts have not held that all of the provisions listed as “hardcore” in the TTBER (even after the limited exceptions provided by the Commission) amount to object restrictions of competition in the context of technology transfer agreements. Given the courts’ openness to evaluating efficiency considerations even in the context of provisions that they have deemed to amount to restrictions of competition by object, the same openness should be extended to provisions that have not been so judged.

As a matter of competition policy, it also makes sense to recognize the potential for license limitations to promote efficiencies in particular cases. Such an approach is now contained in the discussion of resale price maintenance (“RPM”) in the Commission’s Guidelines on Vertical Restraints.  

2. Field of Use Limitations

The Guidelines recognize the procompetitive potential of field of use limitations, noting for example that they “encourag[e] the licensor to license his technology for applications that fall outside his main area of focus.”  Field of use license terms also may encourage licensors to grant licenses within a licensor’s main area of focus while excluding from the scope of the license specific types of product implementations that the licensor does not wish to license. Field-of-use limitations are critical in promoting additional licensing because licensors are not forced to choose between either licensing their entire intellectual property right and nothing at all.

While the Guidelines’ overall approach to field of use license grants promotes procompetitive licensing, the Guidelines may be read as limiting the types of field of use license grants that fall within the block exemption, and thereby may raise questions about certain types of field of use provisions that do not threaten competition. The Guidelines define the term “field of use” as corresponding to “one or more technical fields of application or one or more product markets.”  They further state that a “field of use must be defined objectively by reference to

46 2006 E.C.R. II-2969 at ¶ 233. The General Court also observed that “determining whether [an agreement] contributes to the improvement of the production or distribution of goods or to the promotion of technical or economic progress, and whether that agreement generates appreciable objective advantages, must be undertaken in the light of the factual arguments and evidence provided,” which “may require the nature and specific features of the sector concerned by the agreement to be taken into account if its nature and those specific features are decisive for the outcome of the analysis.” Case C-501/06 P GlaxoSmithKline v. Comm’n, at ¶¶ 102-103.


48 Guidelines ¶ 182.

49 Guidelines ¶ 179.
identified and meaningful technical characteristics of the licensed product.”

To the extent that a field of use must be distinguished by a distinct technical characteristic, the Guidelines’ approach may place outside the block exemption benign grants of license rights within a field of use that either cannot be defined precisely in technical terms or for which the linkage to a discrete technical characteristic may be ambiguous.

This restrictive definition appears to be based in part upon a concern that field of use licensing could be used to allocate markets or customer groups to certain producers. Although agreements among competitors to divide markets or customers through field of use license restrictions present a potential competition concern, limiting fields of use to subject matters that are distinguished by technical characteristics may have the unintended effect of discouraging procompetitive licensing in circumstances where a licensor is willing to grant a license only within a field that cannot be precisely described by technical characteristics. For example, a licensor may be willing to grant a license right to sell low-end products but not high-end products, where the product characteristics that distinguish the two groups of products are not necessarily technical in nature. There is no basis in economics for thinking that such delineations are more likely to lead to market division than any other type of field of use delineation. LICENSORS who are intent upon using a license agreement as a sham mechanism for dividing markets would be just as likely to assign different product markets to each party to the agreement.

To the extent that concerns about integration into a single market may have played a role in the origin of the formulation in the Guidelines, it would seem that these could be addressed without classifying non-technical fields of use as hardcore restrictions. There are numerous circumstances in which non-technical fields of use that are narrower than a product market would not implicate the single market considerations and should pass review under Article 101(1) and (3) under an individualized assessment.

Notably, in discussing captive use restrictions, the Guidelines themselves seem to support permitting field of use delineations that are not technical in nature. The Guidelines recognize at paragraph 190 that a “restriction on the licensee not to sell into certain customer groups reserved for the licensor normally constitutes a less restrictive alternative” that incentivizes a licensor to grant a license. This reasoning would also seem to apply to field of use license grants that limit exploitation of the licensed technology within fields of use that are not strictly technical in nature.

Definition of product markets itself is an exercise that is subject to substantial uncertainties in the context of technology licensing, especially in industries in which numerous technological features that are subject to patents are incorporated into a product. Indeed, even defining the markets in which technologies are used may pose very challenging tasks. Accordingly, the Sections respectfully submit that making the availability of an exemption, and suitability to individual

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50 Guidelines ¶ 180.

51 For example, luxury automobiles may be differentiated from other cars by features such as leather seats or wood paneling. Although these features are not technical in nature, they can differentiate different types of cars.

assessment, turn on that difficult concept may expose parties to licensing agreements to unwarranted risk and thereby potentially deter procompetitive licensing. One approach that would provide more certainty and not deter useful licensing would be to broaden the permitted types of field of use license terms to include in the TTBER and Guidelines after “product market” the words “or one or more commercially recognized segment of a product market.”

IV. Commission Study on Competition Law and Patent Law

In this section, the Sections review and comment on Professors Pierre Regibeau and Katharine Rockett’s study (the “Study”) of the interplay between competition policy and intellectual property rights (“IPRs”). The Sections commend the authors for the extensive review of the relevant economic literature they have undertaken, especially considering the broad and rapidly evolving nature of the topics at issue. The Sections’ comments are intended to suggest areas where further study and discussion may be warranted, and where it may be useful to focus more closely on the existing literature.

The Sections focus here on four areas of the Study which are most relevant to the agreements considered in the TTBER: cross-licensing; technology pools; grant-backs; and pass-through.

A. Cross-Licensing

The Study acknowledges that patent thickets have achieved prominence on the agenda of both policy makers and academic researchers, yet the authors appear to be skeptical as to the extent of the problem. The Study’s skepticism is based on (i) the relative small number of empirical studies considering the prevalence of patent thickets; and (ii) the scarcity of theoretical or empirical studies assessing the welfare implications of patent thickets.

Yet the empirical economic literature reviewed by the Study, although limited, appears to agree on the fact that patent thickets do exist, especially in certain technology sectors. Moreover, the theoretical economic literature on patent thickets (not reviewed in-depth by the Study) tends to agree in considering that patent thickets are problematic, as they may reduce innovation, create “hold-up” problems, increase royalty stacking, and create excessive transaction costs.

The Study’s skepticism with regard to the existence of a “patent thicket problem” is instrumental in the Study’s recommendations on cross-licensing, and in particular on its conclusion that: (i) a more lenient approach to cross-licensing than that in the Guidelines is not justified; (ii) cross-licensing should be treated more strictly than research JVs; and (iii) cross-licensing can put smaller firms at a disadvantage.

53 See, e.g., Cohen et al., 2000; Hall and Ziedonis, 2001; Noel and Schankerman, 2008; or von Graevenitz et al., 2011.

54 See, e.g., Gallini, 2002; Shapiro, 2001; and Heller and Eisenberg, 1998.
Cross-licensing is particularly prevalent in industries characterized by patent thickets, in which a very large number of patents may read on a single product. For example, it has been estimated that the number of patents that read on an average smartphone is 200,000. In industries characterized by patent thickets, cross-licenses serve the important procompetitive function of enabling firms to design their products with a reduced threat of infringement claims. It is unclear why, in the face of broad recognition of the significance of the patent thicket problem in industries such as electronics, the authors assert that “one can still legitimately wonder about the true extent of the problem.”

The authors’ skepticism about the patent thicket problem also leads them to speculate about different incentives to license complementary and substitute patents. The very nature of a patent thicket does not give a firm the luxury of licensing individual patents or searching for complementary but not substitute patents, as the authors seem to acknowledge at one point. Accordingly, portfolio licenses within delineated fields of use tend to be more common in industries characterized by patent thickets. Such portfolio licensing, as one U.S. court put it, “can also obviate any potential patent disputes between a licensor and a licensee and thus reduce the likelihood that a licensee will find itself involved in costly litigation over unlicensed patents . . . .”

Because the authors do not view cross-licensing as vital in promoting innovation and investments in R&D in patent thicket industries, the authors tend to suspect pervasive anticompetitive uses of such licensing. They are concerned, for example, that “cross licensing of substitute or even unrelated pieces of IP is likely to make it easier for firms to engage in parallel conduct,” such as by enabling “retaliatory price-cut[s] . . . on products that are close substitutes to the product of the deviating firm.” This analysis, however, underestimates the practical impossibility of licensing only complementary IP and, in the Sections’ view, incorrectly assumes that cross-licensing is a key driver of product imitation. Moreover, the assumption that the ability to sell products that are closer substitutes tends to diminish competition is inconsistent with the central

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56 R&R Assessment at 14. As a result of the authors’ skepticism about the patent thicket problem, even their acknowledgement of a need for “greater leniency” in fields in which patent thickets are widespread is accompanied by a proposal that parties to cross-license provide a “demonstration that there are actual thickets that would be cleared by the agreement and even possibly some evidence of the benefits involved in clearing these thickets.” R&R Assessment at 17 (emphasis added).

57 R&R Assessment at 18.

58 See R&R Assessment at 27 (“the task of determining which subset of patents is complementary might be essentially hopeless” in certain circumstances).


60 Id.
premise of antitrust analysis in the merger area, which assumes that close substitutes create greater competitive pressures on rivals than more distant substitutes.

The authors fail to articulate the counterfactual against which cross-licenses should be compared, despite their admonition that “one must compare the resulting market outcome to the proper counterfactual.” It is generally understood that cross-licenses enable firms to obtain the right to practice patented inventions at lower royalty rates than under reciprocal royalty bearing licenses, as the cross-license mechanism typically nets out the royalties that would be paid by the parties. The authors’ failure to analyze the alternative to cross-licenses thus leads the authors to advocate harsher treatment for a mechanism that lowers royalties and thereby leads to lower prices.

The Sections believe that closer scrutiny of the literature may lead to a contrary conclusion, that patent thickets are a serious problem and cross-licensing agreements may allow companies to solve the problem and thus have significant precompetitive benefits.

B. Technology pools

Technology pools share some similarities with cross-licensing, in that they involve the simultaneous licensing of multiple patents. Of course, they are also somewhat different because technology pools provide licensing to third parties and involve a “bundling” of multiple patents.

Overall, the Sections commend the authors of the Study for providing a good assessment of the economic literature on technology pools. The Study is correct in stating that on the one hand technology pools may solve the “royalty stacking” and “patent thicket” problems, and on the other hand they have the potential to generate anticompetitive effects because members of the pool set a royalty rate cooperatively. In particular, there is a possibility that technology pools may allow members to coordinate. As noted in the Study, the economic literature reaches two generally-accepted conclusions.

- First, the balance between the procompetitive and anticompetitive effects of the pool relates to the extent to which the pool is composed of essential patents: technology pools are procompetitive if made up of essential patents; and are anticompetitive when made up of substitute patents.

61 Id. at 18.

62 Because of their undue suspicion of cross-licensing, the authors suggest that cross-licenses should be treated equivalently to research joint ventures, stating: “One might therefore wonder whether the current treatment of cross-licensing is not relatively more lenient than the current treatment of RJVs: a RJV without synergies would be seen as anti-competitive, while it seems that a similar ex ante or ex post cross-licensing agreement would not.” R&R Assessment at 21. This suggestion overlooks the fact that joint venture participants may cease to compete within the area of the collaboration whereas parties that enter into cross-licenses merely agree to refrain from suing each other for infringement. An agreement to give a license counterparty freedom from lawsuit does not present the same potential for decreased competition as direct cooperation among competitors.

Second, members of the pool should be allowed to license their patents freely also outside the pool, as independent licensing of patents is always procompetitive (compared to the situation where licensing can only take place through the pool). 64

Therefore, the seven key recommendations of the study appear in line with and well supported by the available economic literature, and thus are sound and robust.

The Study suggests that allowing member of the pools to license their IPRs freely outside the pool (“independent licensing”), would reduce the risk that pools of non-essential patents be anticompetitive. The Sections note that there is little support for the view in the Study that imposing independent licensing always makes up for the lack of essentiality: essentiality and independent licensing are separate concepts. 65 As a result, the Sections suggest that the conditions under which the inclusion of non-essential patents may be pro or anti-competitive be spelled out in more detail before policy decisions are based on the Study’s proposal.

C. Grant-Backs

The Sections find the Study unclear as to where precisely the authors would draw the line with regard to the competitive effects of grant-backs, and under which circumstances grant-backs would be pro or anti-competitive.

Overall, the Study appears to be skeptical as to the benefits of grant-backs and suggests that grant-backs may reduce innovation incentives. This skepticism is not based on the prescriptions of the economic literature on grant-backs, which is sparse, as acknowledged by the Study. Rather, it is based on the authors’ own model, developed in the context of the Study.

While acknowledging that the model proposed by the authors warrants further consideration, the Sections would caution against basing policy recommendation on a single economic model. In particular, the Sections note that the conclusions of the authors’ model that grant-backs are more beneficial when they cover severable (as opposed to non-severable) innovations runs counter to

64 See Lerner and Tirole, 2004.

65 Technology pools might have two different anticompetitive effects: first, they might facilitate collusion if they include substitute patents. Second, bundling non-essential patents (i.e. patents that have a substitute outside the pool, even if not within the pool) together with essential patents reduces or eliminates competition between the non-essential patents and their substitutes: the user of the technology would in fact purchase the technology pools (inclusive of the non-essential patents) and not the substitute, separate patents even if the pooled non-essential patents were also available independently. Analogous potential competitive concerns to the case of bundling of independent products would arise here.

Independent licensing solves the first (coordination) problem, as non-essential patents would be in competition with substitute patents outside the pool. However, independent licensing does not solve the second (bundling) problem because technology users still need to buy the technology pool (inclusive of the non-essential patents) in order to obtain the essential patents and be able to use the technology. The non-essential patent would in other words free-ride on the essential patents, while the substitute patents would be put at a competitive disadvantage, even in the presence of independent licensing.
common antitrust practice. The Section would therefore recommend that the authors spell out in more detail the conditions under which these results supposedly hold.

The conclusions of the Study that grant-backs may negatively affect incentives to innovate seem to focus more on the effect on the innovation incentives of the licensee (which would be reduced by having to grant-back the incremental innovation to the licensor), and less on the innovation incentives of the licensor (which may not want to license its innovation to start with, if it suspects that its innovation can be “exploited” by the licensee). Moreover, the Study seems to focus more on innovation incentives than on the increase in competition in the product market that increased licensing (and grant-backs) may bring about. The Sections believe that the effects of grant-backs on the innovation incentives of the licensor and on product market competition are given sufficient consideration under the Commission’s current approach.

In summary, the Sections respectfully disagree with the authors’ conclusion that the current lenient policy with regard to grant-backs, especially in the case of non-severable innovations, should be re-considered.

D. Pass-Through

The Study does not come to a conclusion with regard to pass-through agreements (whereby a licensee indemnifies its customers against potential infringement claims brought against them by the licensor), and recommends that this area is re-evaluated at a later stage. The Sections agree with this recommendation, as the economic literature does not provide clear prescriptions at this stage.

The Study raises in passing the possibility that pass-through clauses may amount to bundling or price discrimination. This suggestion is not supported by the economic literature and the authors do not cite any study in support of their thesis. In fact, pass-through clauses may have an efficiency rationale, as they ensure that the licensor does not abuse or over-extend its intellectual property rights.66

The Sections therefore agree with the overall conclusion of the Study that the Commission should not include an analysis of pass-through clauses in the TTBER.

V. Conclusion

The Sections again thank the Commission for providing this opportunity to comment on the application of EU antitrust rules for the assessment of technology transfer agreements. We would be pleased to respond to any questions the Commission may have regarding these comments, or to provide any additional comments or information that may be of assistance to the Commission in

66 Note however, that recent economic contributions indicate that the efficiency rationale of pass-through clauses may not be very strong, because overall economic welfare can be independent of whether a royalty is charged at one or more levels of the supply chain (see Layne-Farrar, Llobet and Padilla, 2010).
developing a proposal on how to assess these agreements after the expiration of the current TTBER in April 2014.

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