The views stated in this submission are presented jointly on behalf of the Section of Antitrust Law, the Section of Intellectual Property Law, the Section of International Law and the Section of Science & Technology Law (the “Sections”) of the American Bar Association (ABA) only. These comments have not been approved by the ABA House of Delegates or the ABA Board of Governors and therefore may not be construed as representing the policy of the American Bar Association.

The Sections appreciate the Commission’s taking into consideration our earlier comments and focus in these latest comments on those areas in which the draft proposal introduces changes in the current Technology Transfer Block Exemption Regulation (“TTBER”) and accompanying Guidelines that merit further consideration. We offer these latest comments in the hope that both the Commission and the U.S. authorities will continue to refine and harmonize their approaches to technology transfers.

Market Share Thresholds

The Sections appreciate the continued inclusion, in paragraph 144 of the Draft Guidelines, outside the area of hardcore restrictions, of a safe harbor where there are sufficient independently controlled technologies in addition to the technologies controlled by the parties to the

1 The public consultation was announced at http://ec.europa.eu/competition/consultations/2013_technology_transfer/index_en.html.
4 The April 2002 comments (“April 2002 comments”) are available at http://www.americanbar.org/content/dam/aba/administrative/antitrust_law/comments_ectechblock.authcheckdam.pdf.
agreement. This safe harbor is an important amelioration of the singular focus on market share in the current and Draft TTBER. We respectfully suggest that this safe harbor be included within the TTBER itself and be strengthened by a presumption that it is compatible with Article 101(3) of the Treaty.

As the Sections have noted, the use of market-share thresholds poses non-trivial problems in practice. This is partly because the use of regulatory “kinks” at different discrete thresholds creates incentives for firms to devote energy to activities unrelated to optimal product development and competition so as to minimize their regulatory risk at the kinks. Regulations where the kinks are linked to market share are likely to be particularly problematic. This is because market share calculations rely on product market definition, which is a significant technical exercise with theoretical concerns. In recognition of this, U.S. antitrust practice has increasingly de-emphasized specific market share thresholds relative to evidence directly connected to competitive effects. Moreover, concerns associated with product market definition and share calculation are likely to be particularly pronounced in the highly dynamic, rapidly evolving sectors where technology transfer agreements are most likely to be used.

Underscoring the difficulty posed by linking regulatory attention to market shares is the fact that industry participants would be required to constantly monitor their market position to determine whether they are still protected by the safe harbors in Draft TTBER Article 3. In the event that the technology is successful and the demand for and use of the technology increases substantially over time, to the point where it exceeds the market share safe harbors in Article 3, parties have two years under Article 8(e) before they lose the exemption provided in Article 2. This risk of loss of exemption may have three negative effects: (1) chill licensing, (2) limit the ability to adequately protect intellectual property after having expended a significant amount of resources to develop the technology, and (3) reduce research and development because of the concern that improved technology may achieve a market share exceeding the market share safe harbor.

In addition, the Sections welcome the continued assurance in Paragraph 143 of the Draft Guidelines that “there is no presumption that Article 101(1) applies merely because the market share thresholds are exceeded.” We respectfully suggest that the Draft Guidelines add in Paragraph 146 the changes in the marketplace and the experience of the parties during the term of the agreement as factors in the application of Article 101 of the Treaty to individual cases, to provide added substance to the assurance in Paragraph 143.

5 November 2003 comments at 9 and February 2012 comments at 5.
9 It appears that the references in Article 8(e) are intended to be to Article 3(1) and Article 3(3), instead of Article 3(1) and Article 3(2).
Hardcore Restrictions

The Sections commend the Commission for including in Draft Guidelines ¶84 the recognition that “[h]ardcore restrictions may be objectively necessary in exceptional cases . . . and therefore fall outside Article 101(1),” and that “undertakings may plead an efficiency defence under Article 101(3) in an individual case.”

The Sections, however, respectfully suggest that the Commission exclude minimum resale price maintenance from the list of hardcore restraints in Article 4.2 of the TTBER. We believe that such restrictions are best examined on an individual basis under an effects-based analysis.

In the United States, under federal law both maximum and minimum resale price maintenance are analyzed under the rule of reason, which essentially is an effects-based approach.¹⁰ As the United States Supreme Court recognized in 2007, “[n]otwithstanding the risks of unlawful conduct, it cannot be stated with any degree of confidence that resale price maintenance ‘always or almost always tend[s] to restrict competition and decrease output.’ Vertical agreements establishing minimum resale prices can have either procompetitive or anticompetitive effects, depending upon the circumstances in which they are formed.”¹¹ The Court noted that “[e]conomics literature is replete with procompetitive justifications for a manufacturer’s use of resale price maintenance.”¹² For example, minimum resale price maintenance can stimulate interbrand competition among manufacturers by reducing intrabrand competition. “Absent vertical price restraints, retail services that enhance interbrand competition might be underprovided because discounting retailers can free ride on retailers who furnish services and then capture some of the demand those services generate.”¹³ Minimum resale prices can also promote interbrand competition by facilitating market entry for new firms and brands by giving retailers an incentive to promote products unknown to the customer. Furthermore, minimum resale prices may provide “consumers more options so that they can choose among low-price, low-service brands; high-price, high-service brands; and brands that fall in between.”¹⁴

This case-by-case, fact-based approach is particularly important in the intellectual property rights context, where a dynamic efficiency analysis rather than a static allocative efficiency analysis is necessary to fully account for the likely competitive effects of conduct and the impact of government regulation.

¹⁰ “Under this rule, the factfinder weighs all of the circumstances of a case in deciding whether a restrictive practice should be prohibited as imposing an unreasonable restraint on competition.” Leegin Creative Leather Prods., Inc. v PSKS, Inc., 551 U.S. 887, 885 (2007) (internal citations and quotations omitted). Appropriate factors to take into account include whether the businesses involved have market power, specific information about the relevant business, and the restraint’s history, nature, and effect. Id. at 885-86.
¹¹ Id. at 894 (internal citations omitted).
¹² Id. at 890.
¹³ Id.
¹⁴ Id.
Non-Challenge and Termination Clauses

Article 5 of the TTBER excludes from the block exemption “any direct or indirect obligation on the licensee not to challenge the validity of intellectual property rights which the licensor holds in the common market, without prejudice to the possibility of providing for termination of the technology transfer agreement in the event that the licensee challenges the validity of one or more of the licensed intellectual property rights.” Article 5 of the Draft TTBER instead excludes “any direct or indirect obligation on a party not to challenge the validity of intellectual property rights which the other party holds in the European Union, including any right for a party to terminate the technology transfer agreement in the event that the other party challenges the validity of any of the intellectual property rights which a party to the agreement holds in the European Union.”

The Sections respectfully urge the Commission to continue to include termination-on-challenge clauses in the block exemption. Paragraphs 123 to 125 of the Draft Guidelines and the “Frequently Asked Questions” (“FAQs”) 15, published with the announcement of the consultation, offer no basis to reject the reasoning in Paragraph 113 of the Guidelines supporting an exemption for termination clauses. In addition, such an exclusion from exemption is unwise for several reasons.

First, such an exclusion from exemption would lead to situations in which a licensor must continue to support and provide technical information to a licensee, while at the same time defend against litigation in which the licensee may use such information.

Second, the block exemption applies only to situations in which the market share of the licensor is below 20% (for competitors) or 30% (for non-competitors). Because the block exemption applies only in situations in which there are likely to be sufficient competing alternative technologies, the termination of the license would not preclude the licensee from continuing to operate in the downstream market.

Third, termination-on-challenge clauses do not prohibit the licensee from continuing to use the licensed technology. As Paragraph 113 of the Guidelines recognizes, “upon termination any further use by the licensee of the challenged technology is at the challenger’s own risk.” If the licensee truly believes that the technology does not warrant intellectual property protection, then the licensee is free to continue using the technology and defend this position in court.

Lastly, such an exemption would be inconsistent with Article 6 of the recently enacted R&D block exemption regulation 16, which explicitly provides for the "possibility to provide for termination of the research and development agreement in the event of one of the parties challenging the validity of such intellectual property rights." The situation in a R&D agreement is not substantially different from that in a technology license agreement, given that the parties to a license agreement also have a common goal in the dissemination of the technology under agreement.

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16 Regulation No 1217/2010 of 14 December 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to certain categories of research and development agreements
The Sections welcome the recognition in Paragraph 126 of the Draft Guidelines that non-challenge and termination clauses in know-how licenses merit inclusion in the exemption, and suggest that this exemption be expressly included in Article 5.1(b) of the Draft TTBER. As to non-challenge clauses in settlement agreements in technology rights disputes, the Sections would welcome additional guidance as to the situations in which such clauses may be found to restrict competition within Article 101. As the Draft Guidelines point out in Paragraph 226, “[i]t is inherent in such agreements that the parties agree not to challenge ex post the intellectual property rights which were the centre of the dispute. Indeed, the very purpose of the agreement is to settle existing disputes and/or to avoid future disputes.” It would be helpful to have additional guidance in Paragraph 227 of the Draft Guidelines as to when such clauses in settlement agreements might be caught by Article 101.

**Exclusive Grant-backs**

Grant-backs are a common licensing provision because licensors fear that exposing their technology to others (particularly competitors) may enable subsequent improvements that foreclose the licensor from the market. Without this protection, licensors may not enter into procompetitive licensing arrangements. On the other hand, overly onerous grant-back provisions may reduce the licensees’ incentives to innovate. The current TTBER includes an elegant compromise between these competing interests by distinguishing between “severable” and “non-severable” improvements. Severable improvements are those “that can be exploited without infringing the licensed technology.”

Exclusive grant-back obligations concerning severable improvements are not covered by the current TTBER safe harbor, while exclusive grant-backs for non-severable improvements may be covered. The Guidelines explain in Paragraph 109 that “[e]xclusive grant backs and obligations to assign 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.” Under the proposed changes, all exclusive grant-backs will now fall outside the scope of the TTBER and will require an individual assessment. In coming to this conclusion, the Draft Guidelines and FAQs state merely that any exclusive grant back “is likely to reduce the licensee’s incentive to innovate since it hinders the licensee in exploiting its improvements” and “[t]his change will ensure that there are sufficient incentives for follow-on inventions.”

The Sections recommend that the Commission retain the block exemption for exclusive grant-backs that cover non-severable improvements. We suggest that the reasoning in Paragraph 109 of the Guidelines remains valid.

Moreover, exclusive grant-backs can be procompetitive and facilitate competition. In particular, when competition occurs not only between firms within a given technology standard but also between standards, exclusive grant-backs may spur innovation. Although firms with technologies within one standard may be actual, or potential, substitutes for those consumers who have chosen that

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17 TTBER at Article 1(1)(n).
18 Draft Guidelines ¶ 119.
19 FAQs.
standard, any disincentives to innovate caused by an exclusive grant-back may be outweighed by those tied to the need to compete with other standards. Such situations are most likely to occur in industries where network effects are salient\(^{20}\) and there is no established technological paradigm.

**Field of Use Limitations**

The Sections commend the Commission for modifying the Draft Guidelines’ treatment of field of use limitations by clarifying in ¶ 193 that field of use limitations may also consist of one or more “industrial sectors,” and not just product markets or technical fields of application. Given that, as noted above, defining “product markets” with certainty is sometimes difficult, this additional wording should help to increase licensing incentives without risking competitive harm. In particular, because ¶ 102 makes it clear that a field of use may not relate to “customers, allocated by territory or by group, who purchase products falling within the same product market or technical field of use,” the risk that field of use limitations would be used to allocate or divide markets is minimized, while the freedom to grant fields of use for specified industrial sectors should encourage procompetitive licensing. It also may be useful to conform references to fields of use at other relevant places in the Draft TTBER and Draft Guidelines to include the new “industrial sector(s)” language. For example, while the term “industrial sector(s)” is included in the fifth sentence of ¶ 102, it is not mentioned in other places in the draft guidelines and regulation alongside the other types of specifically approved forms of field of use licenses. See, e.g., ¶ 87(c)(i) of the Draft Guidelines and Article 4(c)(i) of the Draft TTBER.

The Draft Guidelines in ¶ 193 add that “[a]n industrial sector may encompass several product markets but not part of a product market.” (Emphasis added.) The Sections respectfully submit that the italicized language introduces potential confusion and has the potential to chill licensing activities that do not raise meaningful risks to competition. “Industrial sectors,” commonly understood as goods-producing segments of the economy, typically make use of various inputs including some that may be licensed from IPR holders. Some inputs may be products that are co-extensive with what may be viewed in law (or business) as a product market. Others, however, properly may be considered as segments of broader markets—particularly in advanced technology industries, in which complex products are commonly made from many inputs, which themselves may compete in markets characterized by heterogeneity. The Sections therefore respectfully suggest that the Commission delete the quoted passage in ¶ 193 (or that it consider some variant of the language suggested in the Sections’ February 2012 comments at 17 – 18).

The Sections also suggest that the Commission make clearer that it is permissible to delineate technical fields of application by the characteristics of the licensed end product. The last sentence of ¶ 194 explains that such fields “must be defined objectively by reference to identified and meaningful technical characteristics of the contract product.” (Emphasis added.) As noted in the Sections’ February 2012 Comments (at 16-17), with respect to ¶ 180 of the current Guidelines (the counterpart of ¶ 194), “[t]o 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

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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.” In licenses, parties specify the products in which the technology can be used in various ways, not necessarily referring only to the immediate software, firmware or component(s) in which the technology would be most directly embodied. The Sections believe that it should be permissible, for example, for a licensor of a technology for automatic transmissions to grant separate field of use licenses for manufacturing passenger automobiles with 4 or fewer cylinders and passenger automobiles with more than 4 cylinders. The Draft Guidelines (at ¶ 193) again endorse field of use delineations based on the number of cylinders in a license for engine technology, even though the automobiles in which these engines are incorporated may compete within a single product market. By adding after “contract product” in the sentence quoted above a comma and the phrase “an end product or constituent part using the licensed technology”, the Commission would further promote procompetitive licensing without undermining its objective of preventing the use of field of use licenses to allocate markets or customers.

Settlement Agreements

The Sections commend the Commission for including guidance on reverse-payment settlements between competitors, and suggest areas in which further guidance would be helpful.21 Paragraph 223 of the Draft Guidelines provides that settlements that delay or limit the licensee’s entry into the market “may under certain circumstances be caught by Article 101(1),” and that “[s]crutiny is necessary in particular if the licensor provides an inducement, financial or otherwise, for the licensee to accept more restrictive settlement terms than would otherwise have been accepted based on the merits of the licensor’s technology.” The Sections note that the Commission is exploring several possible dimensions of the concept of “inducement” in current investigations.22

The Sections note that the Commission’s latest monitoring report on patent settlements in the pharmaceutical sector identifies three categories of settlements, denoted as Category A, B.I, and B.II settlements.23 Category A settlements are those that do not limit generic entry. Category B.I settlements limit generic entry but there is no value transfer from the originator company to the generic company. Category B.II settlements limit generic entry and transfer value from the originator to the generic company. According to the monitoring report, “[t]ypically, category A settlements should be unproblematic from a competition law perspective, as they allow immediate market entry by the generic company with its own product.”24

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21 The Sections discuss settlement agreements that contain non-challenge clauses in the general discussion of non-challenge clauses, above at pp. 4-5.
22 The Commission is investigating whether customers were deprived of access to generic pharmaceuticals by facts as diverse as a co-promotion agreement (J&J and Novartis, Commission press release, January 31, 2013), by guaranteed profits in a distribution agreement (Lundbeck and others, Commission press release, July 25, 2012), and by the acquisition of competing technologies by the originator (Servier and others, Commission press release, July 30, 2012).
24 Id. at ¶ 12.
The Sections respectfully request that the Commission incorporate this important guidance into the Guidelines, and include Category A settlements in the block exemption. Including Category A settlements within the exemption is consistent with Paragraph 9 of the preamble of the Draft TTBER, which provides that “the block exemption established by this Regulation should be limited to those agreements which can be assumed with sufficient certainty to satisfy the conditions of Article 101(3).”

Given the wide range of opinions among its members, the Sections take no position on the proper treatment of Category B.I settlements in the pharmaceutical sector. With respect to Category B.II settlements, the Section of Intellectual Property Law opposes making such settlements per se illegal or adopting a rebuttable presumption that “reverse payments” are unlawful, while the other Sections do not take a position related to Category B.II settlements. The pharmaceutical regulatory regime in the U.S., to the Sections’ knowledge, differs in important respects from those in most Member States. U.S. law remains unsettled in this area, and the issue is currently before the United States Supreme Court. Several U.S. courts have held that “absent sham litigation or fraud in obtaining the patent, a reverse payment settlement” does not violate the antitrust laws “so long as its anticompetitive effects fall within the scope of the exclusionary potential of the patent.” This standard takes into account “the extent to which antitrust liability might undermine the encouragement of innovation and disclosure, or the extent to which the patent laws prevent antitrust liability for such exclusionary effects.” In contrast, other

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25 Such an approach is consistent with proposed legislation in the United States, which creates an antitrust exemption for settlements that do not limit entry. The most recently proposed legislation, Preserve Access to Affordable Generics Act, S.214 (113th), explicitly exempts settlements including only one or more of the following: (1) the right to market the generic product in the United States prior to the expiration of any patent that is the basis of the patent infringement claim or any patent right or other statutory exclusivity that would prevent the marketing of such drug; (2) a payment for reasonable litigation expenses not to exceed $7,500,000; and (3) a covenant not to sue on any claim that the generic product infringes a United States patent. The proposed legislation closely mirrors the U.S. Department of Justice’s (DOJ’s) proposed standard, which was first introduced in its amicus brief filed in Arkansas Carpenters Health and Welfare Fund v. Bayer AG, No. 05-2851 (2d Cir. 2009), available at http://www.justice.gov/atr/cases/f247700/247708.pdf. Under the DOJ’s proposed standard, defendants may rebut the presumption of illegality of a reverse payment settlement if they can show that the payment was no more than an amount commensurate with the patent holder’s avoided litigation costs. The DOJ explained that the relevant cost measure, which it conceded was impossible to calculate with precision, should include the cost of business disruption and a modest reverse payment to “bridge the gap” between parties with different expectations about litigation outcomes.

26 The Section of Intellectual Property Law adopted this position by resolution passed in November 2012, after the February 2012 comments were submitted.


28 FTC v. Watson Pharm., Inc., 677 F.3d 1298, 1312 (11th Cir. 2012), cert. granted, 133 S. Ct. 787 (2012); see also Ark. Carpenters Health & Welfare Fund v. Bayer AG, 604 F.3d 98, 105 (2d Cir. 2010), cert. denied, 131 S. Ct. 1606 (2011) (“Most courts, . . . including this Court, have held that the right to enter into reverse exclusionary payment agreements fall within the terms of the exclusionary grant conferred by the branded manufacturer’s patent.”) (citations omitted); In re Ciprofloxacin Hydrochloride Antitrust Litig., 544 F.3d 1323, 1333 (Fed. Cir. 2008), cert denied, 129 S. Ct. 2828 (2009); In re Tamoxifen Citrate Antitrust Litig., 466 F.3d 187, 208-09 & n.22, 212-13 (2d Cir. 2006) (reverse-payment settlements are illegal only if the patentee is extending the scope of its patents or is engaging in fraud or sham litigation); Schering-Plough Corp. v. FTC, 402 F.3d 1056, 1065-66 (11th Cir. 2005) (same).

29 Valley Drug Co. v. Geneva Pharm., Inc., 344 F.3d 1294, 1311 & n.27 (11th Cir. 2003); see also Schering-Plough, 402 F.3d at 1065-66.
U.S. courts, and the U.S. agencies, support a “presumptively unlawful” standard, under which patent infringement lawsuit settlements that involve a reverse payment would be treated as “presumptively anticompetitive under a ‘quick look’ rule of reason analysis.”\(^{30}\) This approach is based on the premise that “[w]here a patent holder makes a payment to a challenger to induce it to agree to a later entry than it would otherwise agree to, consumers are harmed either because a settlement with an earlier entry date might have been reached, or because continuation of the litigation without settlement would yield a greater prospect of competition.”\(^{31}\)

**Technology Pools**

The Sections commend the Commission for including in its Draft Guidelines a comprehensive safe harbor for technology pools, which covers both the creation of the pool and its subsequent operation. The Sections recommend adding the following underscored language to the safe harbor set forth in Draft Guidelines ¶ 244:

(c) sufficient safeguards are adopted to ensure that exchange of sensitive information, such as pricing and output data, is restricted to what is necessary for the creation and operation of the pool;

The suggested added language will provide guidance as to the types of information that may be considered sensitive under the Draft Guidelines.

The Draft Guidelines further provide that “[a]s a general rule the Commission considers that the inclusion of significant substitute technologies in the 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 pools comprising to a significant extent substitute technologies.”\(^{32}\) The Sections offer again our suggestion that, instead of presuming that the inclusion of potentially substitutable patents violates competition law, the Commission 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.\(^{33}\) Such an approach is consistent with Paragraph 238 of the Draft Guidelines, which recognizes that distinguishing between substitute and complementary patents can be difficult. It would be a concrete recognition that the label of “substitute” may give little

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\(^{31}\) Prepared Statement of the FTC Before the Special Committee on Aging of the United States Senate on Barriers to Generic Entry at 18 (July 20, 2006), available at http://ftc.gov/os/2006/07/P052103BarrierstoGenericEntryTestimonySenate07202006.pdf.

\(^{32}\) Draft Guidelines at ¶ 239.

\(^{33}\) February 2012 comments at 13.
indication of the likely competitive impact of the inclusion of a patent in a pool. As the U.S. agencies have recognized, including some substitute patents in the pool is not necessarily anticompetitive, and is merely “one of the many factors in their rule of reason analysis of any pooling agreement.”

The Draft Guidelines also state 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.” The Sections reiterate our suggestion that 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 or markets for products that implement the technology included in the pool.

CONCLUSION

The Sections appreciate the opportunity provided by the Commission’s public consultation to comment on the draft proposal. 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 developing successors to the current TTBER and Guidelines.

35 Draft Guidelines ¶ 245.
36 February 2012 comments at 13. U.S. courts generally have upheld the legality of most pooling arrangements, but have found violations in a small number of cases involving harm to a downstream product market.