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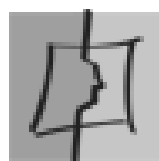
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Licensing in the perspective of EC Competition Law

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Executive Summary

Competition law is an important area of Community law. It influences a lot of the everyday business of companies all over the world. The two most important regulations are Article 81 and 82 of the EC Treaty. These are the base for the competition authorities and also for the institutions within the Community when it comes to issuing different types of regulations. Article 81 is addressed to companies and regulates the situations when two undertakings enter into agreements. If these agreements fulfill the criteria in the article they are considered to be in conflict with European Competition Law, and shall therefore be considered void. The 3rd paragraph of Article 81 does however contain exemptions that can make it possible for the companies to uphold their agreement even if it fulfills the first part of the article. Article 82 regulates the situation when one or more dominant undertakings act on the market. An undertaking is not prevented from holding a dominant position on the market but when there is an abuse of this position competition rules are there to regulate this conduct. There is a clear connection between Article 81 and 82. They can be applied to the same agreement and the application of Article 81(3) does not prevent the application of Article 82. It has been made clear that Article 81(3) cannot be applied to permit an abuse of a dominant position.

Licensing is an area that is growing rapidly and that is becoming more and more important on the market. This area is under great influence from competition rules and there are several different Community regulations that has to be considered. One of the most important ones is the Technology Transfer Block Exemption Regulation. This regulation has undergone changes lately and a new block exemption was adopted last year. Some major changes were made, mainly so that the regulation now has an economic and effect-based approach instead of the old legalistic and form-based approach. One of the changes important for this thesis is that software now is included in the TTBER. This means that licensing of software will have a new regulation to take into account when conducting business. Critique has been heard that the new TTBER is not adapted for software licensing and that this will create problems. Since the TTBER is not even a year old yet it is hard to say if there are any big difficulties for the software industry.

In relation software licensing it is important to consider the Council Directive on the legal protection of computer programs. Interoperability is regulated by this directive and that is important when it comes to software and software licensing. It is often in relation to Article 82 EC that these kind of questions arise since it can be an abuse of dominant position to prevent competitors from being able to create programs that interact with these of the dominant undertaking. There has been

some interesting decisions from the Commission and judgments from the European Court of Justice on this matter. The most recent one that has gotten a lot of media attention is the Microsoft decision where Microsoft was obliged to release interface information to competitors so that interoperability was achievable.

As will be seen in this thesis, there are several things that has to be considered when it comes to licensing in the European Community. As mentioned, the TTBER is one of the most important regulations to keep in mind and it can give a lot of companies guidance when it comes to concluding agreements. If the companies fall below the market share threshold set out in the TTBER many clauses in the agreements will be permitted even if they would not have been if the companies would have had bigger market shares. The market shares is one of the big difficulties in the TTBER since the assessment can be very hard to do. Depending on the definition of relevant product and technology markets the market shares can differ. The rules in the TTBER are somewhat different depending on if the actors are competitors or not and that will make the regulation even more complicated. The TTBER is an regulation that is complicated and it might require some knowledge to apply it. The Commission has issued guidelines to help with this and these guidelines are almost as important as the regulation itself. The two documents, the regulation and the guidelines shall be read together and seen more as a whole than two separate things.

Abbreviations

CFI	Court of First Instance
EC	European Community
ECJ	European Court of Justice
IP	Intellectual Property
IPR	Intellectual Property Right
OJ	Official Journal
R&D	Research and Development
TRIPS	The Agreement on Trade-Related Aspects of Intellectual Property Rights
TTBER	Technology Transfer Block Exemption Regulation

1. Introduction

1.1 Background

The area of competition law in Europe is an area that has become more and more important over the years since trade is increasing rapidly. There are not many companies that can act on the European market without coming in contact with the competition rules one way or the other. If companies enter into agreements there are almost always competition considerations that have to be made. Even if a company acts alone on the market, competition law may influence how the company can conduct business.

When it comes to licensing it is important to have an understanding for the rules regulating this area. The EC Treaty is constructed to create a balance between Intellectual Property and competition law but it is debated if there is any real balance or if the aims of competition law and IP is in conflict. This question is interesting and something that is important for the IP industry. The competition regulations can sometimes be complicated and it is difficult to know how to apply them. These regulations have changed a bit over the last years and a new block exemption with great importance for licensing has been adopted, the Technology Transfer Block Exemption Regulation. This block exemption differs somewhat from the earlier ones on the same area. One of the big changes is that software now is included and therefore the software industry has a new regulation to take into consideration. However, the software industry has another regulation that to take into consideration as well and that is the Council Directive on the protection of computer programs, the Software Directive¹. Both these regulations are closely connected to Article 81 and 82 EC, the two most important competition articles. My goal with this thesis is to give an understanding of some of the considerations that has to be made when dealing with licensing in Europe and create an understanding for the connection that has to be made to the competition rules. For a company acting on the European market it might not always be easy to keep track of the different regulations and how they shall be used and what impact they have in a specific situation. Hopefully this thesis will help with this understanding and explain some of the most important rules.

1.2 Purpose

The purpose of this thesis is to look at licensing, and more specific, software licensing in Europe. Since most licensing is conducted between companies that is where the focus will be. However, the

¹ Council Directive 91/250 on the legal protection of computer programs [1991] OJ L122/42 “The Software directive”

purpose is also to discuss some of the other licensing situations that may occur, for example refusal to license and the connection to Article 82. Since licensing between undertakings to a big part is regulated by the Technology Transfer Block Exemption Regulation a big part of this thesis will discuss this regulation. Some of the differences between the old and the new technology transfer block exemption regulation will be mentioned and application of the new rules on licensing agreements will be made. The focus will be on Articles 4 and 5 of the TTBER, the hardcore restrictions and the exempted restrictions. These are the articles that has the most impact on the relationship between licensor and licensee. I will give an overview over some of the most common restrictions used in licensing agreements and describe the competitive effects that they might have.

1.3 Method

I have used customary legal method when writing this thesis. I have studied papers, regulations and guidelines from the European Community and these are the main source of facts. Case law from the European Court of Justice has been important to understand the reasoning in decisions and other cases. I have used <http://curia.eu.int> to find relevant cases for this thesis.

I have read textbooks and articles from various sources, all focused on competition law. When studying the background work regarding the new TTBER it has been useful reading comments from different institutions, law firms and competition authorities even if not many of them are used as actual references in this thesis.

Different web pages have been useful when it comes to finding different opinions regarding the TTBER. Some have not been easy to refer to in the source material since not all of them have been clear about who has written what on these pages and some of them have not even contained a date for publication. I have listed the web pages I have used, all of which I have visited during the period from November 2004 and March 2005.

1.4 Limitations

The biggest part of the thesis will focus on licenses between undertakings and thereby the TTBER. There will not be any deep analysis of the block exemption but rather a overview and an description on how the rules can be applied in a specific situation. The part about Article 82 EC and thereby companies in a dominant position on the market will be limited to one chapter. I do consider it to be important to include it in this thesis since it in many situations are important to the market that licenses from such actors are granted. In regard of Article 82, tying will not be discussed more than briefly. The focus will be on interoperability.

1.5 Disposition

Chapter 2 will describe the competition regulations that is most important to this thesis, Article 81 and 82 of the EC Treaty. Focus will be on Article 81. The description will be short since there are no room in a thesis of this size to make a deep analysis of the different elements in the articles.

In Chapter 3 the competitive rules will be discussed in the light of technology licensing. The discussion will to a great extent cover general licensing and not be specific to software. However, much of what is said is also applicable to software licensing. A description of what can be anti-competitive with licensing agreements will be included but also an description of how licensing agreements can be good for the competitive climate on the European market. Chapter 4 will give a short description of the Software Directive issued by the European Council in 1991. This is important to understand some parts in the following chapters. Chapter 5 will go through the technology transfer block exemption and compare it to the older one. What needs to be considered when making individual assessments under the TTBER will be mentioned in chapter 6. Chapter 7 will be used for a brief overview of the possibilities for licensing when it comes to an actor with an dominant influence on the market. Finally, chapter 8 will sum up and analyze what has been discussed in the thesis.

2. Introduction to EC Competition Law

2.1 What is Competition Law?

Competition law can be said to be a group of regulations that have their base in the economic policy and has the intention of regulating how companies conduct business and behave on the market arena. The rules can be said to be sort of a “Commercial Code of Conduct” that limits the possibilities to enter into certain types of agreements or to use economic power in ways not in the interest of consumers. Two recurring themes of competition policy can be identified, the protection of the interests of the consumers and the needs of national or European industrial policy. European competition policy have an additional overriding objective, that national competition laws do not have; to ensure that industry in Europe does not prevent the creation of a single market for goods and services in the European Union.²

Competition rules exist both on national and European level but the European rules often define what approach the national competition authorities take. It is also common that national laws follow or reproduce the European rules.

2.2 Purpose of Competition Law

“The prime purpose of competition policy is, in our view, to promote and maintain a process of effective competition so as to achieve a more efficient allocation of resources”³ This extract suggests that competition law has as its main objective to achieve efficiency and that it is the competitive market that will be able to achieve this efficiency in the best way. What the actual aim of EC competition law is is not that easily found and there are and have always been many different and contested views about the original aim⁴. What is clear is that competition policy has an important role in the creation of a single market within the European Union. It can therefore be said that the EC competition rules “serves two masters, the competition one and (even more demanding) the imperative of single market integration”⁵. The competition rules has also played an important role in the Community's development. This is reflected in the Commission's *Annual Report on Competition Policy*, for example in the *XXIIIrd Report* from 1993. There the relationship between competition policy and industrial policy is discussed:

² Kinsella, S, “EU Technology Licensing”, pg.1

³ Vickers, J and Hay, D, “The Economics of Market Dominance”

⁴ Craig, P and de Búrca, G “EU Law: Text, Cases and Materials”, pg. 41

⁵ Jones, A and Sufrin, B, “EC Competition Law”, pg. 36

“Competition policy has a central role to play in the Community's strategy for achieving a lasting recovery in growth and employment.”⁶

Competition encourages the efficient allocation of resources and stimulates research and development, innovation and investment.

...the Commission considers that, far from being the direct opposite of industrial policy, competition policy is an essential instrument, with clear complementarity between the two policies”⁷

In the EC Treaty there are two articles that is of big importance when it comes to EC Competition Law. It is Article 81 and Article 82. Article 81 forbids collusions that may affect trade between member states and has the object or effect of restricting competition within the common market. This is the article that includes agreements between undertakings. Article 82 forbids the abusive exploitation of a dominant position. Here sole conducts by firms are included. For this thesis Article 81 is the most relevant article even if Article 82 plays a role in licensing and will be discussed to some extent.

2.3 Article 81

The base for Article 81 is to declare what is incompatible with the common market and therefore forbidden. There are criteria that shall be fulfilled for Article 81 to be applicable. First there must be some sort of collusion between undertakings, for instance an agreement. Secondly this collusion or agreement shall possibly affect trade between member states in the EC. Thirdly the object or effect of this agreement shall be to distort competition. These three criteria can be hard to interpret. It is not always clear what an undertaking is or when something potentially affect trade.

“*Undertaking*” covers all collections of resources that carry out economic activity. It is a very broad concept.

“*Agreements*” is much broader than just written agreements. Agreements that has not been signed has been included in the definition. It has been considered enough that the companies have implemented the regulations in the contract⁸. However, the exact scope of the term agreement will not be very important in most cases. “*Concerted practices*” will cover much of what is not included

⁶ The 1993 Delors White Paper on Growth, Competitiveness and Employment: the Challenges and Ways Forward into the 21st Century, COM(93) 700

⁷ Annual Reports on Competition Policy, XXIIIrd Report 1993

⁸ Case 30/87 BP Kemi, [1988] E.C.R 2479, para. 18

in the concept of “agreement”. The concepts are fluid and overlap.⁹

The European Court of Justice talked about the distinction between agreements and concerted practices in “*Dyestuffs*”¹⁰

“ the object is to bring within the prohibition of that article a form of coordination between undertakings which, without having reached the stage where an agreement properly so-called has been concluded, knowingly substitutes practical cooperation between them for the risks of competition.”¹¹

“*May affect trade between Member States*” Even if an agreement only concerns the actions within one Member State, this criteria may be fulfilled anyway. Trade is a broad concept and includes all economic activities that relate to goods or services. The ECJ has, in *Wilhelm v. Bundeskartellamt*¹² concluded that some agreements may be subject to both national law and Community law. In *Consten and Grundig v. Commission*¹³ the ECJ made it clear that the important thing to consider:

“is whether the agreement is capable of constituting a threat, either direct or indirect, actual or potential, to freedom of trade between member state in a manner which might harm the attainment of the objectives of a single market between states.”¹⁴

A potential effect is thus enough, there is no need to prove an actual effect. The agreement might be confined to a single member state and still be judged to affect trade between member states. In *Vereeniging van Cementhandelaren v. Commission*¹⁵ the ECJ held that:

“An agreement extending over the whole of the territory of a member state by its very nature has the effect of reinforcing the compartmentalization of markets on a national basis, thereby holding up the economic inter penetration which the treaty is designed to bring about and protecting domestic production.”¹⁶

⁹ Korah, Valentine, *An Introductory Guide to EC Competition Law and Practice*, pg. 46

¹⁰ 48, 49, 51-57/69, *Imperial Chemical Industries Ltd. and others v. Commission*, [1972] E.C.R. 619, appeal from *Dyestuff*

¹¹ 48, 49, 51-57/69, *Imperial Chemical Industries Ltd. and others v. Commission*, [1972] E.C.R. 619, appeal from *Dyestuff*, para. 64

¹² 14/68, *Walt Wilhelm and others v Bundeskartellamt*, [1969] E.C.R. 1

¹³ 56 and 58/64, *Grundig-Verkaufs GmbH v Commission of the EEC*, [1966] E.C.R. 299

¹⁴ 56 and 58/64, *Grundig-Verkaufs GmbH v Commission of the EEC*, [1966] E.C.R. 299

¹⁵ 8/ 72, *Vereeniging van Cementhandelaren v Commission of the European Communities* [1972] E.C.R. 977

¹⁶ 8/ 72, *Vereeniging van Cementhandelaren v Commission of the European Communities*, [1972] E.C.R. 977, para. 29

To fall within Article 81, arrangements must have “*as their object or effect the prevention, restriction or distortion of competition within the common market*”¹⁷. There follows a list of examples that will be mentioned below, but this list is not exhaustive. The object does not really have so much to do with the intentions of the parties. Even if the intentions were legitimate, the steps that the parties take might go further than necessary and the agreement is caught anyway.

The article lists examples of conduct that is assumed to be anti-competitive. These are:

- “directly or indirectly fix purchase or selling prices or any other trading conditions;
- limit or control production, markets, technical development, or investment;
- share markets or sources of supply;
- apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
- make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.”¹⁸

If one or several of these conditions are fulfilled, it is assumed that there is a prevention, restriction or distortion of competition.

If the first part of Article 81 is fulfilled, the agreement is in conflict with European Competition Law, and shall therefore be considered void. There is however a way for companies to uphold their agreements. Article 81(3) EC states that paragraph one of Article 81 shall be declared inapplicable if the agreement contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit. There are some limitations to this though. The agreement is not allowed to impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives or afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

If the agreement is not compatible with Article 81 EC or falls within any block exemption the agreement is unenforceable. In addition, parties entering into such agreements risk fines as high as 10% of their worldwide turnover and claims for damages.¹⁹

¹⁷ Article 81 EC Treaty

¹⁸ Article 81 EC Treaty

¹⁹ www.benelux.les-europe.org

2.4 Exemptions, Article 81(3)

Before 1 May 2004 the European Commission had exclusive competence to apply Article 81(3) EC and to grant exemptions. Parties wishing to obtain an exemption had to notify their restrictive agreements to the Commission. If the Commission was unwilling to grant an exemption, the parties could enter into negotiations with the Commission concerning the required amendments to qualify for exemption. This system was rather bureaucratic, and in order to avoid an overload of notifications, the Commission over the years adopted a number of 'block exemptions', e.g. concerning vertical agreements (distribution agreements), horizontal agreements (i.e. co-operation between competitors), etc. Agreements that fulfilled the conditions set out in these block exemptions were automatically exempted and no longer required notification.

As from 1 May 2004, the notification system has been abolished completely.²⁰ One of the reasons for this is the expansion of the European Union.²¹ Companies no longer have the possibility of notifying agreements to the Commission in order to obtain an exemption. The Commission's exclusive competence to grant an exemption has been abolished as well; the competition authorities and the courts of the EU Member States can now also apply Article 81(3) EC. The parties themselves have to carry out the analysis and assess whether their agreement restricts competition and if so, whether it is possible to exempt the agreement under Article 81(3) EC. However, if the agreement fulfills the conditions of one of the block exemptions then it will be automatically legally valid and enforceable. If not, the parties might have to defend their agreement with arguments based on Article 81(3) EC.²²

When the parties to an agreement shall assess if their clauses will be exempted under Article 81(3) EC they shall look at whether the restrictions in the agreement makes it possible to perform the activity in question more efficiently than it would have been if the restriction had not been in effect. If a less restrictive arrangement would give the same positive effects, the restriction in question is not allowed.

The fact that consumers shall be able to get a fair share of the benefits implies that the consumers at least shall be compensated for the negative effects that the agreement might have. This can of course be achieved in many ways. For instance, if the consumers get an improved product it might be allowed to have an increase in price due to the agreement.

²⁰ www.benelux.les-europe.org

²¹ www.martineau-jonson.co.uk

²² www.benelux.les-europe.org

The last criteria in Article 81(3) EC has a connection to Article 82 EC, about dominant position. An agreement may not give the parties the possibility to eliminate competition on the market. Settled case law from the ECJ says that Article 81(3) can not prevent the application of Article 82 EC.

2.5 Article 82

Article 82 EC deals with monopoly and market power. It focus on undertakings which hold a dominant position on the market. These undertakings behavior are somewhat constrained by the competition rules. It is important to remember that Article 82 does not in any way prohibit the holding of a dominant position, it is only the abuse of this position that is prohibited.

There are five essential elements that has to be established before the prohibitions of Article 82 applies:

- one or more undertakings
- a dominant position
- the dominant position must be held within the common market
- an abuse
- effect on inter-State trade

The two elements that is hardest to determine is whether the undertaking holds a dominant position and if there has been an abuse. The article does not set out any procedure to declare when an undertaking is dominant. This has to be determined with help from case law from the ECJ. What has been considered important to the ECJ and also the the European Commission has been the undertakings ability to act independently on the market²³. The ECJ has set out a definition that has been frequently used. The Court has held that an undertaking holds a dominant position “where it can prevent effective competition being maintained by virtue of its ability to behave independently of the usual Competitive constraints facing an entity operation on a market”.²⁴

When it comes to determining what is an abuse there are some guidance in the article. What the article takes as examples is:

- imposing unfair prices or unfair trading conditions

²³ Re Continental Can Co inc [1972] JO L7/25, [1972] CMLR D11, para 3. In the appeal, Case 6/72, Europemballage Corp and Continental Can Co inc v. Commission, [1973] ECR 215, [1973] CMLR 199, the ECJ did not comment on the Commission's formulation of dominance, but it was approved by AG Romer and implicitly by the ECJ.

²⁴ Jones, A and Sufrin, B, “EC Competition Law”, pg. 262

- limiting production, markets or technical development to the prejudice of consumers
- applying dissimilar conditions to equivalent transactions
- tying, meaning that the dominant company makes the conclusion of contracts subject to supplementary obligations that has no clear connection with the subject of the contracts

2.6 Relationship between Article 81 and 82

Article 81 and 82 can be applied to the same contractual agreements. This was established by the ECJ in *Hoffmann-La Roche*²⁵. It must be considered if an agreement concluded by a dominant undertaking can benefit from a block exemption. However, few block exemptions does not take market shares into account. Therefore it is not common that a dominant undertaking can conclude agreements that will be exempted on the basis of block exemptions. If an agreement should anyhow fall under a block exemption the Commission has the possibility to withdraw the benefit of the exemption in the particular case²⁶.

It is also important to take into account the individual application of Article 81 and 82 to the same agreement. When the previous regulation was in force and the Commission had the possibility to grant individual exemptions to companies under Article 81(3), it was not likely that exemptions should be granted to dominant undertakings. As mentioned above, it is no longer possible to get individual exemptions under Article 81(3). This article will instead be considered directly applicable by national courts and national competition authorities. The Commission has as a guidance issued an notice regarding the relationship between Article 81(3) and Article 82²⁷. The notice reiterates the position of case law, that the application of Article 81(3) does not prevent the application of Article 82. It also makes it clear that Article 81(3) cannot be applied to permit an abuse of a dominant position.²⁸

²⁵ Case 85/76, *Hoffmann-La Roche & Co AG v. Commission* [1979] 3 CMLR 211

²⁶ Regulation 1/2003 and provisions in particular block exemptions.

²⁷ Commission's notice on the application of Article 81(3), [2004] OJ 101/97

²⁸ Jones, A and Sufrin, B, "EC Competition Law", pg. 292

3. Introduction to Licensing in the Competition Perspective

3.1 What is Intellectual Property?

Intellectual property law gives exclusive rights to holders of patents, copyright, design rights, trademarks and other protected rights. Even if there is a recognized exclusive right of exploitation it does not mean that intellectual property rights are immune from competition law. Both the systems of competition law and intellectual property law have the same objective, promoting innovation and efficient allocation of resources. Innovation is an important component of an open and competitive market and intellectual property rights contribute to this by encouraging undertakings to invest in developing new products and processes.²⁹ It can also be said that licensing of intellectual property opens up markets and allows third parties to exploit technologies that they would not have had access to otherwise and therefore the licensing is not always anti-competitive.³⁰

3.2 Commercial Considerations in Licensing

When owning an intellectual property right there are several ways to benefit from the right commercially. One way for the owner is to exploit it himself but perhaps even more common is to license the rights to others. There are several advantages of licensing:

- the owner has control over the way the right is used
- the owner can get continuing incomes from the exploitation and can benefit from the licensee's success
- the owner can sometimes exploit the right himself

The licensor will normally be interested in maximizing the financial return and also keep control over the licensed right. Therefore there are some provisions in many licensing agreements that may give rise to competition law concerns. These provisions will be dealt with under Chapter 4, after the TTBER has been discussed.³¹

3.3 Development of licensing in relation to Article 81

The early attitude from the Commission was that even exclusive patent licenses did not fall within Article 81(1) EC as long as the agreements did not go beyond the scope of the patent.³² The

²⁹ Korah, Valentine, *An Introductory Guide to EC Competition Law and Practice*, pg. 17

³⁰ Jones, A and Sufrin, B, "EC Competition Law", pg. 703

³¹ Jones, A and Sufrin, B, "EC Competition Law", pg. 698-699

³² Notice from the Commission, 24 Dec. 1962 [1962-3], JO 2922/62

Commission's attitude changed later and moved towards a position where exclusive licenses, unless *de minimis*, were within Article 81(1) EC and that many common non-territorial restraints were outside the scope of the patent.

In 1972, the Commission took the view that any significant license other than a non-exclusive one for the whole common market was caught by the prohibition of Article 81(1) EC. They concluded that granting an exclusive license infringes Article 81 and requires an exemption. The ECJ have however been of somewhat an other opinion. In the *Maize Sees* case³³ the ECJ held that “an open exclusive license” is not in itself contrary to Article 81(1) EC. A distinction has to be made between an open exclusive license and absolute territorial protection. The meaning of an “open exclusive license” is according to the ECJ, an agreement where:

“... the exclusivity of the licence relates solely to the contractual relationship between the owner of the right and the licensee, whereby the owner merely undertakes not to grant other licences in respect of the same territory and not to compete himself with the licensee on that territory”³⁴

In *Coditel II*³⁵ the ECJ ruled that even absolute territorial protection may not infringe Article 81(1) EC in the light of the commercial practice in a particular industry. It has to be remembered that these decisions were taken before the adoption of block exemptions for know-how.³⁶

In recent years EC authorities has demonstrated their capacity to regulate the exercise of intellectual property rights. In *Magill*³⁷ the Court of Justice confirmed that the European Commission has the power to end an abusive refusal to license by imposing a compulsory copyright license.³⁸ There are other cases where the ECJ has held that the competition rules in the EC Treaty can be used to prevent IPR owners from using aggressive discounting and pricing schemes³⁹ or engage in product bundling⁴⁰. This development has by some been seen as tying the IPR owners to yet another legislation⁴¹ while some claim that IPR legislation and EC competition law should be viewed as of equal weight and status under EC law. Some even argue that EC competition law should defer to

³³ 258/78, L.C. Nungesser KG and Kurt Eisele v Commission of the European Communities, [1982] E.C.R 2015, paras 56-67

³⁴ 258/78, L.C. Nungesser KG and Kurt Eisele v Commission of the European Communities, [1982] E.C.R 2015, paras 56-67, para. 53

³⁵ 262/81 Coditel SA, Compagnie générale pour la diffusion de la télévision, and others v Ciné-Vog Films SA and others, [1982] E.C.R. 3381, paras 15-20

³⁶ Korah, Valentine, An Introductory Guide to EC Competition Law and Practice, pg. 287

³⁷ Case C-241-242/91 P, RTE & ITP v. Commission [1995] E.C.R I-743

³⁸ Anderman, Steven D, EC Competition Law and Intellectual Property Rights, pg.3

³⁹ C-333/94 Tetra Pak / Commission [1996] E.C.R p.I-5951

⁴⁰ C-333/94 Tetra Pak / Commission [1996] E.C.R p.I-5951 and C-53/92 Hilti / Commission [1994] E.C.R p.I-667

⁴¹ Anderman, Steven D, EC Competition Law and Intellectual Property Rights, pg.3

IPR legislation in the interest of innovation.⁴²

There have been relatively few Court decisions on licensing, at least when considering the importance licensing has in the commercial context. The reason for the lack of decisions from the ECJ might first of all be that parties that earlier was granted an Article 81(3) exemption had little incentive to challenge the decision. Secondly block exemptions have covered patent licenses since 1984 and later also know-how licenses. Therefore parties have entered into license agreements covered by the block exemptions to a big extent.⁴³

3.4 How does EC Law create a balance between Competition Law and IPR's?

The structure of the EC Treaty and the interpretation of it has shaped a balance between competition law and intellectual property rights. The EC Treaty provides in Article 2 that the Community shall promote “a harmonious and balanced development of economic activities”. Article 3(g) requires the institutions to ensure that competition in the internal market is not distorted. Articles 81 and 82 are then set out as the main means of achieving these goal.⁴⁴

⁴² Govaere, I, The Use and Abuse of Intellectual Property Rights in EC Law

⁴³ Jones, A and Sufrin, B, “EC Competition Law”, pg. 703

⁴⁴ Anderman, Steven D, EC Competition Law and Intellectual Property Rights, pg. 8

3.5 Does IP and Competition Law have conflicting aims?

The legal monopoly created by IP laws may lead to significant market power and also to a monopoly in the meaning of competition law. This may develop a conflict that often is mentioned in doctrine, that competition law takes away what IP law provides. This may to some extent be true but if analyzed, IP and competition law complement each other. They both promote consumer welfare and balance the rights of actors on the market.

The aim of IP laws is to promote technical progress so that the consumers will benefit from this in the end. To ensure this progress innovation must be ensured and the innovative efforts must be promoted. There must however be a balance in the system and this balance is found by limited rights for the innovators. IP rights are often limited in time or in space and in many cases not protected against parallel creations. Competition laws aims at promoting consumer welfare as well but uses another method. By protecting competition, the driving force of efficient markets, it makes sure that the best quality products are provided at the lowest possible price. This product market competition will promote innovation and therefore it can be said that IP laws and competition laws complement each other, rather than stand in conflict.⁴⁵

3.6 How to assess if a license agreement limits competition?

When assessing if an license agreement restricts competition the starting point has to be to look at the competitive conditions that would have been at hand if the agreement had not existed. Then it has to be assessed what effect the agreement might have on this situation. The competition between companies using the same technologies and the competition between companies using different technologies will be of interest. If the competition might be limited due to the entire agreement or due to some specific restrictions in the agreement it is possible that the agreement is covered by Article 81(1) EC.

3.7 What negative effects can license agreements have on the market?

Technology transfer agreements can have negative effects on the market, even if sharing of technology often is positive. The European Commission has pointed out some important negative effects that may occur when licensing:

⁴⁵ Pepperkorn, L, "IP Licenses and Competition Rules: Striking the Right Balance" (2003) 26 *World Competition* 527

- inter-technology competition between companies on the same technology market may be reduced, including facilitation of collusion.
- competitors may be foreclosed from the market since their costs increase and they have problems getting access to essential input.
- inter-technology competition between competitors that produce products on the basis of the same technology may be reduced.⁴⁶

If companies that produce products based on substitutable technologies transfer technologies between each other and include reciprocal obligations to provide each other with improvements, it will be impossible for one of them to gain technological lead over the other. This will give a negative impact on competition, since no one will have the incentive to work towards new solutions that will benefit the consumers.

The risk of collusion is something that can increase when competitors license from each other. License agreements may lead to increased transparency on the market and raised entry barriers. The higher degree of commonality that license agreements may lead to is another factor that affects the risk of collusion. When companies license between each other, they often have about the same costs for the production of the products and this gives them a similar view on the terms of coordination.

The entry barrier for competitors may be raised due to licensing agreements. These entry barriers may consist of restrictions on some licensees on the market to license to new actors. There may also be agreements that does not prevent the licensees from entering into these types of agreements but that may create incentives for them not to. For instance, third parties may be unable to enter the market since licensors have imposed non-competition clauses on their licensees. This leads to an insufficient number of licensees remaining on the market where a third party wants to enter. Competitors that have substitute technologies may have difficulties entering the market due to tying that some licensors are able to create. If a licensee wants to license one part of a technology he might have to license a package of all parts of the technology. This reduces his incentive to look for other parts of the technology on other parts of the market. Tying is a problem not only in the area of technology transfer and there are several regulations concerning this.

3.8 What positive effects can restrictive license agreements have on the market?

There are some pro-competitive effects of licensing that normally can be seen on the market. A

⁴⁶ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements

license generally increase overall competition since a new actor enters the market.⁴⁷ Licensing of technology may also often promote the integration of complimentary factors of production, sometimes referred to as “efficiency enhancing integration of economic activity”⁴⁸. This will benefit consumers since it reduces costs and also promotes the introduction of new products. In some cases, restrictive license agreements may produce such positive effects that the negative effects are outweighed. To assess if this is the case, Article 81(3) EC shall be used. This article contains exceptions from Article 81(1) EC. For an agreement to be exempted through Article 81(3) EC it has to produce economic benefits, the restriction of competition must be indispensable to attain the efficiencies and the consumers must receive a fair share of the efficiency gains. Licensing agreements often increase efficiency because they bring together technologies and allow companies to create new and improved products. This often leads to lower production costs and most likely lower costs for the consumers. Licensor's often license technology to other companies because it is more efficient to do so than to exploit it himself. The licensee might already have access to the necessary equipment for the production. When the licensee gets access to the licensor's technology he is able to combine it with his own resources and exploit the technology in a efficient way. In some cases a combination of the licensor's and the licensees technologies may give rise to a synergies and one plus one might become three. Some license agreements give a more effective distribution system and this can lead to saved costs and perhaps also less environmental affect. The pooling of technologies to create licensing packages may also create beneficial effects. If a third party needs several technologies his transaction costs may be lowered if he only has to license from one place instead of contacting each licensee.⁴⁹

⁴⁷ Lohmann, N, “The new Technology Transfer Regulation 240/96 – prevailing controversies at the intellectual property right/competition law interface”, pg. 32

⁴⁸ Romano Subiotto, Cleary, Gottlieb, Steen and Hamilton, Brussels, Technology Licensing: The EC & US Rules Compared, (conference paper), 1995

⁴⁹ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements

4. Software and its regulations

When software is licensed the situation will often be different from other licensing, for example licensing of a patented technology. Therefore it can create problems when software is treated as other technology. The usual way of looking at technology that can fall within the TTBER is that a company license a technical solution from someone and the licensee uses the technology for production or for incorporation in his own products. This has been the agreements that the earlier block exemptions on the area has been constructed for. However, when it comes to software, the licensee might not at all be the “normal” licensee. He may be the end user of the product and in many cases even a private consumer. The private consumer issue will however not fall within the TTBER since the agreements have to be between undertakings to be covered by that block exemption.

4.1 The Software Directive

Computer programs are not exactly comparable to other technology or copyrighted work. Technology that is licensed under the TTBER are often protected by patents but software is not to the same extent. The European Commission has issued a specific directive about software⁵⁰. This directive is interesting for anyone is in the software business. The directive defines computer programs as all sorts of programs, including such that is incorporated in hardware. It also includes preparatory design materials that leads to the development of a computer program, under the condition that the preparatory work can result in a computer program in a later stage. The directive does not require any qualitative or aesthetic feature. A computer program will fill the demands for protection is it is original and not copied from somewhere else.

Article 4 of the Directive specifies what the rightholder shall be allowed to do or authorize. It is the rightholder that has the exclusive right to reproduce the computer program, to translate, adapt, arrange or alter the program and to distribute the original or copies of the program.

Article 5 and 6 of the Directive limits the rights of the rightholder. These limitations are important for the use of computer programs. Article 5 gives the lawful acquirer the right to use the program in a way that makes it possible for him to take advantages of the program in accordance with its intended purpose. It is also allowed to make back up copies unless it can be considered to be necessary to prevent this. Finally Article 5 allows the rightful user of a computer program to observe, study or test the functioning of the program in order to determine the ideas behind the

⁵⁰ Council Directive 91/250 on the legal protection of computer programs [1991] OJ L122/42 “The Software directive”

program. This is allowed if it is done as a part of loading, displaying, running, transmitting or storing the program.

Article 6 regulates the right to decompiling. The rightholder has the right to forbid decompiling to a certain extent. However, decompiling shall be allowed if it is necessary to be able to achieve interoperability of independently created computer programs.⁵¹

Even if the Directive cannot actually effect the application of the competition rules it may reasonably be assumed that any clause in a licensing agreement safeguarding the rights in the Directive will not fall foul of Article 81(1) EC unless it contradicts the exceptions in Articles 5 and 6 of the Directive.⁵²

4.2 What regulations are important?

The situation when one undertaking licenses software from another is from the 1st of May 2004 covered by the Technology Transfer Block Exemption Regulation. This has changed the playing field somewhat and given the software industry a legal framework similar to the one that other technical fields has had before. Software was included to some extent even in the previous TTBERs but not as a sole license object. It had to be part of another technology to be covered. Now we have a more coherent regulation. The same rules apply to the same type of situations regardless of if it has to do with patents, know-how or software.

Even if software now has been included in the TTBER, the Software Directive is still applicable. These two regulations have to function together and that should not create problems in most cases. As mentioned above the Directive can not influence the application of the competition rules. What however might be new is that both regulations, the TTBER and the Software Directive has to be observed. A clause permitted by the Software Directive could, theoretically be in breach of the TTBER.

There will be other regulations that in some cases can be of importance to companies licensing software. For more information about this, see chapter 5.10.

⁵¹ Jerner, Magdalena, *Licensavtal för datorprogram*, pg. 40

⁵² Jones, A and Sufrin, B, "EC Competition Law", pg. 761

5. Technology Transfer Block Exemption Regulation

In 1965 the European Commission got the power to make regulations that exempt classes of agreements from Article 81(1) EC. These regulations are normally called group or block exemptions. The Commission issue these exemptions to create some legal certainty since many companies might have problems with determining the effect the competition rules might have to their agreements. These group exemptions create “safe harbors”. If agreements fall within the group exemptions the companies know what they are allowed to agree upon without risking to fall foul to competition regulations.

5.1 The old TTBER's

The first block exemption in the field of IP licensing came 1984 and applied to pure patent licenses and to mixed patent and know-how licenses where the patent was the biggest element. 1989 came a block exemption that applied to pure know-how licensing agreements and to mixed know-how and patent licensing agreements where know-how was the biggest element. These regulations were very similar but they contained some differences. 1996 they were replaced with a single block exemption covering all situations that had been covered in the two earlier exemptions. This regulation, 240/96 on technology transfer agreements stayed in force until the new one, that came into force in May 2004 was finished.⁵³

The TTBER from 1996 did not include copyright or trademark licensing. The only way a copyright license could be covered by the old TTBER was if the copyrighted material was ancillary to qualifying technologies. Pure software or copyright licenses did clearly not qualify. In the older TTBER there were lists over provisions that were considered to rarely infringe Article 81(1) EC and provision that were considered to be restrictive of competition and therefore were forbidden.⁵⁴ The later were on the so called “black list” and the ones that were considered not to infringe were on the “white list”.

5.2 The Commissions motive for change

The reforms of the EC Competition rules in the fields of vertical and horizontal agreements has made it clear that a shift from a legalistic and form-based approach to a more economic and effect-based approach is taking place. This puts focus more on the analysis of possible efficiencies of certain restrictions. These reforms effect IPR's as much as it effects other areas. The old TTBER

⁵³ Jones, Alison and Sufrin, Brenda, “EC Competition Law”, pg. 711

⁵⁴ Korah, Valentine, “An Introductory Guide to EC Competition Law and Practice”, pg. 297

was rather formalistic and therefore a change was needed to adapt to the changes in the EC Competition rules.⁵⁵

Enhancing clarity and coherence. To make the TTBE rules simpler, clearer and more coherent has been one of the Commission's aims with the change -- an aim which third party submissions on the Evaluation Report unanimously support.

In line with those aims, the Commission has stated what the objectives of the reform was:

- (i) to encourage the dissemination of technical knowledge in the Community;
- (ii) to generate effective competition and technical progress; and
- (iii) to create a favorable legal environment for investments.⁵⁶

Covering a wider range of IP. Coverage of software licensing agreements appears to have been widely supported by submissions to the Commission. Opinions diverge as to whether the scope should have been extended more generally to cover all IPRs, in particular copyright, trademarks and design rights. Some emphasize that this would increase legal certainty (as the applicable principles would be the same for all or most IPRs), and remove the difficulty in assessing whether for example copyright is really ancillary to patent or know-how licensing agreements (and therefore covered by the current TTBE). On the other hand, a number of submissions stress that the different IPRs involve different competition law concerns that should not be lumped together.⁵⁷

Envisaging an "economics-based" approach. The Commission questioned the rationale of some policy determinations taken in the old TTBE and found that they needed updating. As is the case with vertical and horizontal restraints, the new TTBER takes a move from a legalistic into a more "economics-based" approach, focusing on the competitive relationship between the parties, their market share and the nature of the restriction concerning IP rights.⁵⁸

5.3 The new TTBER from 2004

The new TTBER and the Guidelines from the Commission shall be considered as a whole. The Guidelines are important for three reasons. Firstly, they create a framework of general principles that concerns the application of Article 81 EC and intellectual property rights. Secondly, the Guidelines explain how the TTBER shall be applied. Thirdly, they explain how to apply Article 81

⁵⁵ Commission Evaluation Report on the transfer of Technology Transfer Block Exemption Regulation N. 240/96

⁵⁶ Bulletin by John Ratliff and Michael Goldmann, www.wilmer.com

⁵⁷ Bulletin by John Ratliff and Michael Goldmann, www.wilmer.com

⁵⁸ Bulletin by John Ratliff and Michael Goldmann, www.wilmer.com

(1) and 81(3) EC to agreements that fall outside the scope of the TTBER.

When an agreement falls within the TTBER it will benefit from the exemptions that are set out in Article 2 of the Regulation. This means that Article 81 EC shall not apply to these agreements. The agreement is deemed not to be anti-competitive. The parties gain legal certainty that the agreement that they enter into will be valid. What has to be kept in mind is that even if an agreement falls within the TTBER the European Commission or the competition authorities in a Member State can withdraw the benefits of the block exemption.

However, if an agreement falls outside the TTBER there is no presumption that the agreement is anti-competitive. The parties themselves will have to assess if their agreement falls foul of Article 81 or not.

5.4 Concept of Technology Transfer Agreements - Definitions

The concept of technology transfer agreements means, according to TTBER Article 1(1)(b), know-how licensing agreements, patent licensing agreements, software copyright licensing agreements, or a mix of these agreements.⁵⁹ The Commission has in its Draft Commission Notice specified “*technology*” as covering patents and patent applications, utility models and applications for utility models, design rights, software copyright, know-how and other similar IP rights⁶⁰. The scope is broader than the old TTBER of 1996, which did not cover software.

To be considered a “*transfer*” the technology has to flow from one undertaking to another. This is normally done by a licensing agreement which gives the licensee the right to use the licensed technology and in return pay licensee fees. The transfer can also take the form of a sublicensing, in which case the licensee licenses the technology to a third party with the consent of the original licensor.⁶¹

Trademarks and copyright licensing are covered only if they are licensed as ancillary to patent, know-how or software copyright license agreements.⁶² The licensor can for instance give the licensee the right to use the licensor's trademark on the products produced under the license agreement and in such case the TTBER will cover the trademark license. If however the licensee

⁵⁹ Commission Regulation (EC) no 772/2004

⁶⁰ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements, pg.46

⁶¹ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements, pg.48

⁶² www.benelux.les-europe.org

has little use of the licensed technology and the main purpose of the agreement is to give the licensee access to the trademark, this agreement will fall outside of the TTBER.⁶³

5.5 Scope and duration of the TTBER

The TTBER does only cover agreements between two undertakings. This excludes i.e. patent pools. These kind of agreements will, according to the Commission, be treated as if they were covered by the block exemption if all other parts fulfill the requirements herein.⁶⁴

From Article 2 of the TTBER, it follows that for an license agreement to be covered by the TTBER, it must be “for the manufacture or provision of contract products” i.e. products incorporating or produced with the licensed technology. Regular subcontracting agreements are not covered by the TTBER unless they go beyond simple outsourcing. If a subcontracting agreement reduces the ability or incentive for the subcontractor to innovate, competition concerns may arise.

The TTBER applies for as long as the licensed property right has not expired or been declared invalid, or in the case of know-how, the know-how is secret.

5.6 Market definition and market shares

To determine whether an agreement or other similar behavior falls within the TTBER, market shares are of great importance. To determine the market shares, one has to know what the relevant market is.

The TTBER uses market definitions when assessing the competitive effects of license agreements. Two markets must be defined, the relevant goods and service market (product market) and the technology market. The product market is defined in Article 3 of the TTBER. It refers to the relevant goods and service markets in both their geographic and product dimension. The technology market consist of the licensed technology and its substitutes. Substitutes is defined from a customer perspective. If a customer could use another technology as a substitute, it falls within the same technology market. Once the market definition is made, the market shares can be assessed.

In relation to the technology market, the market share shall be calculated on the basis of the sales of the licensor and all his licensees of products incorporating the licensed technology and this for each

⁶³ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements, pg.50

⁶⁴ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements

relevant market separately. All sales are taken into account.

The market shares on the product market “is to be calculated on the basis of the licensee's sales of products incorporating the licensor's technology and competing products, i.e. the total sales of the licensee on the product market in question”.⁶⁵

5.7 Competitors or non-competitors

Agreement between competitors normally pose a greater risk to competition than agreements between non-competitors. If it shall be possible to determine the competitive relationship between two or several undertakings, it must be examined if they should have been actual or potential competitors if the agreement about licensing had not existed. Companies are seen as actual competitors if they are active on the same product or technical market without infringing each others intellectual property rights. Actors are seen as potential competitors on a product market if they, without the license agreement and without infringing each others rights, would have invested further to penetrate the market as a responds to a small but permanent increase in product price. As potential competitors on a technical market, are companies that have exchangeable technologies.

5.8 Hardcore Restrictions

The TTBER has some hardcore restrictions that are forbidden to have in any agreement. A hardcore restriction included in an agreement will make the whole agreement fall outside the block exemption. When something is classified as a hardcore restriction, it is because it is almost always considered to be anti-competitive.

Article 4 of the TTBER makes some differences between competitors and non-competitors when it comes to the hardcore restrictions.

Agreements between competing undertakings

Article 4(1) covers the hardcore restrictions for licensing between competitors. The TTBER will not cover agreements that have as their object:

- (a) the restriction of a party's ability to determine its prices when selling products to third parties
- (b) the limitation of output, except limitations on the output of contract products imposed on the licensee in a non-reciprocal agreement or imposed on only one of the licensees in a reciprocal agreement;

⁶⁵ Draft Commission Notice, Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements, 2004/C 101/02, para. 71

(c) the allocation of markets or customers except:

(i) the obligation on the licensee(s) to produce with the licensed technology only within one or more technical fields of use or one or more product markets,

(ii) the obligation on the licensor and/or the licensee, in a non-reciprocal agreement, not to produce with the licensed technology within one or more technical fields of use or one or more product markets or one or more exclusive territories reserved for the other party,

(iii) the obligation on the licensor not to license the technology to another licensee in a particular territory,

(iv) the restriction, in a non-reciprocal agreement, of active and/or passive sales by the licensee and/or the licensor into the exclusive territory or to the exclusive customer group reserved for the other party,

(v) the restriction, in a non-reciprocal agreement, of active sales by the licensee into the exclusive territory or to the exclusive customer group allocated by the licensor to another licensee provided the latter was not a competing undertaking of the licensor at the time of the conclusion of its own licence,

(vi) the obligation on the licensee to produce the contract products only for its own use provided that the licensee is not restricted in selling the contract products actively and passively as spare parts for its own products,

(vii) the obligation on the licensee, in a non-reciprocal agreement, to produce the contract products only for a particular customer, where the license was granted in order to create an alternative source of supply for that customer

(d) the restriction of the licensee's ability to exploit his own technology or the restriction of the ability of the parties to carry out research and development, unless this is necessary to protect the licensed know-how of third parties.

I will give a short explanation to the hardcore restrictions to make it somewhat clearer what they mean.

Article 4(1)(a) – Price restrictions

According to the guidelines this restriction concerns agreements that “has as their object the fixing of prices”. The price fixing can take the form of fixed, maximum or recommended prices. This differs from the price fixing restriction between non-competitors which I will discuss below. Even

things that just indirectly can be seen as price fixing, such as disincentives to diverge from a certain price level, will be caught by this hardcore restriction.⁶⁶

Article 4(1)(b) – Output limitations

This type of restriction limits how much a party may produce and sell. Also here are terms that give the parties less incentive to produce more than a certain amount caught by the article.⁶⁷

Article 4(1)(c) – Market or consumer allocations

Agreements where competitors share markets or consumers are seen as having as their object to restrict competition and are therefore forbidden. This article is however subject to a number of important exceptions. If a clause in an agreement falls within one of these exceptions the parties can uphold the clause without risking to fall outside the TTBER.⁶⁸

Article 4(1)(c)(i)

A field of use or a product market restriction can be used in reciprocal and non-reciprocal agreements. This exception means that it is allowed to give a license in order for the licensee to do one or more specific things with it. It is important that these restrictions are distinguished from territory or consumer restrictions.⁶⁹

Article 4(1)(c)(ii)

Only in non-reciprocal agreements the licensor and/or the licensee can agree not to produce within one or more fields of use, product markets or exclusive territories. This only relates to producing, not to sales.⁷⁰

Article 4(1)(c)(iii)

This provision allows for the grant of a sole license and can protect the licensee from other licensees producing the same product. This exception applies to both reciprocal and non-reciprocal agreements. However, it is not allowed to let the exception affect the parties ability to exploit their own technology in the respective territories.⁷¹

Article 4(1)(c)(iv)

This exception makes it possible for the parties to a non-reciprocal agreement to exclude each other from making both active or passive sales into exclusive territories or to consumer groups allocated to the other party.⁷²

⁶⁶ Jones, A and Sufrin, B, “EC Competition Law”, pg.731

⁶⁷ Jones, A and Sufrin, B, “EC Competition Law”, pg.731

⁶⁸ Jones, A and Sufrin, B, “EC Competition Law”, pg.731

⁶⁹ Jones, A and Sufrin, B, “EC Competition Law”, pg.731

⁷⁰ Jones, A and Sufrin, B, “EC Competition Law”, pg.731

⁷¹ Jones, A and Sufrin, B, “EC Competition Law”, pg.731

⁷² Jones, A and Sufrin, B, “EC Competition Law”, pg.731

Article 4(1)(c)(v)

In a non-reciprocal agreement the licensee can be prevented from conducting active sales (not passive) into territories or to consumer groups that are exclusively reserved to another licensee. This so long as that other licensee was not a competitor to the licensor when the license was given. However, if the licensees themselves among each other agree about restrictions in sales into certain territories, this will qualify as a cartel and is not covered by the TTBER.⁷³

Article 4(1)(c)(vi)

This exception will be applicable in a situation where the licensee needs the license to produce products for his own use, for instance to incorporate them in his own machines. The licensor can ban the licensee from selling products to other actors on the market. However, the licensee shall be allowed to sell the licensed product as spare parts to his products. This type of restrictions are called “captive use restrictions”.⁷⁴

Article 4(1)(c)(vii)

The licensor is allowed to limit who the licensee produces the licensed products for. These type of agreements are often called “second source” and the whole point of the agreements are to provide a particular customer with an alternative way of buying the licensed product. The licensee is banned from selling the product to someone else than that specific customer. Several licensees can get licenses to sell to the same customer, so that there are several sources for the particular customer to turn to.⁷⁵

Article 4(1)(d) – Limitations on technology exploitation or R&D

The license agreement can not prevent the licensee from exploiting his own technology or restrict any of the parties from conducting R&D unless it is necessary to prevent the licensed know-how from being disclosed to third parties. If a restriction is included for this matter it must be proportionate and necessary. This is applicable in both reciprocal and non-reciprocal agreements.⁷⁶

Agreements between non-competing undertakings

Article 4(2) of the TTBER lists the hardcore restrictions for non-competitors. These are somewhat similar to the ones between competitors but there are differences. When the parties are non-competitors the hardcore restrictions are not as restrictive as they are for competitors. If an agreement between non-competitors shall be covered by the TTBER, it is not allowed to have as its

⁷³ Jones, A and Sufrin, B, “EC Competition Law”, pg.732

⁷⁴ Jones, A and Sufrin, B, “EC Competition Law”, pg.732

⁷⁵ Jones, A and Sufrin, B, “EC Competition Law”, pg.732

⁷⁶ Jones, A and Sufrin, B, “EC Competition Law”, pg.732

object:

(a) the restriction of a party's ability to determine its prices when selling products to third parties, without prejudice to the possibility of imposing a maximum sale price or recommending a sale price, provided that it does not amount to a fixed or minimum sale price as a result of pressure from, or incentives offered by, any of the parties;

(b) the restriction of the territory into which, or of the customers to whom, the licensee may passively sell the contract products, except:

(i) the restriction of passive sales into an exclusive territory or to an exclusive customer group reserved for the licensor,

(ii) the restriction of passive sales into an exclusive territory or to an exclusive customer group allocated by the licensor to another licensee during the first two years that this other licensee is selling the contract products in that territory or to that customer group,

(iii) the obligation to produce the contract products only for its own use provided that the licensee is not restricted in selling the contract products actively and passively as spare parts for its own products,

(iv) the obligation to produce the contract products only for a particular customer, where the license was granted in order to create an alternative source of supply for that customer,

(v) the restriction of sales to end-users by a licensee operating at the wholesale level of trade,

(vi) the restriction of sales to unauthorized distributors by the members of a selective distribution system;

(c) the restriction of active or passive sales to end-users by a licensee which is a member of a selective distribution system and which operates at the retail level, without prejudice to the possibility of prohibiting a member of the system from operating out of an unauthorized place of establishment.

Article 4(2)(a) – Price Restrictions

The prohibition of resale price maintenance between non-competitors does not cover maximum or recommended prices. However, these type of price recommendations will be forbidden if they actually amount to fixed or minimum prices due to pressure from, or incentives by, the other party.⁷⁷

⁷⁷ Jones, A and Sufrin, B, “EC Competition Law”, pg.732

Article 4(2)(b) – Passive sales restrictions imposed on the licensee

The licensor may not impose restrictions on the licensee that limits his ability to conduct passive sales into specific territory's or to specific consumer groups. This restriction will include conditions that create disincentives for the licensee to conduct unsolicited sales. It is important to notice that this article dose not limit the parties from including sales restrictions on the licensor or active sales restrictions on the licensee. This passive sales ban in Article 4(2)(b) does however come with a number of major exceptions.⁷⁸

Article 4(2)(b)(i)

The licensor may reserve territory's or customer groups to himself without being caught by the hardcore restrictions. It is important for the licensor to have this possibility since he might not be willing to license the technology otherwise.⁷⁹

Article 4(2)(b)(ii)

The licensor may also reserve territory's or costumer groups to other licensees. This is however only allowed for the first two years that the other licensee is serving the reserved territory or consumer group. To include a restriction like this in agreements may be necessary to convince the first licensee to take the license. Without such a restriction this licensee might not be able to recoup his investments.⁸⁰

Article 4(2)(b)(iii)

This captive use restriction has the same meaning here as it has for competitors. A licensor can prevent the licensee from selling products produced under the license except as spare parts to his own products.⁸¹

Article 4(2)(b)(iv)

This second source provision allows the licensor to limit what customers the licensee produces the licensed product for. This is done to give the customer a second source of supply. The restriction is the same as in the hardcore competitors list.⁸²

Article 4(2)(b)(v)

This exemption allows the licensor to incorporate restrictions in the agreement that will maintain the distinction between wholesale level and retail trade level. The licensor can give a wholesale function to a licensee and prevent him from selling to end customers.⁸³

⁷⁸ Jones, A and Sufrin, B, "EC Competition Law", pg.732

⁷⁹ Jones, A and Sufrin, B, "EC Competition Law", pg.733

⁸⁰ Jones, A and Sufrin, B, "EC Competition Law", pg.733

⁸¹ Jones, A and Sufrin, B, "EC Competition Law", pg.733

⁸² Jones, A and Sufrin, B, "EC Competition Law", pg.733

⁸³ Jones, A and Sufrin, B, "EC Competition Law", pg.733

Article 4(2)(b)(vi)

This restriction makes it possible to uphold an integrity in a selective distribution system. The license agreement may contain restrictions that prohibits the licensees from selling to unauthorized distributors.⁸⁴

Article 4(2)(c) – Active or passive sales ban to end users within selective distribution systems

If a licensee is at the retail level of a selective distribution system he cannot be prevented from active or passive selling to any end-users. It is only at the wholesale level that these types of restrictions are allowed, as mentioned above.⁸⁵

5.9 Excluded restrictions

There are some types of restrictions that are not block exempted through the TTBER. If these conditions are included in an agreement, it does not prevent the entire agreement from falling within the TTBER. It is only the specific restriction in question that is not block exempted. This means that this restriction has to be individually assessed to see if it is in compliance with EC Competition Law. In Article 5(1) of the TTBER three conditions are set up. The purpose of these is to avoid that the licensees incentive to innovate is reduced. The excluded restrictions in Article 5 of the TTBER are:

Article 5(1)(a)

The licensee must not be obliged to grant an exclusive license to the licensor in respect of its own severable improvements or new applications of the licensed technology. If an improvement shall be considered to be severable, it shall be possible to exploit it without infringing the licensed technology or without using licensed know-how.

Article 5(1)(b)

The licensee must not be obliged to assign improvements or new applications to the licensor.

It shall be observed that Article 5 does not cover non-exclusive grant back provisions even if they are non-reciprocal. This means that the licensor can request the licensee to grant him a non-exclusive license but the licensor himself does not have to grant the licensee any license to improvements made by the licensor.

Article 5(1)(c)

The licensee may not be prevented from challenging the validity of any of the licensor's

⁸⁴ Jones, A and Sufrin, B, "EC Competition Law", pg.733

⁸⁵ Jones, A and Sufrin, B, "EC Competition Law", pg.733

intellectual property rights. The restriction to challenge the validity of the licensor's technology, is important to uphold undistorted competition and the underlying principles of intellectual property. It is often the licensee that is in the best position to determine if the intellectual property of the licensor is valid or not. Normally, the licensee has a lot more knowledge about the technology than other competitors. If an invalid intellectual property is upheld it stifles innovation. Therefore it is important for the competitive market to eliminate invalid intellectual property. The restriction has one advantage for the licensor. If the licensee challenges the validity of the licensed technology, the licensor has the right to terminate the license agreement. This is because the licensor should not be obliged to deal with a party that is trying to challenge the subject matter of the agreement that the parties have entered into. This regulation can be said to put the risk of challenging on the licensee. He may lose his license if he challenges the validity of the intellectual property.⁸⁶

Article 5(2)

This article does only apply to agreements between non-competitors and the content of the provisions are the same as the content of Article 4(1)(d), the hardcore restriction in agreements between competitors. This means that the licensee can not be prevented from exploiting his own technology or be limited in his ability to carry out research and development.

5.10 Practical issues

There are several conditions and restrains that are common in licensing agreements and I will try to give a overview over some of them and how they might be applied in respect of Article 81 EC and the TTBER. I will give a short description of how certain restrictions can be found to be anti-competitive but also when they can be pro-competitive.

There are several reasons that the licensor might want restrictions in the license agreement. It can be necessary to safeguard confidential information, ensuring quality control, limiting what the licensee can do with the technology and provide clauses for termination of the agreement. The licensee will also have somewhat the same concerns as the licensor. but from the other side. If the restrictions can be enforced or not will to a large extent depend on competition law.⁸⁷

Royalty obligations

Royalties can normally be determined in the way the parties find appropriate without being

⁸⁶ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements, p.107-114

⁸⁷ Jones, A and Sufrin, B, "EC Competition Law", pg. 699

restricted by Article 81 EC. A licensor may apply different royalties to different licensees without it being in conflict with EC Competition Law. The parties may also extend the royalty obligation beyond the duration of the licensed intellectual property right. However, in a situation with cross-licensing between competitors some royalty obligations may lead to price fixing and than there is a hardcore restriction in the TTBER covering this.⁸⁸ In *Coditel I*⁸⁹ the ECJ made it clear that the right holder may determine the royalty depending on the extent of the use. In these cases the fee shall be proportional⁹⁰.

Exclusive licensing and sales restrictions

An exclusive license is a license where the licensor undertakes not to license the concerned technology to a third party. There might be limitations to the license. The licensor might undertake not license the technology to another licensee in a particular territory or in respect of a particular customer group. These type of licenses as such does not imply that the licensor or other licensees are restricted in their production or sales. Exclusive licensing may even be good for the efficiencies on the market. If an undertaking gets exclusivity they may be able to invest more quickly and promote the technology in a way that they would not have done if they had not had exclusivity. However, there are some problems that has to be considered when looking at exclusive licensing. A distinction between competitors and non-competitors have to be made.⁹¹

Exclusive licensing between competitors are block exempted up to the market share threshold of 20 %. Above this the agreement may be caught by Article 81(1) EC. The most important factors to consider in this case is the market power of the licensee and if the entry into the specific market is difficult. Between competitors the restriction on the licensor that is included in the exclusive license may have as its main object to foreclose other potential licensees. This limits other actors access to the market and may also restrict inter-technology competition. If two competitors grant each other exclusive licenses there is a risk not only for foreclosure of other actors but a risk for a reduced inter-technological competition. If there was no exclusive license, the parties could license to other actors as well and this could give new competition on the market.⁹²

Between non-competitors, exclusive licensing is block exempted up to a market share threshold of

⁸⁸ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements

⁸⁹ 62/79 S.A Compagnie Generale pour la diffusion de la Television, *Coditel and others v. S.A Cine Vog Films and others* [1980] E.C.R 881

⁹⁰ Moritz, Hans-Werner, "EC Competition Law aspects and Software Licensing, part II, pg. 518

⁹¹ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements

⁹² Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements

30 %. Above this limit, there is a risk for foreclosure if there is a limited amount of technologies available on the market. This effect becomes more serious if several licensors exclusively license different technologies to the same licensee. This may also lead to collusion between licensors that are active on the same market. However, as mentioned regarding competitors, exclusivity may give benefits, such as bigger investments and faster market penetration.⁹³

Exclusive licenses are often combined with sales restrictions. Also here a distinction between competitors and non-competitors have to be made. If an agreement between competitors include a sales restriction it is a hardcore restriction under Article 4(1)(c) TTBER. There are however some exceptions to these regulations and the exceptions are what differs between competitors and non-competitors. These hardcore restrictions are dealt with in the section about the different clauses in the TTBER.⁹⁴

Output restrictions

Output restrictions are dealt with in 4(1)(b) TTBER when it comes to competitors. This article does not cover non-reciprocal output restrictions imposed on the licensee. That kind of restrictions are excluded from the block exemption by Article 5(2) TTBER. Output restrictions may limit competition if the licensee has a relatively big market share and where the total output is limited. There are also risks that output limitations in a licensing agreement will limit the intra-technology between competing licensees. In some cases these kind of restrictions might also lead to a strengthened partitioning of the market and/or extended territorial protection. As with many other restrictions, output restrictions can be pro-competitive. The licensor may have an interest in limiting the output of products that incorporate his technology. If this was not possible, many licensing agreement might not be concluded.⁹⁵

Field of use restrictions

These kind of restrictions limits the licensees use of the licensed technology. A distinction has to be made between actual field of use restrictions and customer restrictions, that are covered by Article 4 (1)(b) and (c). The decisive factor is if the products that incorporate the licensed technology belongs to separate product markets. Having field of use restrictions in agreements between non-competitors will give the licensor the opportunity to reserve one or more product markets. This does generally not restrict competition. They can actually promote competition by giving the licensor the incentive

⁹³ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements

⁹⁴ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements

⁹⁵ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements

to license to several licensees and thereby spread the technology. Restrictions of field of use in agreements between competitors are block exempted up to a threshold of 20 %. The most important competitive restriction that may occur when using this kind of restriction is the risk that the licensee ceases to be competitive within the restricted area.⁹⁶

Captive use restrictions

This kind of restriction can be described as a restriction limiting the licensee to producing products in such quantities that only fills his own need for production and repair. These type of restrictions are block exempted up to 20 % and 30 % depending on if it concerns agreements between competitors or non-competitors. If the parties to the agreement has market share thresholds above these market shares, it has to be examined what effects the restriction has.⁹⁷

When there is a captive use restriction in an agreement between non-competitors there are two main risks to competition. First there is a risk for restriction of intra-technology competition on the market for the supply of inputs. Secondly, there could be an exclusion of arbitrage between the licensees and this could give the licensor the possibility to impose discriminatory conditions.

In situations when the parties are competitors it has to be determined if the licensee was a supplier to third parties prior to the license agreement. If he was, there may be some serious market effects. It may lead to a market sharing, especially if there is a reciprocal restraint. If a restraint like this would be combined with a limitation of the licensees own technology, it would be a hardcore restriction according to Article 4(1)(c) of the TTBER.⁹⁸

These type of restraints may, as so many other promote competition. In some cases the licensor might feel a need for having captive use restrictions so that he can spread the technology.

Tying

Tying in technology license agreements are often requiring that the licensee shall license another technology as well and not only the first technology that the licensee was interested in. If the products are not distinct, there is no tying. Distinctiveness depends on if the technologies belong to different markets. If the licensed product can not be exploited without the second, tied product there is not a case of tying. If the parties to the license agreement have market shares below 20% (competitors) and 30 % (non-competitors), tying is block exempted. There are several anti-

⁹⁶ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements

⁹⁷ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements

⁹⁸ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements

competitive effects that can occur due to tying. Foreclosure of suppliers of the tied product is one effect that might occur. When a licensee is tied to more than one technology from the licensor, he is prevented from switching to other substitutable technologies since he would face increased royalties. This may decrease competition. There are however some efficiency gains that can be seen. If the tied product is necessary to ensure a satisfying exploitation of the first technology it can be a way to ensure the licensor quality in the product that uses his technology. There are also other cases where the licensor may have a legitimate interest in tying another product to the base technology. If the licensee uses the licensor's brand or similar quality mark, the licensor might be entitled to require the licensee to license technologies that can ensure the quality that the licensor is associated with. The tying may give the licensee benefits as well. The tied technology might make it possible for the licensee to exploit the tying technology more efficiently and this could save him costs.⁹⁹

Tying in the business of software licensing can be that you have to buy hardware to get the software that you wish to license. This can be restrictive on competition if the parties are big enough. However, if the hardware and the software are closely connected and can not be replaced without changing the nature of the system, there is no tying situation. Tying of software is more common regarding Article 82 EC. When companies are in a dominant position they have a better position for forcing the other party to accept a tying clause. There is one relative new decision from the European Commission that may be of interest. The decision concerns Microsoft and the way they tied together the Windows operating system and the Windows Media Player. This will be discussed under chapter 7.

Non-compete obligations

The licensor might impose on the licensee an obligation not to use third party technologies which compete with the licensed technology. These kind of obligations are block exempted up to the market share thresholds of 20 % and 30 %. As with so many other of the common restraints in a license obligation the main competitive risk is the foreclosure of third party technologies. If a substantial part of the licensees in one market are tied to one licensor, they are with the non-compete obligation prevented from exploiting new technologies. Foreclosure effects may also appear. It might be hard for competitors to enter the market if a licensor has almost all actors on a certain level tied to him by non-compete obligations. This may lead to a similarity in technologies being used on the market. Some of the positive effects with non-compete obligations may be that the restraints may promote dissemination of technology. The licensor might be more willing to

⁹⁹ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements

license to a licensee if he knows that there is no risk of the technology or know-how is used in combination with a competing technology. In some cases a non-compete obligation may be necessary to ensure that the licensee invests in the licensed technology. There are also cases where the licensor undertakes to make certain investments specifically for one licensee. To make sure that such investments are made it might be necessary with non-compete obligations to ensure the licensor that he gets pay of for his investments.¹⁰⁰

Grant back licenses

In many cases exclusive grant back licenses to severable improvements of a technology will reduce the licensee's incentive to innovate since he will not be able to exploit his own technology in the way he would have been without the grant back obligation. The improvement can not be licensed to a third party and the licensee may not be able to recoup the investments that has to be made. It still has to be assessed if the grant back obligation can have any effect on the competitive market within the Community. If the licensor has a strong position on the market or his technology is a dominant technology it is likely that the grant back obligation will affect competition in an undesirable way. If a grant back obligation is included in agreements within a network of companies the impact of these type of agreements can be even bigger than the impact from agreements between just two actors. If there is a cross licensing agreement between two or more actors, the risk of negative effects are bigger than if there is a one way grant back obligation. If competitors share improvements with each other and exclude others from these technologies, the rest of the market can be prevented from gaining a competitive lead over the companies that participate in the cross licensing.¹⁰¹

Technology Pools

Since the TTBER only covers agreements between two parties, agreements that are made in a technology pool has to be assessed individually. The guidelines to the TTBER can be helpful. In many cases the pools can be restrictive on competition but there are some pro-competitive effects to technology pools as well. The creation of "one-stop-shops" can help reducing the transaction costs and make it easier for the licensees to have an overview over their license portfolio. The pro-competitive effects are especially clear when the technologies concerned are essential, complementary and not substitutable. If the license-in and license-out arrangements are non-exclusive, the access to the technology is non-discriminatory and the technology is licensed on terms that are fair and reasonable there is also a chance that the technology pools will lead to

¹⁰⁰ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements

¹⁰¹ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements

competitive benefits.¹⁰²

What is important to think about when assessing if a technology pool creates anti-competitive risks or has an efficiency-enhancing potential the relationship between the pooled technologies and their relationship with technologies outside the pool is important. In this respect it is has to be distinguished between technological complements and substitutes, and between essential and non-essential technologies. If a substitute technology is included in a pool this can be considered to restrict competition to an extent that would not allow for an exemption. One negative effect could be that royalties become higher because licensees do not benefit from rivalry between the technologies in question. If the predominant part of the pool is composed of substitute technologies, unlawful price fixing cartels might be the result of the arrangement.¹⁰³ Individual licenses granted by the pool to third-party licensees are treated in the same manner as any other licence agreement, i.e. they benefit from a safe harbour if the conditions laid down in the TTBER are met.

Software specific clauses

In license agreements that concern software there are often clauses that are not common in other technology transfer agreements. I will mention some these clauses and try to explain what rules that apply to these. The TTBER does not always regulate these clauses in the best way since the block exemption isn't adapted to the software industry.

When looking at the clauses specific to software licensing it is important to have knowledge about the Council Directive on the legal protection on computer programs¹⁰⁴. As mentioned above this is this directive that specifies that software shall be protected as copyright.

Article 5 and 6 of the Directive limits the rights of the rightholder. A licensor of a computer program can not limit the licensees right to use the licensed program in such a way that it prevents the licensee to take advantage of the program according to the license. Unless it is considered necessary, the licensor can not prevent the licensee from making back up copies. As mentioned in chapter 4 above, Article 5 allows the rightful user of a computer program to observe, study or test the functioning of the program in order to determine the ideas behind the program. This is allowed if it is done as a part of loading, displaying, running, transmitting or storing the program. Limiting this in the licensee would be a breach against the software directive.

¹⁰² www.benelux.les-europe.org

¹⁰³ www.benelux.les-europe.org

¹⁰⁴ Council Directive 91/250 on the legal protection of computer programs [1991] OJ L122/42 “The Software directive”

Decompiling is sometimes regulated in the license. The licensor has the right to forbid decompiling to a certain extent. If it was not at all possible to prevent decompiling the will to license would probably be decreased. It is not allowed to limit the licensees possibility to decompiling if decompiling is necessary to achieve interoperability of independently created computer programs.¹⁰⁵

5.11 Connections to other block exemptions

There are several other agreements about technology besides technology transfer. It is therefore interesting to look at the connection between the TTBER and other block exemptions. Some situations that are not covered by the TTBER will be covered by other block exemptions.

The Block Exemption on specialization and R&D agreements (No 2658/2000)

This block exemption includes situations where two or more undertakings enter into agreements for joint production of one or more technologies. It does also include regulations about transfer or use of intellectual property under the condition that this is not the main purpose with the agreement. Regulation 2658/2000 will also cover situations where undertakings form a joint company and give this company licenses to use technology owned by the mother companies. The situation where some companies agree to conduct joint research will also be covered by this block exemption.¹⁰⁶

The Block Exemption regulation on vertical agreements (No 2790/1999)

This block exemption covers agreements entered into by two or more undertakings on different levels of the production or distribution chain and that concerns conditions for the parties purchase, sell or resell of certain goods or services. This includes supply and distribution agreements. Considering that the TTBER only covers agreements between two parties and that a licensee that sells products that include the licensed technology is considered to be a distributor according to regulation No 2790/1999 these two regulations are closely connected. The agreement that the licensor and the licensee enters into will be covered by regulation No 772/2004, the TTBER and the agreement between a licensee and the buyer will be covered by regulation No 2790/1999. However, the TTBER will cover agreements where the licensee's sales are regulated. The conditions about for example distribution systems has however to be consistent with regulation No 2790/1999.¹⁰⁷

¹⁰⁵ Jerner, Magdalena, Licensavtal för datorprogram, pg. 40

¹⁰⁶ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements, pg.57-60

¹⁰⁷ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements, pg.57-60

6. Individual Assessment

Agreements that fall outside the scope of the TTBER has to be individually assessed to see if they are in compliance with the competition rules of the European Community or not. Agreements that fall outside the block exemption is for instance agreements between more than two parties or agreements between parties that have market shares above the market share thresholds in the TTBER. To be considered to be in compliance with the EC competition rules the agreement has to fall within Article 81(1) EC meaning that it does not restrict competition at all or the agreement has to fulfill the conditions laid down in Article 81(3) EC. It has to be remembered that just because an agreement falls outside the scope of the TTBER is is not illegal.

When trying to determine if a agreement is caught by Article 81(1) EC, there are several relevant factors that has to be taken into consideration. The first one is of course the market. If a market is very mature and not changing much, negative effects are more likely to occur than in a market that is more dynamic. The nature of the agreement is also an important factor. What is looked at is mainly the competitive relationship between the parties to the agreement and also the restrains that the agreement contains. It can also be important to go beyond what the agreement actually expresses. In some cases, implicit restraints can be found if the implementation of the agreement is studied. The market power of the parties will be important when determining what effect the agreement will have on the market. The higher the market share is the more likely negative effects are. Market shares are discussed a lot in the TTBER and the calculation modules that are used there can be helpful when looking at agreements falling outside the block exemption. The market strength of the actors that are parties to the agreement is compared to the market strength of competitors. The more competitors there are on the market, and the stronger they are the less chance of negative effects.

For individual actors on the market it will in many cases be difficult to asses whether their agreement is caught by Article 81(1) or not. There are guidelines as seen above and there will also be case law from national competition authorities and eventually also from the ECJ. Still, every case is unique and market shares and other conditions have to be assessed in every case. When it comes to market shares things like subsequent changes has to be taken into account¹⁰⁸. This might create a problem for companies that are close to the market share threshold.

¹⁰⁸ Comments of the Working Group “Competition Law of Licensing Agreements” at the Max Planck Institute for Intellectual Property, Competition and Tax Law (Munich) on the draft Commission Regulation on the application of Article 81(3) of the Treaty to categories of technology transfer agreements, and on the draft Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements

7. Dominant position and licensing

There are two issues that has to be considered when it comes to Article 82 and intellectual property rights. Firstly, intellectual property can be said to put the holder in a dominant position. Secondly, it has to be questioned whether it constitutes an abuse of dominant position to hold, acquire or exploit intellectual property rights. The kind of monopoly that intellectual property creates can not be seen as exactly the same kind of monopoly as the one referred to in competition law. There is a difference between legal monopoly, as the one IP creates, and an economic monopoly.¹⁰⁹

There is one area of tension between IP and Article 82 that can be identified as the main problem. It has to do with whether it is an abuse or not to refuse to allow others to use the rights of the dominant company. It is obvious that the existence of intellectual property rights will prevent undertakings to compete on certain markets. It is not therefore clear that an undertaking has a dominant position.

Article 82 is important for licensing when it comes to situations where a dominant actor, that holds an intellectual property right refuses to license this right to anyone. When it comes to patents there are rules in most national patent legislations. This is not the case with the copyright systems or software copyright systems and therefore refusal to supply intellectual property rights are a bigger problem regarding copyrights and design. The first time the ECJ considered this issue was in two cases that concerned spare parts for cars¹¹⁰. It held that the right to prevent third parties from manufacturing, selling or importing, without the owners consent, is the very subject matter of the rights of protected designs. An obligation to license would therefore deprive the owner of the substance of its exclusive right. A refusal to license can therefore not in itself constitute an abuse of a dominant position. The most important thing with this statement from the ECJ is “*in itself*” because the Court went on to say that the exercise of an exclusive right may infringe Article 82 if it involves certain abusive conduct. This can for example be charging unreasonable high price for a license or more specific to the case, to refuse to supply independent repairers with spare parts. The last statement was analogously used in the case *Magill*¹¹¹ where the question concerned the refusal of various broadcasting authorities to allow a would-be publisher of a comprehensive television listings magazine to publish their program schedule.¹¹² The ECJ stated that it was only in ‘exceptional circumstances’ that a refusal to license copyright information could be held to be

¹⁰⁹ Jones, A and Sufrin, B, “EC Competition Law”, pg. 763

¹¹⁰ Case 238/87, AB Volvo v. Erik Veng [1988] E.C.R 6211 and Case 53/87, CICCRA v. Renault [1988] E.C.R 6039

¹¹¹ Case C-241-242/91 P, RTE & ITP v. Commission [1995] E.C.R I-743, on appeal from Case T-69-70/89, RTE, ITP, BBC v. EC Commission [1991] E.C.R II-485, on appeal from *Magill* TV Guide [1989] OJ L78/43

¹¹² Jones, A and Sufrin, B, “EC Competition Law”, pg. 767

contrary to Article 82 of the Treaty and its owners be subject to a remedy of a compulsory license.¹¹³ The Magill-case is important for the software industry since it is about compilation, even if it is not electronic compilation. The first judgment in the Magill-case came at about the same time as the computer programs directive¹¹⁴ and in the judgment it was expressed that it should be applied to software.¹¹⁵

In the *IMS* case¹¹⁶ the ECJ seemed to make it a point to indicate that although the Magill conditions were cumulative, they did not offer an exhaustive definition of the test of 'exceptional circumstances'; it carefully referred to Magill as a case in which the Court held that 'such exceptional circumstances were present in the case ...'. The Court also held 'that it is clear from the case law ... that "it is sufficient" (rather than "it is necessary") to satisfy the three Magill criteria in order to show an abusive refusal to license'¹¹⁷.

7.1 Interoperability

In the information technology sector there is a particular kind of refusal to supply that can arise in respect of "interface information". When companies provide software they need to make products that can operate together with other systems and programs and with hardware. This is what is called interoperability. To make a product compatible with others it requires access to interface information which is information about the systems and programs of other products. This information might be protected by intellectual property rights. It may be obtainable by decompilation but this might be impossible or not practically feasible. If one undertaking has such a significant market power on the software market it may be crucial to the competitors that their products are compatible with those of the dominant undertaking.

There are some cases from the ECJ and some decisions from the Commission that has dealt with interoperability. The first time the Commission addressed this was in 1984 and it concerned IBM's System/370. The Commission alleged that IBM had abused its dominant position by failing to supply other manufacturers with interface information needed to make competitive products work with IBM's System/370. A settlement was reached and IBM undertook to disclose sufficient information to enable competitors to attach hardware and software to System/370.¹¹⁸

¹¹³ Anderman, S, EC Competition Law and Intellectual Property Rights: The Regulation of Innovation

¹¹⁴ Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs

¹¹⁵ Jerner, Magdalena, Licensavtal för datorprogram, 1998

¹¹⁶ Case C-418/01, *IMS Health GmbH & Co OHG v. NDC Health GmbH & Co KG*, [2004] 4 CMLR 1543

¹¹⁷ *Ibid*, para 36

¹¹⁸ XIVth Report on Competition Policy (Commission 1984) parts 94-5

The Microsoft Decision

In 1998 the Commission opened an investigation into the software company Microsoft. The decision given in 2004 has gotten a lot of attention in the press and I will briefly go into this decision. The investigation focused on two different parts. I will start with giving an overview of the first part of the decision and explain what the outcome was. I will then shortly explain the second part of the decision even if that refers more to tying and bundling than licensing.

The investigation was opened due to a complaint by Sun Microsystems. The complaint from Sun concerned the refusal of Microsoft to disclose sufficient interface information to enable Sun and other actors to create workgroup server operating systems that would operate with Microsoft's Windows desktop and server operating systems. Microsoft has about 95 % of the PC operating system market and consumers buying workgroup servers want to have products that can operate together with Windows and other applications from Microsoft. Microsoft argued that their competitors could access the relevant information by reverse engineering and thereby achieve interoperability. The Commission agreed that reverse engineering might be possible but that reverse engineering of programs such as Windows would require “considerable efforts with uncertain chances of success”¹¹⁹ and that the viability of the products produced would depend on Microsoft not breaking the compatibility by for instance upgrading the operating system and not making it backwards compatible.¹²⁰

Further Microsoft argued that if the Commission would find the refusal to supply interoperability information to be an abuse this would “upset the careful balance between copyright and competition policies”¹²¹ struck by the Software Directive¹²². Microsoft pleaded an ingenious interpretation of Article 6 of the Software Directive. According to their reasoning they were already disclosing sufficient information and had therefore not committed an abuse of Article 82. Microsoft argued that the full interoperability that is required by the directive was satisfied when all of the functions of the developer's program could be accessed from a Windows client operating system. This argument was rejected by the Commission and they held that “information necessary to ensure that the decompiled program works as intended in interoperating with the independently created program is information covered by the derogation provided by Article 6”¹²³.

¹¹⁹ Commission Decision C(2004)900 final of 24 March 2004 relating to proceedings under Article 82 of the EC Treaty (Case COMP/C-3/37.392 Microsoft)

¹²⁰ Jones, A and Sufrin, B, “EC Competition Law”, p. 458, 512 and 762

¹²¹ Microsoft's submission of 17 Nov. 2000, see para 743 of the Microsoft Decision (COMP/C-3/37.792)

¹²² See above chapter 4

¹²³ The Microsoft Decision, para 762

A third argument that was rejected by the Commission was that Microsoft considered that if it was required to disclose interface information that would go beyond what could be ascertained through reverse engineering under Article 6 it would amount to a compulsory license which was not consistent with the Community's obligations under TRIPS¹²⁴.

The Commission's final decision on this point was that Microsoft had to, “within 120 days of the date of notification of this Decision, make the Interoperability Information available to any undertaking having an interest in developing and distributing work group server operating system products and shall, on reasonable and non-discriminatory terms, allow the use of the Interoperability Information by such undertakings for the purpose of developing and distributing work group server operating system”¹²⁵. The Commission emphasized that Microsoft was under no obligation to reveal source code. A fine on almost 500 million € was also imposed. Microsoft appealed for suspension of the operation of certain articles¹²⁶ in the Commission Decision but the request was rejected by the CFI.

The second part of the decision related to tying. Microsoft supplied its Windows Media Player as a package with its Windows operating system. According to the Commission's final statement this tying meant that competition from other media players was stifled since it led to a circle where WMP caused companies such as software developers to develop products geared to the WMP. Thereby the WMP became even more attractive to consumers. The Commission said that Microsoft's conduct “weakens competition on the merits, stifles product innovation, and ultimately reduces consumers choice”. The outcome was that Microsoft, within 90 days from the decision had to supply the European market with a version of Windows that did not incorporate the WMP.¹²⁷

Conclusions of the Microsoft decision

This decision has been given a lot of attention and it is interesting to note that the US Justice Department has expressed that it does not like the Commission decision on the media player part. Assistant Attorney General for Antitrust, R. Hewitt Pate, who was the one writing the Justice Department's statement on the Commission's decision calls it unfortunate that this kind of fine is imposed in an area of unilateral competitive conduct since this is “controversial area of antitrust enforcement”¹²⁸. The decision on interoperability has not been that criticized by the US since it is a decision that is more overlapping with the US approach.¹²⁹

¹²⁴ The Agreement on Trade-Related Aspects of Intellectual Property Rights.

¹²⁵ The Microsoft Decision, Article 5(a)

¹²⁶ Articles 4, 5(a) to (c) and 6(a)

¹²⁷ Jones, A and Sufrin, B, “EC Competition Law”, page 458

¹²⁸ http://www.usdoj.gov/atr/public/press_releases/2004/202976.htm

¹²⁹ http://www.usdoj.gov/atr/public/press_releases/2004/202976.htm

When reading at the Microsoft decision it can be found that the Commission, in a way, says that the essential functions of an IP right has a limit where the information protected is an essential facility. This means that there has to be a balance between individual rewards for creativity and the general public good of innovation. It can however be hard to determine when interoperability is an essential facility. How much interoperability can be said to be essential? If we require interoperability to a certain degree, will it hinder innovation?¹³⁰

¹³⁰ Carsten Reimann, Essential Function vs Essential Facility: Defining the amount of R&D protection in high-tech industries after IMS and Microsoft

8. Concluding Comments

8.1 Licensing in Europe

Competition policy has had a huge impact on the creation of a single market within the European Union. The competition rules has also played an important role in the Community's development. So has IPR and licensing. Licensing of technology and IPR's are big markets that becomes more and more important. However, licensing can create both negative and positive effects on the competitive climate within the Community. It is considered to be positive if technology is spread and made accessible to more than one actor on the market. By licensing IPR's this can be made possible and the IPR holder has control over the technology. At the same time they get revenues which hopefully is used for development of better products. Licensing may also create anti-competitive effect on the market. There might be an increased risk of collusion and inter-technology competition between competitors that produce products on the basis of the same technology may be reduced¹³¹.

Licensing of software is an area that is increasing rapidly and that up until last year has been not been covered by the Technology Transfer Block Exemption. When the new TTBER came it included software but there are still differences that has to be considered when comparing licensing of “regular” technology and software. There are often some other clauses included in software licensing agreements than in other agreements. It can be argued that these differences has not been analysed enough before the decision was taken to include software in the TTBER. Time will show if the TTBER will fill its function regarding software or if there needs to be any changes made to adopt this block exemption to the software industry or if the software industry will have to adopt to the TTBER.

8.2 TTBER

The competition rules in the EC has gone through a change recently and to create coherence the TTBER needed to be changed. From being a rather formalistic regulation we now have a regulation that is supposed to take a more economic and effect-based approach.¹³²

The new TTBER has in many ways made technology transfer easier. As said above, software is now included in the block exemption and is therefore more equal to other technology. However, the fact that software has been included in the TTBER has also led to problems. The TTBER is not really

¹³¹ Draft Commission Notice, guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements

¹³² Commission Evaluation Report on the transfer of Technology Transfer Block Exemption Regulation N. 240/96

written to suit licensing of software. The block exemption is still aimed at regulation the “old” technology transfer, such as patented technology or technology that is used to manufacture certain physical products.

The fact that individual exemptions no longer are granted by the Commission has made people believe that it is all up to the companies now, without having any guidance. That might not be really true. It is up to the companies to make the first assessment but the national competition authorities will have the power to supervise the actions of the companies and a case law will be developed very soon. This will give the companies something to lean back on and use when they make their assessments.

8.2 Dominant position and licensing

Regarding dominant position and licensing the focus of this thesis has been interoperability even if some other things has been mentioned. When it comes to dominant position and licensing there are many questions that has to be answered before a case is settled. The question about whether a firm is dominant or not has a lot to do with market shares. How they are calculated is complicated and a subject that would require a thesis of its own to clarify. Once dominance is established the question about abuse comes in. Not supplying competitors with information to make interoperability possible has in more than one case been seen as an abuse. However, there has to be limits to when this kind of refusal is an abuse or not. IPR's are supposed to protect innovators rights and it has been argued that the requirements to supply information for interoperability can limit the incentive to innovate. Therefore it is of great importance that there is a balance between these two factors. If interoperability would not be possible to the extent that it is, innovation would be hindered. Companies would not be able to develop products that interoperate with others and the consumers would be limited in their choice. On the other hand, if the requirements to supply information for interoperability is drawn to far, we risk ending up in a situation where companies do not want to put resources in innovation since their competitors will get a “free ride”. The Commission made it clear in the Microsoft decision that revealing source code was not included in the information that the company had to release. This way the company that originally came up with the idea will still have an advantage when it comes to the development of products.

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