



UNIVERSITY OF GOTHENBURG  
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# **A Practical Study How to Lower Costs and Time Negotiating Licensing Deals between Small and Large Companies**

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## 1 ABSTRACT

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*Large and small companies of today struggle with technology in-licensing. Experience is that deals like those are costly, time-consuming and often break down during negotiations. This paper will investigate a specific core scenario from a legal perspective; based on interviews and literature. Interviews will be performed to study the interests of small and large companies and the problems they encounter dealing with technology licensing.*

*The analysis indicates that large companies have an organizational power structure that pushes standardized rigid agreements, with an effect of limiting the sphere of freedom for smaller companies. It furthermore shows that interests of the both companies differ on topics such as how to regulate the transfer of the technology, ownership of improvements and confidentiality.*

*The results show that legal tools can be used to balance interests, problems and incentives of the actors to create value for both parties in such a core scenario.*

*by Jakob Elander*

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## 2 OBJECTIVES OF THE THESIS

This thesis is meant to irradiate the different interests and problems large and small companies experience with technology transfer in the setting of the core scenario explained below. The findings will be used to analyze the core scenario explained below from a legal perspective and what legal considerations can be made to make the deal more effective from the perspective of the interests of the actors. Identifying key elements from the factors in the core scenario above, and posing key questions which parties, might seek to answer in a situation like the above will help in this effort.

This thesis will have a dynamic, creational focus of promoting trade and technology transfer and getting a win-win deal for both sides. It will not focus on an enforcement perspective, instead it will focus on a value creating aspect, where features like technology transfer, win/win situations and good deals are the core of the material produced.

## 3 BACKGROUND

As the modern economy is transformed more and more from a traditional value chain economy to an economy based around knowledge; Intellectual Property (IP) is seriously challenging firms of all sizes,<sup>1</sup> being one of the core building-blocks for business.<sup>2</sup> Many companies today realize that their economic reality is centered on IP, intangibles and the management of those. What companies have started to understand is that the claiming process can not only be used as ways to block others, but as building blocks to enable co-development, patent pooling, open innovation and alliances.<sup>3</sup> The essence of claiming an asset enables it to be shared, transferred and thus also to be capitalized upon. Intellectual property, as with other intellectual things like an idea, a thought, etc, is not something that is claimable per se. To be able to claim an intellectual asset like a logo, idea, technology; structures must be in place to enable the building of an Intellectual Property Right (IPR). To enable the building of IPRs, concepts like property rights, the idea of intellectual property, the ability to own intellectual property, has to be in place. And for the IPR to be tradeable, intellectual structures, such as ventures, markets, relations, etc, has to be in place to govern the transactions. Then, and only then, can the IPR be transferred into value, and packaged as a value proposition, thus transferred into wealth, in the real world (or constructed world if you like).<sup>4</sup>

But the transformation of the intellectual asset into wealth is far from straight forward and simple. It can be argued that dealing with innovation and new technology, the transformation is governed by a series of structural processes which are hidden behind the structural complexity of the institutional/intellectual order.<sup>5</sup> This means that the very concepts that we created to aid us in the creation of wealth from intellectual assets, are in fact acting as veils to hide the cognitive complexity from us. We are not, and probably cannot in general be aware of how "theoretical claims, norm experiences, power struggles, manipulation and moral considerations" all come into play in the creation of innovation, ventures and markets.<sup>6</sup> Given this, we need to use theories to deconstruct social reality, to actually be able to see and act behind the veil.

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<sup>1</sup> Blaxill (2009) p.10ff

<sup>2</sup> Petrusson (2004), p.2ff

<sup>3</sup> Phelps (2009).

<sup>4</sup> Petrusson (2004), p.11ff

<sup>5</sup> Blaxill (2009, p.138f

<sup>6</sup> Petrusson (2004), p.11ff

Deconstructing society is one way to be able to comprehend the structural complexity of the system by looking at one part at a time. Technology transfer is a complex structure of claims, interests, culture, contractual bonds, communicative language, etc. When trying to understand the interconnectiveness of all the factors that come into play, it might be good to start looking at the different arenas in which the different factors act within.

## 4 CORE SCENARIO

This thesis will focus on investigating a certain core scenario developed by CfBI<sup>7</sup> and OI-2<sup>8</sup>. In the scenario, a larger technology manufacturer (below referred to as "Largo") is in the development phase of an innovative piece of technology which will feature some new functionality. Largo needs to add new functionality and has by thorough investigation stumbled upon a smaller component provider (below referred to as "Smallo") whom can design and integrate the kinds of products into the larger kit that is the need of Largo.

Both companies want the deal to be a technology transfer deal. Largo wishes to collaborate with Smallo on an open and no commitment basis. Smallo's objectives have yet to be considered. The collaboration should have the following features:

- A license will be given to initial technology
- Ownership over improvements made to the component and to the functionality of the technology into which the component is transferred
- Other features to be considered are:
  - Access to know-how
  - Confidentiality
- Both parties free at the end of this arrangement to go their separate ways with no claims made by either

## 5 THEORETICAL FRAMEWORK

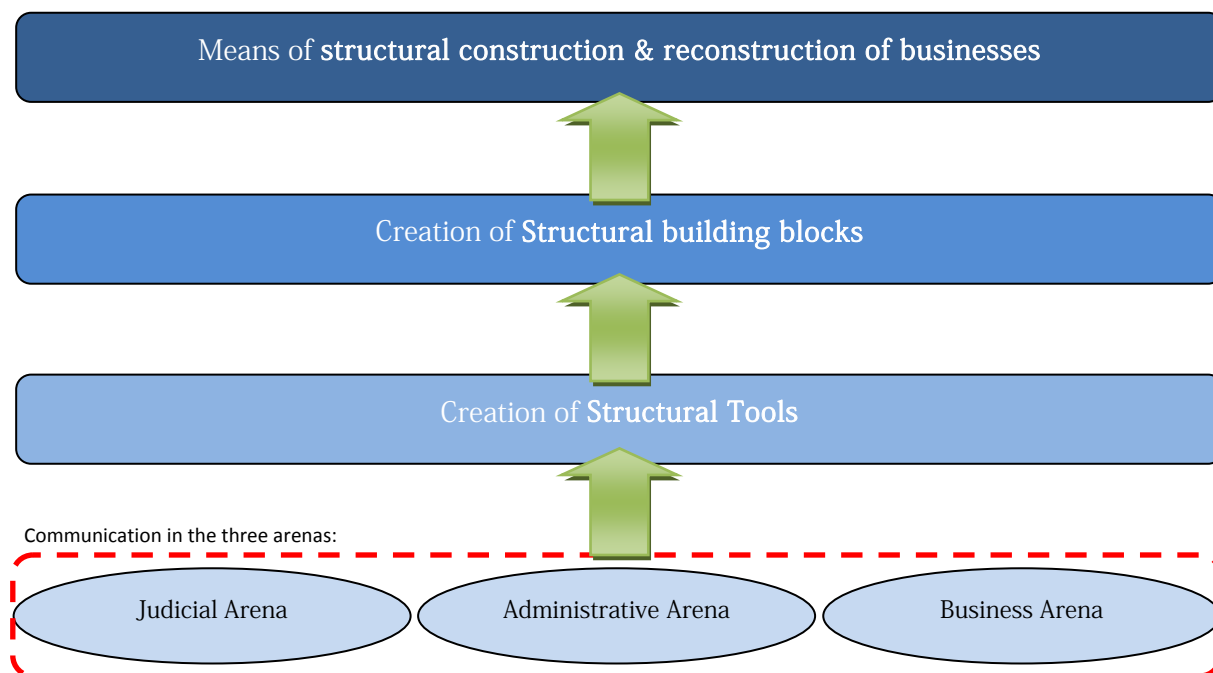
### 5.1 THE THREE STRUCTURAL ARENAS

Intellectual property is created from a communicative process in three different arenas.<sup>9</sup> In the core scenario this might mean that an invention can be designed into a patent application in the business arena, creating a structural tool that will be communicated to the administrative arena where it will be claimed and granted. This might create a valid patent, or in other words a structural building block, which can be used to construct or reconstruct business, in our case in the form of a licensing agreement. The licensing agreement can on the other hand be challenged in a law suit in the judicial arena. But before we move on further, let's quickly go over the different arenas.

<sup>7</sup> Centre for Business Innovation, Cambridge, UK (<http://www.cfbi.co.uk>)

<sup>8</sup> Open Innovation Consortium

<sup>9</sup> Petrusson (2004), p.102-103



### 5.1.1 THE ADMINISTRATIVE ARENA

The administrative arena is the place where IPRs are claimed, through communication, and granted. It consists of structural persons such as patent offices and courts of appeal. Actors involved in the communication in this arena are for example patent examiners and patent attorneys. This arena is largely governed by a formalistic procedure and includes for example: policies, regulations and guidelines.<sup>10</sup>

The administrative arena can also during a certain time after the IPR is granted host invalidation processes. During the given time period, those cannot be raised in any other arena but the administrative.

Some IPRs are never communicated through an administrative arena, such as copyright or trade secrets. The protection of those assets is granted by law when fulfilling the criteria. If someone wants to invalidate an IPR that is not communicated through the administrative arena, they have to raise the complaint in the judicial arena.<sup>11</sup>

Failure to design the claim of an asset, say in our case, to claim a patentable invention without claiming the right novel technical solution, might lead to the claim not being granted in the administrative arena, and in the worst case the patentability destroyed because of disclosure to the public.

There are many differences between smaller and larger companies in this arena. One of them is the monetary difference, where de facto; large companies have more money than smaller companies to put on seeking IP protection. A smaller company will not have the money to design their protection in the same way as the larger companies and will therefore have to compromise on the IP side more often than larger companies, because of the high costs of IP protection and legal/IP advice.

<sup>10</sup> Petrusson (2004), p.103

<sup>11</sup> Petrusson (2004), p.114



Furthermore, this arena can be national or regional. An example of territorial is the administrative arena of patents in the European Union, EPO.

### 5.1.2 THE JUDICIAL ARENA

When upholding IPR protection or the law as such, the judicial arena is the core. Important actors within the judicial arena are judges, prosecutors and lawyers who play substantial parts in upholding and developing this arena. The judicial arena is the core of a state, or where the structural fundament of the nation is upheld. Authority for nations to withhold protection for IPRs are held here, also the authority to judge and punish the actors that are not compliant with the rules of the arena will reside in this arena. The construction of technology transfer deals are limited by the rules of the judicial arena. Those rules are changed through legislation and through case law. Knowing how to construct assets and how to communicate within this arena is crucial to success.

Furthermore, the struggle of the judicial arena is a communicative power game, in which experts will have to be hired. Enforcing IP protection can be very costly due to high costs of legal advice. This often puts a smaller company in a situation where they are unable to enforce an IPR/contract because of monetary issues. Many times a smaller company is sued, and because of the long waiting in the courts and ways to appeal a judgment, the smaller company has a large chance of running out of cash before the litigation is done and might end up bankrupt before the final judgment falls.

This arena can be used to validate IPRs that are not validated (such as copyright, etc), or to oppose IPRs that are invalid (such as trademarks).

Moreover, it has to be pointed out that this arena is national, and not international.<sup>12</sup>

### 5.1.3 THE BUSINESS ARENA

Thirdly, in the business arena, business decisions are made about a company's commercial strategy, IP strategy, business plans are formed, etc. In other words, in the business arena, the company designs the business of the company. Since in today's knowledge economy, much of the decisions are based on IPRs, this arena will be closely linked to both the administrative and the judicial market. Few companies in the world, if any, have the market strength to by itself run business without the need of IPRs.<sup>13</sup>

In this arena, companies decide what strategies that are going to be used in the other arenas, such as the design process, validation process and the construction process of IPRs.

Furthermore, when entering into a negotiation between a large and a small company, both companies will have not only different interests, but also different weights at the negotiation table. A large company will be able to put more pressure on the smaller company, while the smaller will have to bow for many things that the larger company will propose. This can be because of that the larger company might have more resources and more contacts to other actors that might have a similar technology, it might also be that the smaller company will be dependent on signing the deal, while the larger company will mostly be wanting to improve their product or add more profit margin and this might be one option to do that.

Moreover, the business arena is international and important actors here are companies.

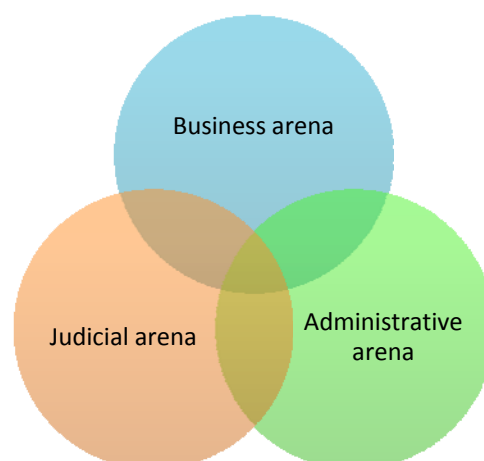
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<sup>12</sup> Petrusson (2004), p.105

<sup>13</sup> Petrusson (2004), p.106

#### 5.1.4 CONNECTING THE THREE ARENAS

It is obvious that in ordinary life of businesses, the manager will find himself managing all three arenas at the same time. (S)He will also find that the arenas are all interconnecting with each other and making a strategic business decision will involve how you construct and design the protection of the assets the company is building upon. To further complicate matters, the assets that are at stake have to be analyzed as to whether or not they have a valid protection, and if and in what arena that protection can be upheld. Failure here to communicate over the boundaries of the arenas can end up devastating to a company. Thus when designing and constructing valid IP protection it is crucial to know how to move in all the arenas. In a specific case one has to know how to communicate with the administrative arena to gain protection. That protection might have to be validated in the judicial or administrative arena to surely be upheld. And the protection has to be designed using legal tools in the judicial arena, but has to be made from the perspective of the business arena and the business plan of the company to design it to fit the company strategy. In this world, everything is connected, and it is obvious that it takes skill to master the complexity of decisions.<sup>14</sup>



## 5.2 PRINCIPLES OF EU LAW

EU law is built up around four freedoms that are tightly knit together; those are the free movement of goods, the free movement of capital, the free movement of services and the free movement of persons. Those are the underlying core principles when dealing with anti-trust law and come into play in the new paradigm of art 101, namely when analyzing competitive harm versus competitive benefits. The principles expressed under art 101 are to safeguard competition to foster welfare of customers and an effective resource allocation. These principles can be used to establish an objective ground for assessing the benefits and harms of technology transfer agreements and weighing of interests of different companies engaged in the core scenario. Using the principles that lie behind the establishment of EU Law can serve as a common objective denominator in assessing the effects of restrictions and non-restrictions in technology transfer in deals like the core scenario.<sup>15</sup>

### 5.2.1 COMPETITIVE HARM VS. COMPETITIVE BENEFITS

According to EU law, for the individual assessment of a licensing agreement, competitive harm is put in relation to competitive benefits. Competitive harm is generally not wanted, or at least not wanted if it is not 100% needed to obtain the benefits, and then the benefits have to outweigh the harms. Such a weighing of interests will take into account interests of technology diffusion, customer benefits, restrictions to competition, etc. This will be elaborated upon below.<sup>16</sup>

<sup>14</sup> Petrusson (2004), p.106

<sup>15</sup> TTBER, para 5ff

<sup>16</sup> Anderman (2006), p.129

### 5.2.1.1 *Competitive benefits*

When it comes to licensing, the commission has argued that in most licensing agreements the competitive benefits outweigh the competitive harm because of that they foster the transfer and spread of technology.<sup>17</sup> This is the case since the commission heavily weights the principles to foster transfer of technology and incentives for innovation into the guidelines. The TT guidelines further states that when weighing competitive harm versus benefits; not only the risk and the large investments in the technology as such should be taken into consideration, but also the investment in other technologies, by the company, that may or may not have been as successful will be taken into account.

In order not to limit the dynamic competition that innovation creates, and to encourage such investments, the right to exploit IPRs that are valuable should not be limited by competition law more than necessary.<sup>18</sup>

When licensing a technology or engaging into a licensing deal one allows for a dynamic efficiency that comes out of allowing companies to produce new products, techniques and ideas that reach the consumers faster than if just one company would build it all by themselves. When cross licensing or sharing technology the effect is almost always a higher diversity of products than before. When sharing technologies, more companies can use a more diverse pool of technology and competition occurs when companies are able to choose the best for them. And since the company that invented the technology is not always the best at exploiting it, because of lack of other technology or insufficient funds to develop it, licensing can put the technology in the hands of the best suitable company to use it. Furthermore there is also the effect of access to more technology and complementary assets can open up a R&D field to a company that before was pinned down because of protective measurements from other companies IP strategies. Therefore that company will be able to expand and innovate without the risk of infringing upon another company's IP. Finally, licensing out technology gives companies access to more technology, thus increasing the chance of synergy effects.<sup>19</sup>

### 5.2.1.2 *Competitive harm*

As said above, EU law shows that competitive benefits of competition should be put in relation to competitive harm when assessing a technology transfer agreement, except when hard core restrictions are included. When it comes to licensing, EU law puts weight on issues like technology diversification, technology spread, customer product diversity and customer benefits. That means everything that works against those principles will be harmful. Apart from that, EU law puts emphasis on that restricting competition or in any way reducing the freedom of companies on the market brings competitive harm. Questions like; if the agreement as such restrict potential or actual competition and if the restriction of competition should have been on the market if the agreement was not in place, are heavily weighted as harmful to competition in EU law. Furthermore the aspect of if a certain provision or agreement brings harm to the customers are also weighed heavily and the bigger the company is, the more chance there is for the company to assert harm on the society, customers or the market.

The societal benefits stand in relation to the competitive harm that a company can assert on a market using licensing agreements with non-fair and non-reasonable terms. Since licensing is not giving away technology as such, but granting conditional access to a technology. Those conditions can ei-

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<sup>17</sup> TT Guidelines, para 9

<sup>18</sup> TT Guidelines, para 8-9

<sup>19</sup> Anderman (2006), p.103ff

ther benefit the market or harm it. Harming the market is easily done by restricting the freedom of another company to operate or compete with your own company, or by licensing out under the conditions that the other company is allowed to sell under specific terms and prices. This will hinder the company to set own prices, thus restricting its freedom. Other restrictive measurements that can be potentially harmful are limitations in territory, active or passive sales, freedom to sell/use/move into new markets, etc. As said above; one of the principles of assessing competitive harm is if the limitations will affect end customers. If a provision is deemed to raise prices, restrict the diversity of products, etc. for end customers, they are restrictive and may be illegal. Another principle that EU law operates under is that it is not allowed to create anti-competitive foreclosure to a market or a country, except in some specific cases (for example; when a technology is groundbreaking and foreclosure is permitted within a certain period of time to be able to build the market)<sup>20</sup>. This is the principles of the four freedoms in action. Finally, it may be against EU principles to restrict inter technology competition and decreasing the amount of technology on the market by agreements between companies.<sup>21</sup>

## 6 METHOD

### 6.1 THE PROBLEM

#### 6.1.1 PROBLEMS OF THE ACTORS

This thesis will first investigate what interests and problems large and small companies experience involving technology transfer in the context of the core scenario. This part will be presented under "Investigating technology transfer" below and will be based on interviews with large and small actors. Questions from the core scenario will be asked regarding what problems the actors are experiencing with technology transfer in the setting of the core scenario. Asking those questions to both larger and smaller companies will get a broader picture of what is experienced as a problem from both sides.

#### 6.1.2 INTERESTS OF THE ACTORS

Secondly, this thesis will identify different interests of the actors related to technology transfer deals in the setting of the core scenario and how this can affect the considerations that actors make when negotiating and signing deals. What we want to know is the interests and goals of the different companies, the most important assets to protect. Investigation will be performed by interviewing small and large actors asking questions based on the core scenario, focusing on the core interests and goals of the company, both from a business perspective and from a legal perspective.

The information obtained will be used to analyze of interests and goals of the actors and will be presented in "investigating technology transfer" below.

#### 6.1.3 LEGAL FRAMEWORK

Thirdly, the thesis will examine the core scenario, dealing with technology transfer from a legal perspective. The analysis of the legal framework will be based on the interests of the actors and analyzed through the filter of the theoretical framework. This is to be done by reading articles and books on

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<sup>20</sup> Anderman (2006), p.121

<sup>21</sup> Anderman (2006), p.105-129

the subject and weighing interests of actors and society against each other to analyze the different effects different legal setups will have. This part will be presented under the topic "Analysis".

Finally, all the material will be weighed together in a final step to analyze how to make technology transfer more effective between actors in a setting like the core scenario.

## 6.2 INFORMATION GATHERING

Information will be acquired with the help of books, articles, internet and written content. But since much of what is written, is based on the focus of what happens in courts and not the value creating aspect in which technology is transferred, content needs to be added.

Therefore to acquire the appropriate information considering the interests and the problems of the companies, the writer will perform a series of interviews with key people in large and small companies, lawyers working with technology transfer and key people in organizations working together with CfBI<sup>22</sup> to acquire a more accurate picture of what are the most important interests and problems for companies concerning deals like the one above.

For the legal analysis, books, articles, internet and written content has been used to help perform the analysis.

### 6.2.1 INTERVIEWS

Interviews have been carried out with representatives from 12 companies, including the following: Philips, WIPO, Nokia, GSK, Deutsche Telecom, Scottish Enterprise, EADS, HP and a couple of other actors that cannot be mentioned. The interviews have been performed with people in different areas of the companies to get a more holistic picture of the subject. The interviewees from the large companies have a variety of backgrounds including; IP law, business law, Intellectual capital management, business development/management, business administration, engineering (technology/software) and come from a variety of divisions, including: IP and Licensing, R&D, Legal, Business Development and strategy, Commercialization, etc. In the smaller companies a number of legal counsels have been interviewed. Performing interviews with large and small companies will give a better picture of what the real problems look like from both sides of the coin. Doing interviews with many different areas of the company will give better insight into the interests and the problems of the whole company.

The interviews have been performed to investigate and identify problems and interests of small and large companies in negotiating technology transfer deals. The interviews have been performed using a "semi-structured interview method".<sup>23</sup> This means that the interviewer had a series of questions, grouped into topics that were brought up. But the interviewee was given freedom so that new questions could emerge during the interview and related topics could be discussed. The topics that were covered were: the problems, interests and goals of both companies from a legal and a business perspective. The questions are chosen in order to analyze and identify incentives of the actors, which will be used in the analysis of how to, from a legal perspective, make the deal more effective.

The method was chosen because it gives the interviewee freedom to describe the interests and the problems without guiding him/her too much. It also facilitates the needs of the interviewer to explore, learn and understand the problems and interests that spring up in real cases in the industry

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<sup>22</sup> Centre for Business Innovation, Cambridge, UK

<sup>23</sup> Silverman (2008), p110

for small and large companies. Using a semi-structured interview method makes the interview flexible and less formal, making the interviewee feel less threatened by the interviewer. Introducing the interviewer as a master thesis student also gave more credibility and gave further insight into the work of the company. Another factor that added to the level of insight was the establishment of a NDA. This NDA allows for the publishing of the analysis of the interviews and the names of the companies that have precipitated as long as it cannot be understood who was interviewed, or specifically what company that gave what information.

Interviews have been made on site in Cambridge, by going to the company and interviewing one by one, over the phone and at the OI consortia meeting.

The part "investigating technology transfer" will be built mostly on interview material.

There are limitations in what will be used from the interviews that have been learned while doing the interviews. People at higher levels in the larger company tend to drive the agenda of the company to a high degree, and therefore some answers can be overly optimistic. This has also been taken into consideration and weighted against the rest of the material. Moreover, the small companies are harder to get in touch with and when contact has been established, they have forwarded the question to their legal counsel at their law firm or the in-house lawyer. To acquire more credibility on the small companies' side, interviews have also been performed with governmental bodies that act to help the small companies in deals concerning technology transfer.

The method used will let the companies themselves speak about how they perceive the core problems themselves. Using interviews we get access to real life problems talking to the people working with them. A problem here is that there is confidentiality when talking to large and small companies. They are not allowed to give you input into certain deals and can only give general feedback without asking legal first. In cases where the smaller companies have been contacted, they have forwarded the discussion to their lawyers working at different law firms. The law firms cannot give any information on specific actors due to confidentiality, and even the smaller company cannot give information because of the confidentiality between them and the larger actor.

### 6.2.2 MATERIAL

Additional materials that will be used are books, legal texts, case law, articles and licensing agreements. Those sources have been addressed in the writing of the section "Analysis".

In order to get hands on experience, and a deeper understanding of licensing and contract law, two contracts regarding real deals were gathered from the consortia members to study. To study and get an accurate picture of the way to regulate different issues concerning IP rights in license agreements and know how to study the agreements given to the writer, discussions was held with the supervisor, two consortia lawyers and three lawyers that represent or work for smaller companies, to gain more knowledge in the field beyond what written content can give. The interviews, studying of agreements and the discussion will help bridge the gap which is otherwise created between the academic normative approach and the operational approach of business. A setback in this scenario has been that many companies simply did not share their license agreements at all and it has been very hard to get hold of anything useful contract-wise. Licensing agreements have been used to analyze the different building blocks, such as how to deal with confidentiality, improvements, know-how, etc, that can be used and to see how they are used in a deal like this by smaller and larger firms. This is another way of getting insight into real case scenarios.

Finally the writer has been part of consortia negotiations between parties to further enhance the understanding of consortiums and the companies involved therein. During those, the writer got insight into how larger companies tend to address issues like technology transfer and their attitudes against smaller firms in general. In general, what the writer learned was that there is an inflexible tendency among larger companies to dictate the content of the deal to a large extent; especially control of IP and improvements the agreements.

The "analysis" part, the "theoretical framework" and to a certain degree the "investigating technology transfer" will be built on this material.

## 7 RESEARCH QUESTION

1. Which interests and problems are small and large companies experiencing with technology transfer in a core scenario based on licensing initial IP and ownership over improvements to the initial IP, the access to know-how and how to handle confidentiality between the parties?
2. What are the problems from the legal perspective concerning the specific licensing agreement in, in the light of the interests of the actors, with technology transfer in a core scenario?
3. Which conclusions as regards to the agreement can be drawn from the analysis conducted in questions 1 and 2, in order to increase the value for both parties in such a core scenario?

## 8 DELIMITATIONS

The thesis is limited to the "core scenario" set forth in the background and to the limitations that the proposed method gives. It is also steered by the objectives of the thesis and thus may not include other possibilities. Furthermore it will have a creational focus, meaning the focus will be by legal considerations create a license deal that help incentivize the actors to get the best possible out of the deal,<sup>24</sup> and not have the focus on what happens in courts. Furthermore, the thesis will deal with the core scenario from a legal perspective and principles of the theoretical framework.<sup>25</sup> The thesis will furthermore be limited to Swedish law and as far as competition law goes; EU law.

Moreover, the thesis will not focus on the specific legal arrangements of Territorial limits, since when it comes to the core scenario and technology transfer there is little or no incentive to split the market territorially. It will be assumed that the large company does not want to sell their device to specific territories, but rather in different field of uses.

Licensing has been chosen as the method for the technology transfer. This decision was based on the facts that the companies that were interviewed used this to a larger extent in cases like the core scenario and the smaller companies would prefer it to be licensing.

The interviews are limited to the fact that companies and lawyers that were interviewed have confidentiality obligations. That means that, especially smaller firms and lawyers were limited to giving general information and cannot normally go into detail on specific cases.

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<sup>24</sup> From the perspective of the actors and the theoretical framework

<sup>25</sup> Economic and psychological/cultural concepts have been left out here and even though analyzing them would be highly relevant to the negotiations of the deal as such; an analysis thereof would stretch way past the time that is set apart for this thesis.



The material is limited, due to the lack of good literature on this topic. And if there is literature, most of it concerns US law. The core scenario will be analyzed from the perspective of EU and Swedish anti competition law.

The access to usable licensing agreements has been limited. Even though licensing agreements were shown to me, most of them were involving technology transfer between large companies and academia.

## 9 CORE SCENARIO MODIFIED

### 9.1 CORE SITUATION

The master thesis will comprise of partly a project together with CfBI (Centre for Business Innovation) and the Open Innovation Consortia and partly an academic master thesis for Graduate School, University of Gothenburg. Dr. Peter Hewkin (CEO of CfBI) and Iain Russel (CEO of IA Centre) will act as mentors from the CfBI side, whereas Caroline Pamp will act as supervisor on the GS side. CfBI has contributed with the "core scenario" above.

### 9.2 INITIAL CORE SCENARIO AND WHY THERE HAS BEEN MODIFICATIONS

This section will show what the initial core scenario looked like and why it has been changed.

Changes have been made to the core scenario to make it more balanced towards the small company's perspective according to the goal of the deal and to fit with the above delimitations.

#### 9.2.1 INITIAL CORE SCENARIO

The initial core scenario has been changed to account for the information that was extracted from the interviews. Changes appear in red.

This thesis will focus on investigating a certain core scenario. In the scenario, a larger technology manufacturer (below referred to as "Largo") is in the development phase of an innovative piece of technology which will feature some new functionality. Largo needs to add new functionality and has by thorough investigation stumbled upon a smaller component provider (below referred to as "Smallo") whom can design and integrate the kinds of products into the larger kit that is the need of Largo.

Both companies want the deal to be an **Open Innovation Collaboration deal**. Largo wishes to collaborate with Smallo on an open and no commitment basis. Smallo's objectives have yet to be considered. The collaboration should have the following features:

- **No IP to be transferred and indeed no ownership to be transferred**
- Ownership over improvements made to the component and to the functionality of the technology into which the component is transferred
- Access to know-how
- **Ownership of data gained through the collabo-**

This thesis will focus on investigating a certain core scenario. In the scenario, a larger technology manufacturer (below referred to as "Largo") is in the development phase of an innovative piece of technology which will feature some new functionality. Largo needs to add new functionality and has by thorough investigation stumbled upon a smaller component provider (below referred to as "Smallo") whom can design and integrate the kinds of products into the larger kit that is the need of Largo.

Both companies want the deal to be a **technology transfer deal**. Largo wishes to collaborate with Smallo on an open and no commitment basis. Smallo's objectives have yet to be considered. The collaboration should have the following features:

- **A license will be given to initial IP**
- Ownership over improvements made to the component and to the functionality of the technology into which the component is transferred
- Other features to be considered are:



<p><b>ration</b></p> <ul style="list-style-type: none"> <li>• Confidentiality</li> <li>• Disputes</li> <li>• <b>Exclusivity of the arrangement and its relation to competition law</b></li> <li>• <b>Status of the IP that is being used to co-develop</b></li> <li>• Both parties free at the end of this arrangement to go their separate ways with no claims made by either</li> </ul>	<ul style="list-style-type: none"> <li>○ Access to know-how</li> <li>○ Confidentiality</li> <li>• Both parties free at the end of this arrangement to go their separate ways with no claims made by either</li> </ul>
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### 9.2.2 OPEN INNOVATION COLLABORATION DEAL – TECHNOLOGY TRANSFER DEAL

When performing interviews with people with a law background, everyone gave the same comment to the core scenario: "what's open about this deal?". Based on the interviews, the conclusion is drawn that this scenario is not an open collaboration deal, but a technology transfer deal where the Largo will acquire the technology alongside with knowhow how to incorporate the technology and then incorporate the technology into their device themselves. This seems to be the way that Largo wants it to happen, and since they are the buyers in this case, they will call the shots on this one.

### 9.2.3 NO IP TO BE TRANSFERRED AND INDEED NO OWNERSHIP TO BE TRANSFERRED

To clarify the difference between initial IP and improvements to IP, this point has been changed to "A license will be given to initial IP. The thought behind this is that the more defined IP is, the easier it is to package. Defining initial IP makes it easier to define improvements of this IP.

The thought behind the change from "no IP to be transferred" is that IP is transferred in some way, using licensing or otherwise transfer of rights to use/make/sell the technology. The initial thought from CfBI's side was that there should be no assigning of rights of Initial IP. Since Largo needs to use the Initial IP, they need to somehow gain access over it, therefore licensing has been used to grant that access without assigning the rights of the IP as such.

Basically one can say, based on the interviews, the companies that have been interviewed do those kinds of deals in basically three different ways:

1. In-licensing/buying the technology where the large company basically buys the technology or simply licenses it.
2. "Contract research" collaboration where the large company pays the smaller company to enhance the technology and signs a collaboration agreement with them giving them various rights, depending on the case, to control the technology/company.
3. Buying the company, where the larger company buys various percentage of the shares of the company, acting like a venture capitalist.

In the core scenario, both number one and number two would fit the deal. This is hard to know, but based on interviews number one will be the more appropriate to pick in the core scenario,<sup>26</sup> therefore the heading has been changed to licensing.

<sup>26</sup> Interview B2, A1, A3, A5

#### 9.2.4 OWNERSHIP OF DATA GAINED THROUGH THE COLLABORATION

This agreement is mainly a transfer of IP from one company to the other, and does not include collaboration at all, or to such a large extent. In other words, the core scenario is more of a technology transfer deal where Largo wants to incorporate the technology of Smallo into a device to gain functionality. This will be dealt with under the topic "Ownership of results" instead.

#### 9.2.5 EXCLUSIVITY OF THE ARRANGEMENT AND ITS RELATION TO COMPETITION LAW

This section will be included under "A license will be given to initial technology" and "Ownership over improvements made to the component and to the functionality of the technology into which the component is transferred".

#### 9.2.6 DISPUTES

Since the focus on this thesis will not be dispute resolution, this topic will not be elaborated on further.

#### 9.2.7 STATUS OF THE IP THAT IS BEING USED TO CO-DEVELOP

After the interviews it was clear that this deal is not mainly a collaboration agreement, but a licensing deal, therefore no IP will be used collaboratively. See discussion in "A license will be given to initial technology" and "Ownership over improvements made to the component and to the functionality of the technology into which the component is transferred".

## 10 INVESTIGATING TECHNOLOGY TRANSFER

### 10.1 INTRODUCTION

Licensing technology is not a new phenomenon, much of IBM's revenue is created by licensing, and the same goes for P&G and companies like Thomson Innovation. But many companies still lag behind, be it to the fact that not everyone can acquire a working licensing solution given their patents, that they have until now pursued a more closed path to innovation or that licensing indeed is not the optimal commercialization strategy in all cases. Nevertheless, more and more firms understand the potential of licensing and searching for technology outside their own R&D institution. P&G have expressed it like; there are around two million bright minds in our sphere of interests and we cannot hire them all. That being true, in a world of globalization where information tends to spread fast, many smaller companies sit on technology that bigger companies need and studies have also showed that innovation and creativity often thrives in smaller firms, thus bringing up the need of licensing those technologies.<sup>27</sup>

Finding and licensing technology is in other words becoming one of the core comparative advantages of large companies in the 21st century. But companies also experience problems doing this relating to efficiency, costs and time.<sup>28</sup> This section of the thesis will try to outline the different problems and interests of large and small companies in licensing.

#### 10.1.1 DEFINITIONS OF COMPANIES:

The definitions of enterprise category are taken from the Commission's definition of micro, small and medium-sized enterprises.<sup>29</sup> This definition is used since EU competition law rests on and uses this definition.

Enterprise category	Headcount	Turnover, or	Balance sheet total
Large	> 250	≥ €50 million	≥ €43 million
Medium-sized	< 250	≤ €50 million	≤ €43 million
Small	< 50	≤ €10 million	≤ €10 million
Micro	< 10	≤ €2 million	≤ €2 million

### 10.2 LARGER COMPANIES

To grow and be on top of innovation, large companies can no longer rely on their in-house R&D department to do all the work for them. But rather than "R&D'ing" it yourself companies need to realize the potential of working in a globalized knowledge economy and taking steps towards other more open constellations of acquiring innovation. There are a series of ways to go about it, but in this thesis we will limit ourselves to exploring the concept of in-licensing from, and to a small extent also co-developing with other firms/entities to gain the largest return on innovation.

In-licensing requires some very fundamental aspects to be in place; a smaller company in possession of a technology that the larger company wants and is spotted by the large company, IP or other legal protection of the technology and the assets around it, time, money and negotiations. The larger

<sup>27</sup> Koeppe, R. (2002), Hallencreutz, D & Lundequist, P & Andersson, E. (2002)

<sup>28</sup> Interview A1

<sup>29</sup> Commission's Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises.

company is normally involved in a series of those kinds of deals, and if not standardized is time-consuming and expensive for large companies.

Large companies also have a substantially different structure than smaller companies, often requiring a decision to go through a series of layers in the organization. This in many ways slows down the company substantially and makes it harder for large companies to sign deals fast, if not dictated out of their standard approaches.<sup>30</sup> Larger companies often have a set standard approach of deals printed in their internal documents set by the Law/IP department focusing on protective measurements of their own IP, which often collides with the interests of negotiating and seeking new collaboration-partners of the R&D department, where R&D wants to be able to freely share and pursue new solutions together with their partners.<sup>31</sup> R&D find themselves "pinned down" by the rigid contract structure of the IP Lawyers, and finds it hard to sign quick deals concerning technology because of the time it takes to negotiate all the ownership of rights of initial IP and improvement issues.<sup>32</sup> While the R&D and the Licensing department sees the need to get innovation within the company faster and more frequently, both may not have the same idea of the central role IP is playing.<sup>33</sup>

### 10.2.1 INTERESTS

One of the core interests of the large company in our scenario is to acquire new and innovative technology. The main interests that are identified from the interviews of the larger companies, when it comes to in-licensing new innovative technology, are:

- To be sure that the technology is usable by the large company<sup>34</sup>
- rights to use the initial technology (in normal cases a non-exclusive license, but case to case dependent)<sup>35</sup>
- rights to use or ownership of the improvements to the technology (differs from company to company, some won't settle for a license here)<sup>36</sup>
- that the protection of the improvements are regulated<sup>37</sup>
- control over know-how (to hinder it from spreading to competitors)<sup>38</sup>
- Clearly define the area of usage of initial IP and improvements.<sup>39</sup>
- Clearly define the licensed technology.<sup>40</sup>
- Building their patent portfolio.<sup>41</sup>

### 10.2.2 PROBLEMS

From the interviews it can be found that the problems that larger companies can identify are related to costs of lost opportunities when failing to move with a fast market. Some markets move faster than others. In those markets technology can be obsolete within half a year or less. Failure to move

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<sup>30</sup> Interview B2

<sup>31</sup> Interview A1

<sup>32</sup> Interview A1

<sup>33</sup> Interview A1, A3

<sup>34</sup> Interview A3

<sup>35</sup> Interviews A1, A2, A3

<sup>36</sup> Interview A2, A3, A1

<sup>37</sup> Interview A1, A2, A3

<sup>38</sup> Interview A2

<sup>39</sup> Interview A3

<sup>40</sup> Interview A3

<sup>41</sup> Interview A2

with that market and to seize the window of opportunity this leads to will create a cost of lost opportunity for a company. Secondly, money spent on drafting license agreement and time spent on negotiating license agreement is a large problem since the companies do not look at the different interests and incentives that can be used in a deal. Usually the larger company will bring in lawyers, or use their in-house lawyers to draft a contract in each case, which can take a few weeks. This is often done from a legal perspective without weighing in the agenda of the smaller companies. When offering the contract to the smaller company, they will need to revise it for the interests of the small company, but the negotiators in many instances are just allowed to negotiate the deals to such an extent that it falls within the legal strategy. The problem here is that negotiating the contract in any substantial matter will make the negotiators of the larger company have to call in legal to get their opinion or clearance to negotiate a specific deal. This will lag the negotiation substantially. What happens, according to interviews, is that many times negotiations halt because of the unwillingness of the negotiators to call in legal.<sup>42</sup> In one way or the other, technology acquisition is slowed down, and sometimes hindered totally, which is the main problem to large companies.

### 10.3 SMALLER COMPANIES

There are many small companies in control of assets in the world today, but not many of them understand the risk of not protecting their assets properly. The list can be made long of the successful attempts to steal smaller companies technology without paying. Many countries today are starting to understand the value of helping their small companies to build a workable IP strategy and set up different ways to help them protect their Intellectual Assets (IA) and IP. Interviews show that smaller companies today start getting the understanding of IA and IP and actually start investing in protecting their assets beforehand. There are indications that more patents and trademark protections are filed by smaller companies in Scotland<sup>43</sup> over the last years.<sup>44</sup>

#### 10.3.1 INTERESTS

Smaller companies tend to look for how to generate profit and ways to sell their product, and in cases like the core scenario described above; Smallo wants to gain a foothold into new markets, profiting from licensing and using the marketing channels of Largo to expand its revenue and market share. Smallo's objectives are to increase profit without being stripped of its assets. Therefore there are a certain number of issues that are crucial for Smallo to keep in mind.<sup>45</sup>

#### 10.3.2 PROBLEMS

When approached with a deal like this, the smaller company often finds itself on the back foot with less power from the start of the negotiations because of scarce resources, need of money, less power. The bigger actor in many cases looks at itself as a benefactor helping out the smaller company and therefore the smaller company is often presented with a standard agreement that the larger company wants them to sign. If this agreement is negotiated in a substantive manner, negotiations are at most times stalled to a halt because the hierarchical structure of the larger company where

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<sup>42</sup> Interview B5

<sup>43</sup> Scotland is used as an example of this; even though Scotland is not a nation in itself it is a good example of a region that has experienced, according to interviews, rises in IP/IA knowledge through the collaborative efforts of the state and organizations working to raise awareness of IP/IA.

<sup>44</sup> Interview B6

<sup>45</sup> Interview B1, B2

things have to be reported up the command line. Another problem for the smaller company is that they do not in most cases have the funds to go on negotiating with the big company for weeks, but are in need of a relatively fast negotiation.<sup>46</sup>

To come out of the negotiations of this deal with a bigger potential than before Smallo need to consider the following issues:<sup>47</sup>

1. being stripped of assets or loss of control of IP (since Smallo probably is not going to have a huge portfolio in their hands, they need to really consider very carefully if they are to give away any rights to the IP, since that will in most cases prevent them from benefit from the technology or improvement thereof)
2. getting "IP locked-in", not available to Smallo, and thus hindering it from doing things that it could do beforehand and developing technology further
3. Not being able to use libraries of code
4. to be tied down by to far stretching non-competition clauses which affects the freedom to compete or develop their technology
5. Signing exclusive deals; not being able to be acquired in the long run or if it needs to sell to another company. Largo might not be the future buyer of the company and exclusivity might decrease the valuation.
6. Royalties – not getting a continuing revenue stream

## 10.4 ADDITIONAL COMMENTS ON THE CORE SCENARIO

When the core scenario was offered to the companies, many of them reacted as if this is no collaboration deal, but rather a straight forward licensing deal, where a technology is brought into the larger company from the smaller company.

Moreover, one of the largest problems in signing license deals between larger and smaller companies is the cultural fit and the failure to look at interests and to create incentives for both companies in deals like the core scenario according to some interviewees.<sup>48</sup>

## 11 ANALYSIS

### 11.1 INTRODUCTION

This section has the intention to analyze the legal framework considering technology transfer in relation to the core scenario.

To recap some of the core scenario, we have one large company (Largo) and one small (Smallo). Largo wants to acquire technology from Smallo and this is done through licensing, which spring out of the discussions above.

Based on the background on the interests of the companies, we could conclude that larger companies in our case focuses on that they can use the technology, which involved both investigating the technology and making sure that they get control over the use of technology and any improvements thereof, by either licensing or ownership. Another important factor is that the way to protect improvements is regulated and set, so that they won't lose a technology to the general public and con-

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<sup>46</sup> Interview B2, A1

<sup>47</sup> Interview B1, B2

<sup>48</sup> Interview A6, B1

trol over know-how or tacit knowledge. Lastly, it is vital for a larger company to properly define the licensed product and the area of usage.

The smaller company's interests on the other hand is to license the technology, grow and gain entry to new markets to sell their product and would fear to enter into a deal that strips them of assets or makes them lose control over their IP. Many times, that is the only valuable asset that a smaller company has. Another fear would be to get its IP locked in, by not gaining access to the usage of the technology or the improvements thereof. Furthermore the smaller company is afraid of being tied down by to far stretching non-competition clauses and losing people/know-how. Furthermore one of the major interests a smaller company would have is getting a continuing stream of royalties from the licensing to be able to make money out of it. Finally, a smaller company would be hesitant to signing a exclusive deal without a field of use clause with a larger company because of that it might have a plan to be acquired in the long run, or at least it wants to have the door open to being acquired, and the licensing company might not be the one that will buy it later on. Having a exclusive deal to another company can, and in most cases would, decrease the value of the company because the technology cannot be used by the company or by anyone else if they are not to buy out the exclusive license.

Furthermore, rigidity in approach, failure to understand each other and see to the interests of both actors tend to create problems in creating incentive based agreements for both actors in the deal, leading to hold ups and break downs.

Some of the issues summarized in this section have the potential to become stumbling blocks in a deal. We will analyze the legal framework and the different sections of the core scenario below.

## 11.2 ANTI TRUST LAW

Both the European and the Swedish competition legislation are built to hinder non-competitive restrictions in agreements between companies.<sup>49</sup> The rules are dependent on for example, size and level of competitiveness and are based on market power and competitive harm. The regulation for license agreements between competitors is a minefield of restrictions, but when the companies are non-competitors, the restrictions are fewer. The EU system is basically built up around two articles, namely art 101 and 102 of the Treaty on the Functioning of the European Union (hereafter EC Treaty), a series of block exemptions and regulation like "de minimis". What falls under art 101 is considered to be anti-competitive, but can be accepted under certain conditions. Those conditions are made up from the principles that govern the EU and include vertical agreements, agreements between small companies and technology transfer agreements. Those are according to competition law worth protecting and are therefore to a certain extent exempted from the otherwise tough regulation.<sup>50</sup> The Swedish competition law is subordinated EU law and the legislation mentioned above, even though Sweden has some exceptions when it comes to the de minimis exemptions.<sup>51</sup> The relevant legislation in Sweden is the Swedish competition act (SFS:2008:579), the block exemption regulation and the provisions on "bagatellavtal" (KKVFS 2009:1).

The other regulation is art 102, which covers dominant positions and abuse thereof. This regulation is made to hinder very large companies, above 50% of the relevant market share, to abuse their

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<sup>49</sup> Anderman (2006), p.6ff

<sup>50</sup> Anderman (2005), p15ff

<sup>51</sup> KKVFS 2009:1

power as dominant actors in a specific market. Here there are very few exemptions, and the regulation is tough. This regulation is incorporated under Swedish law in competition act (SFS:2008:579) section 2 paragraph 7.

Below we will go through the licensing agreement first in general and then deal with each section by itself.

### 11.2.1 NON-COMPETITION - ART 101

Article 101 of the EC Treaty states:

*"1. The following shall be prohibited as incompatible with the internal market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the internal market, and in particular those which:*

- (a) directly or indirectly fix purchase or selling prices or any other trading conditions;*
- (b) limit or control production, markets, technical development, or investment;*
- (c) share markets or sources of supply;*
- (d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;*
- (e) 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.*

*2. Any agreements or decisions prohibited pursuant to this Article shall be automatically void.*

*3. The provisions of paragraph 1 may, however, be declared inapplicable in the case of:*

- any agreement or category of agreements between undertakings,*
- any decision or category of decisions by associations of undertakings,*
- any concerted practice or category of concerted practices,*

*which 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, and which does not:*

- (a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;*
- (b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question."*

To start with, the primary function of art 101 is to limit the use of agreements on the market that can lead to restrictions in competition that negatively affects the free market of EU. The way the directive analyzes if an agreement can lead to restrictions in competition is to first clearly define the market power of the specific actor in the relevant market. To do that one need to define the relevant market, then market share and finally market power. After that we will be able to analyze the agreement out of a non-competition perspective.<sup>52</sup>

#### 11.2.1.1 Market definition, market share and market power

##### 11.2.1.1.1 Market definition

The foundation of all competition law assessments related issues is a proper definition of the relevant markets. Because of the complexity of technology in specific cases and the need to consider markets at different levels of the production chain, this is often seen as difficult. In this thesis the market will be defined and also the relevant market found in relation to the "core scenario", to the

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<sup>52</sup> Anderman (2005), p52ff



extent it can be done. Keep in mind also that, even though market definition is the first step in the competition law assessment, it is not the end, but only a tool to help in the assessment and identification of market power.

According to the guidelines of the commission, the market for technology is based on some core rules.<sup>53</sup> Technology is seen as an input integrated into a product or into a process of production. Licensing of technology can therefore affect the competition in both input and output markets. In our case, it can be argued that an agreement between the parties can affect the output market of the product that the technology is incorporated into. The product in this case can either be Largo's device, or a product that is made that adds functionality to Largo's product and uses Smallo's product, but is separable from the bigger product per se.<sup>54</sup> A third relevant market is the technology market in which the technology is put for sale.<sup>55</sup>

This means that the relevant "product market" are products that are; interchangeable with or substitutable for the "product incorporating the licensed technology, by reason of the products' characteristics, their prices and their intended use."<sup>56</sup> Whereas the relevant "technology market" will comprise of the licensed technology and its substitutes. Substitutable technology is technology that by the licensee is considered interchangeable or substitute for the technology that is licensed "by reason of the technologies' characteristics, their royalties and their intended use."<sup>57</sup>

How to arrive to a conclusion as to which markets that are relevant, one has to perform a series of tests and market surveys on a case to case basis. Since the core scenario does not give enough information in this area, defining an exact relevant market would be outside the scope of this thesis. It will be assumed that the relevant technology market would be comprised of the licensed technology and its substitutes and the relevant product market would be products that are interchangeable with or substitutable for the product that incorporates the licensed technology. Depending on the technology this can be a chip that has the functionality of Smallo's technology or the finished product that is sold to end-customers.

#### 11.2.1.1.2 Determining market shares & relative market power

When you have determined the relevant market, one can define the market shares and from that the actor's relative market strength can be derived. A more thorough analysis of how to determine the relevant market for the companies in the core scenario is out of the scope of this thesis and will therefore be left out. The reasoning behind this is that the core scenario does not give enough relevant data for such an analysis to be made and since the companies in the core scenario can have various market strengths, there is no purpose to determine such a share in the core scenario.

Market	Relevant market definition
Technology market	comprised of the licensed technology and its substitutes
Product market	be products that are interchangeable with or

<sup>53</sup> COMMISSION NOTICE – "Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements" - (2004/C 101/02) (hereafter TT Guidelines)

<sup>54</sup> Commission Regulation (EC) No 772/2004 (hereafter TTBER), art.21

<sup>55</sup> TTBER art.19ff

<sup>56</sup> TT Guidelines, art.21

<sup>57</sup> TT Guidelines, art.22

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substitutable for the product that incorporates the licensed technology

(Depending on the technology this can be a chip that has the functionality of Smallo's technology or the finished product that is sold to end-customers)

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### 11.2.1.2 Analyzing the agreement

Now when we have established the relevant markets, we will move on to analyzing the agreement in whole.

#### 11.2.1.2.1 Determining if the actors have an "agreement" or agreed to a "concerted practice"?

To qualify under art 101 in EU law, there has to be an agreement. Agreement in this case means; is there is a formal written agreement where the transfer of technology is written, is there an informal agreement that has been undertaken by the parties or is there a situation where the agreement is partly written and partly non-written? In other words, it does not matter if the agreement is written or oral, or a combination thereof. The rules for determining and analyzing whether or not an agreement is made is the same as in any other commercial transaction and will not be addressed further in this thesis.<sup>58</sup>

In the case covered by the core scenario, an agreement is formed between the Large company and the Small company since there is either a written agreement or there will be one that we will analyze.

#### 11.2.1.2.2 Anti-competitive objective or effect according to Art. 101(1)?

For an agreement, or provisions within an agreement to have an anti-competitive objective or effect under the new paradigm, we need to analyze if it is restricting competition..<sup>59</sup>

To determine if the agreement restricts competition, one starts at determining if the two parties are *actual or potential competitors* in the different relevant markets; where the IP is used and where the technology is marketed.<sup>60</sup>

##### 11.2.1.2.2.1 Competitors or non-competitors

Companies can be competitors in two different ways; actual or potential competitors. The assessment is dependent upon whether or not the companies would have been actually or potential competitors in the absence of the agreement.<sup>61</sup>

Let us start with actual competitors. The way to assess if companies are actual competitors is by asking the question whether or not the companies were competitors in the technology or product market before the agreement was in place.<sup>62</sup> In our case, the assessment is pretty straight forward; the larger company did not compete with the smaller company in the market where IP is used, or where

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<sup>58</sup> Anderman (2006), p104, Lecture by Filip Bladini, 16<sup>th</sup> of February, 2009, ICM Graduate School, Handels Gothenburg.

<sup>59</sup> Anderman (2006), p105

<sup>60</sup> Anderman (2006), p.106, TT Guidelines

<sup>61</sup> Anderman (2006), p16

<sup>62</sup> Anderman (2006), p170, TT Guidelines para. 66

the technology is marketed before the agreement since it does not have access to any of the IP, or similar that the small company has. Therefore they cannot be claimed to be actual competitors.

To know whether or not they are potential competitors, The Relevant Market Guidelines refer to the SNIP test. This test asks the question whether or not the companies would be viewed as potential competitors on the relevant product market and geographical market. This is the case if, in the absence of the agreement and without infringing any IP rights of the other party, the larger company (or smaller) would make necessary investments to enter into the relevant market in response to a small (usually 5%)<sup>63</sup> increase in price within a period of time of a year or two.<sup>64</sup>

Since we're dealing with technology here it is assumed that a 5% increase in price would make the larger company invest in developing the technology in-house to entering the market by themselves. The larger company is interested in incorporating the technology into a larger component and sees the benefits of not having to R&D the solution themselves. This gives us that our companies would most likely not be regarded as actual or potential competitors.

#### 11.2.1.2.2.2 Restricting competition?

Now when we know that the actors are not competitors; we will move on to making an assessment if the agreement between them would constitute in a restriction of competition. Clear restrictions of competition would be for example; setting a minimum price for which a distributor can sell the products. If it does not restrict competition, then the agreement will fall outside of art 101.<sup>65</sup>

There is a difference in how to assess whether the agreement restricts competition or if a provision in the agreement restricts competition. To assess whether the provision restricts competition or not is dependent upon if it restricts the autonomy of a party in respect of a "significant competitive parameter".<sup>66</sup> This means that it must either explicitly limit, or have the effect of limiting competitive conduct. Examples of where this can be the case are; a restriction of territories where the licensee can sell, setting a price or a quantity that the licensee has to sell for or a limitation to the ability to use third party technology.<sup>67</sup>

Under the new paradigm, there are two ways of assessing if an agreement or a provision within the agreement has the object of restricting competition. Either they will be, by default considered having the object of restricting competition. Those fall under the so called "hardcore" restrictions. Whenever a provision fall under the hardcore restrictions, it is regarded as having competitive harm, and the analysis therefore focuses on economic benefits to see if it still can be allowed. In the absence of such economic benefits, the provisions will infringe art 101.

Secondly, where provisions do not fall under the hardcore restrictions, it will be analyzed on the basis on its economic effect. If it has the economic effect to restrict competition, it will be said to have the object of restricting competition. If it is restrictive, one has to balance the economic benefits and the competitive harm to see if the provision is allowed or not allowed under art 101.<sup>68</sup>

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<sup>63</sup> Anderman (2006), Chapter 6

<sup>64</sup> Anderman (2006), P.168ff

<sup>65</sup> Lecture by Filip Bladini, 16<sup>th</sup> of February, 2009, ICM Graduate School, Handels Gothenburg.

<sup>66</sup> Anderman (2006), p.107

<sup>67</sup> TT Guildelines

<sup>68</sup> Anderman (2006), p.112

In our case technology transfer agreements that build on licensing are per se not by standard seen as anti-competitive if they do not fulfill any hard core restrictions and regarding the specific clauses, we will go into more detail below when dealing with them one by one.

#### 11.2.1.2.3 Is the restrictive provision "ancillary" to an otherwise non-restrictive agreement?

If a restrictive provision is ancillary, to a broader relationship between parties, then they are not in themselves a restrictive of competition for the purpose of art 101. This is true, if the ancillary provision is necessary to the commercial context. A typical deal where this is said to be true is to resolve hold-up problems. Examples of this would be when a new technology is introduced to the market and provisions for either the licensee or the licensor are necessary for that introduction. Worth knowing is that the ancillarity of a restriction is largely dependent on the commercial context and has to be evaluated case by case.<sup>69</sup> Since the agreement as such does not fulfill any hard core restrictions and therefore is not seen as restrictive by itself, this analysis will be performed on the individual clauses below.

### 11.2.2 DE MINIMIS NOTICE

#### 11.2.2.1 EU law

If the relevant market share is determined to be small, there is a chance that the agreement or its provisions are exempted under the commissions notice on "De Minimis".<sup>70</sup> That provision states that if an agreement is made between actors that have an aggregate market share of less than 10% if the parties are competitors, or if any of the parties have a market share of less than 15% in the relevant market if the parties are non-competitors. Then the agreement is exempted, if it does not include any hard core restrictions.<sup>71</sup> This will be further analyzed if the agreements or any of its provisions falls under this notice.

#### 11.2.2.2 Swedish law

Swedish law on the other hand solves this issue somewhat differently and adds to the provisions that if the total yearly turnover for every contracting party, and entities connected to that party, does not exceed 30million SEK, then Konkurrensverket find that they can have a relevant market share of maximum 15% without being subject to competition law.<sup>72</sup>

#### 11.2.2.3 Conclusion

Since we cannot know the market share of the different companies, we cannot say for sure if the de minimis notice is applicable. But since Largo is a large company and the companies in the consortium are very large companies, it will be assumed that Largo has a large share of the market, even though it is of course largely dependent on the technology and product. This means that the de minimis notice will probably not be applicable in this case.

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<sup>69</sup> Anderman (2006), p.110, Lecture by Filip Bladini, 16<sup>th</sup> of February, 2009, ICM Graduate School, Handels Gothenburg.

<sup>70</sup> Commission Notice on agreements of minor importance which do not appreciably restrict competition under Article 81(1) of the Treaty establishing the European Community (de minimis)

<sup>71</sup> Commission Notice on agreements of minor importance which do not appreciably restrict competition under Article 81(1) of the Treaty establishing the European Community (de minimis), art 11ff

<sup>72</sup> KKVFS 2009:1

### 11.2.3 BLOCK EXEMPTIONS

On top of art 101, there are a couple of block exemptions, concerning the interpretation of art 101, that might come into play in our case. The block exemptions that could be relevant in our case are the block exemption concerning vertical agreements, horizontal agreements and technology transfer agreements.

#### 11.2.3.1 *Horizontal agreement*<sup>73</sup>

Exempted horizontal agreements can take two different forms; agreements concerning specialization between two or more companies and agreements concerning research and development.

Agreements concerning specialization between two or more companies are agreements which are built mainly around the fact that the actors agree to collaborate by specializing in certain areas. Examples of this can be unilateral specialization agreements; where one company stops producing the item and instead specializes in selling it, while the other company specializes in producing it. Another example is reciprocal specialization agreements, where two or more companies agree to stop producing a good or similar goods and agrees to buy them from a producer who in turn agrees to supply them. Finally it can also be joint production agreements, where companies decide to jointly produce products together. The basis for determining if an agreement concerns specialization is that specialization is the main objective of the deal. In the core scenario, the main objective is to transfer technology and there are no indications that actors have decided to specialize in different areas. It is therefore assumed that it falls outside the scope of this provision.<sup>74</sup>

To fall under the exemption of a research and development agreements, the agreement has to concern companies who have agreed to either jointly perform R&D of products or processes or joint exploitation of results from joint R&D that has been done prior to this agreement. In our case it will be assumed that the two companies are not jointly researching or developing products or processes and they have no prior agreement of R&D. Therefore our deal is assumed to fall outside the scope of this exemption.<sup>75</sup>

#### 11.2.3.2 *Vertical agreement*<sup>76</sup>

The commissions regulations on exemptions for vertical agreements is applicable to transfer of technology or IPRs with one exception, that the IPRs as such are not the primary object of the agreement as such.<sup>77</sup> Since our agreement has the IPRs as its primary object, this block exemption is not applicable.

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<sup>73</sup> Council Regulation No 2821/71 on application of Article 85 (3) [now 81 (3)] of the Treaty to categories of agreements, decisions and concerted practices

<sup>74</sup> Commission Regulation (EC) No 2658/2000 of 29 November 2000 on the application of Article 81(3) of the Treaty to categories of specialisation agreements

<sup>75</sup> Commission Regulation (EC) No 2659/2000 of 29 November 2000 on the application of Article 81(3) of the Treaty to categories of research and development agreements

<sup>76</sup> Council Regulation (EC) No 1215/1999 of 10 June 1999 amending Regulation No 19/65/EEC on the application of Article 81(3) of the Treaty to certain categories of agreements and concerted practices.

<sup>77</sup> Art. 2(3) Commission Regulation 330/2010 of 20 April 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices

### 11.2.3.3 Technology Transfer block exemption regulation (TTBER)<sup>78</sup>

The TTBER applies to technology transfer agreements between two actors which permits the production of products by the technology. If the TTBER is applicable on our agreement it will exempt the agreement in the core scenario from non-competition regulation. Swedish law is incorporated to the parts that are applicable to the core scenario and will therefore not be analyzed separately.

#### Article 2<sup>79</sup>

##### Exemption

Pursuant to Article 81(3) of the Treaty and subject to the provisions of this Regulation, it is hereby declared that Article 81(1) of the Treaty shall not apply to technology transfer agreements entered into between two undertakings permitting the production of contract products.

This exemption shall apply to the extent that such agreements contain restrictions of competition falling within the scope of Article 81(1). The exemption shall apply for as long as the intellectual property right in the licensed technology has not expired, lapsed or been declared invalid or, in the case of know-how, for as long as the know-how remains secret, except in the event where the know-how becomes publicly known as a result of action by the licensee, in which case the exemption shall apply for the duration of the agreement.

#### 11.2.3.3.1 Is the TTBER applicable?

First the TTBER is applicable to agreements concerning technology transfers between two parties. In the core scenario we have two actors doing technology transfer, Largo and Smallo, thus this condition is fulfilled.<sup>80</sup> Secondly, for the TTBER to apply to licensing, the agreement has to concern production of products made with the licensed technology and that the licensee is allowed to use the licensed technology for production of those products.<sup>81</sup> The core scenario concerns production of products using the licensed technology and Largo will be able to use the technology for this, thus this condition is fulfilled. Considering the meaning of technology transfer, this includes: "patents and patent applications, utility models and applications for utility models, design rights, plant breeders rights, topographies of semiconductor products, supplementary protection certificates for medicinal products or other products for which such supplementary protection certificates may be obtained, software copyright, and know-how"<sup>82</sup> and thus everything that will be included in the core scenario is assumed to be covered. This leads us to the conclusion that TTBER is applicable to our case.

#### 11.2.3.3.2 Can the provision/agreement be exempted under TTBER?

The next step after deciding that the TTBER is applicable is to analyze if the provisions/agreement will fulfill the conditions of the TTBER and be exempted from non-competition regulation. The agreement is exempted when four conditions are fulfilled and cease to be exempted the time the four conditions are not fulfilled.<sup>83</sup> For the TTBER to be applied to the agreement, it has to fulfill the criteria set out in art 101(3) of the EC Treaty.<sup>84</sup> The criteria set out by Art 101(3) EC Treaty are; that 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, and

<sup>78</sup> Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements

<sup>79</sup> TTBER

<sup>80</sup> TT Guidelines, para 38-40

<sup>81</sup> TTBER art. 5, TT guidelines, para 41

<sup>82</sup> TT Guidelines, para 46

<sup>83</sup> TT guidelines, para 147

<sup>84</sup> TTBER para 9

which does not: 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. We will go through those criteria one by one below.

#### 11.2.3.3.3 Improving the production or distribution of goods or promoting technical or economic progress

The first criteria require an evaluation concerning the effectiveness that the agreement gives rise to.<sup>85</sup> In our case the licensing leads to improving the efficiency of Smallo to license their technology apart from using it themselves; thus improving the distribution of the technology and promoting the technical progress. The licensing also leads to effectiveness in productivity, especially because the Largo has the capacity to incorporate it into their device and the synergies that creates with their own technology/device.<sup>86</sup> By using Smallo's technology, Largo will end up with a better and more advanced product. It is furthermore possible that Smallo's technology can lead to increased cost-efficiency for Largo when producing the device.

Based on this; the licensing agreement is assumed to have contributed to improving the production or distribution of goods or promoting technical or economic progress.

#### 11.2.3.3.4 Consumer benefits

According to the TTBER, agreements which contribute to improving production or distribution of products, promoting economic or technical progress at the same time as it allows consumers to reap a fair share of the benefits, might be exempted from this regulation.<sup>87</sup> This means that consumers shall be compensated for the negative impact of the agreement. This can be done by creating incentives for the actors to lower prices or by letting the customers get access to new and improved products that compensate higher prices.

In our case the customers will benefit by the fact that Largo will be able to add new functionality into the device. It is uncertain in our case if the agreement will raise or lower prices for end customers. Agreements concerning technology transfer are normally seen as leading to consumer benefits.<sup>88</sup> From the analysis above it can be said that Largo will make a better product with increased functionality and that will per se be a consumer benefit according the TT Guidelines.<sup>89</sup>

#### 11.2.3.3.5 Necessary restrictions

The restrictions imposed in a licensing agreement can be exempted if they are not indispensable to the attainment of these objectives. In other words, the agreement shall not inflict provisions that are not necessary and proportional to achieve these objectives

The most important aspect of IP licenses is whether or not a restrictive provision is necessary to obtain the economic benefits. A far stretching restriction can still be valid if a lesser restriction cannot obtain the benefits of the provision.<sup>90</sup> For licensing, the main justifications of restrictive provisions are so called hold-up issues. One type is relative hold-up issues, which do not prevent the usage of a

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<sup>85</sup> TT guidelines, para 148

<sup>86</sup> TT Guidelines, para 148

<sup>87</sup> TT Guidelines, para 150

<sup>88</sup> Anderman (2006), p.126

<sup>89</sup> TT Guidelines, para 150

<sup>90</sup> Anderman (2006), p126, The indispensability test



technology, but slows down the dissemination of the technology or limits the usage of it. In those cases, it can become permissible to use restrictive measures to combat this.<sup>91</sup>

However, it does not mean that the restrictive provision is valid for an unlimited range of time, even if the license is dealing with assets that can be unlimited in time. Restrictions are related to specific hold-up issues, and when the hold-up issue is gone, it might not be beneficial to uphold the restriction. An example of this would be a restriction to combat the speed of which the technology is introduced. When the technology is introduced, the restriction might not be necessary.

For a licensee, examples of concerns that might be permissible would be investments necessary to start using a new technology or to promote purchasing products incorporating the new technology. To promote a new product or invest in a new technology can be a costly and risky business, and therefore the licensee might be unwilling to invest in the technology without proper protection from competing users of the technology. The protection can be obtained by for example protecting the licensee from competition from other companies in respect to either the territories in which they sell or customers to which they provide goods. Where firms are not competitors before/after the agreement, provisions like those would not be hard to argue for the benefits of the setup.<sup>92</sup>

In our case Largo will want to add some kind of restriction to the field of use and exclusivity of the technology and improvements thereof. This is a light hold up/restriction when it comes to licensing and should be permissible due to discussions below under the section "hard core restrictions" concerning the IP protection and how exclusivity creates incentives for the licensor to license technology further.<sup>93</sup>

#### 11.2.3.3.6 Eliminating competition

Article 101(3) cites as a final and last requirement that a result of the agreement should not be that it eliminates competition altogether. This section is aimed at technology pooling which is exempted from the block exemption. In our case however, it is highly unlikely for non-competing firms to agree on something that destroys competition altogether.<sup>94</sup>

#### 11.2.3.3.7 Conclusion

According to the above it will be assumed that the TTBER is applicable to the core scenario and that all the criteria are matched.

#### 11.2.3.3.8 Safe harbors

Now when the TTBER can be applied to the agreement, we will look deeper into what this means.

The TTBER is build in a structure which shows that its rules are applicable to agreements between non-competitors whereof none of the companies can have a market share of over 30%, and where the agreement between them are not subject to any of the hard core restrictions.<sup>95</sup> Meaning that when acting within this "safe harbor" as it is called, companies will be exempted from non-competition regulation.

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<sup>91</sup> Anderman (2006), p.125

<sup>92</sup> Lecture by Filip Bladini, 16<sup>th</sup> of February, 2009, ICM Graduate School, Handels Gothenburg.

<sup>93</sup> Will be further investigated below

<sup>94</sup> Anderman (2006), p.127

<sup>95</sup> TTBER, art. 3



Whenever an agreement falls outside the thresholds of the safe harbors, or includes a hard core restriction, there will be an individual assessment made to see if the competitive benefits outweigh the competitive harm. Thus it can still be permissible under non-competition law even though it will be above the threshold.<sup>96</sup>

When found inside the thresholds, the company in question can be relatively safe, but once one of the companies goes outside the threshold, non-competition issues may arise. This is true even though actors were inside the threshold when the agreement was signed.<sup>97</sup>

In our case, it is not known whether or not the companies will fall under the thresholds of the safe harbor regulation, but the knowledge will help knowing that certain rules apply if when under 30% and above 30%. If the agreement falls outside, focus will lie on determining the competitive benefits versus the competitive harms.<sup>98</sup>

#### 11.2.3.3.9 Hard-core restrictions

Some limitations in the agreement that limits competition are looked upon to particularly restrict competition. Those limitations have been gathered in a section and are called "hard-core" restrictions. The hard-core restrictions are based on the nature of and the experience showing that those restrictions are mostly always anti-competitive.<sup>99</sup> If an agreement or a provision falls under any of the hard-core restrictions, they are considered illegal under art.101, even though they fall under the thresholds of the safe harbor.<sup>100</sup>

In our case the issues that have a tendency towards hard-core restrictions are the field of use restrictions. The TT Guidelines are quite favorable to field of use restrictions, and view them as a partial allocation or subdivision of the exclusive IP protection that a rights holder has. In this way it can be viewed as little different than the effect of a unilateral act. Even sole and exclusive licenses are argued for in the same way.<sup>101</sup> Furthermore, the TT guidelines points out that, if licensors cannot prevent licensees from operating in areas that the licensor is operating in, or will be operating in, this would create a higher incentive to charge higher royalties, which will create competitive harm. This means that restricting field of use in our deal would be ok.

#### 11.2.3.3.10 Individual assessment: Competitive benefits vs. Competitive harm

If the agreement does not fall under the thresholds of the TTBER it might be considered to restrict competition. However normally licensing agreements that are entered into by non-competitors do not restrict competition in themselves.<sup>102</sup> But that does not mean that a provision within the agreement cannot be deemed to be restricting competition. In other words, the individual assessment will be made on each and every part of the agreement when going through them one by one below.

### 11.2.4 DOMINANCE – ART 102

Apart from art 101 that focuses on the way *agreements can disrupt competition* between companies, there are provisions in art 102 that focuses on the *conduct* of a company or a group of compa-

<sup>96</sup> Jager, M (2005), art. 65, TT Guidelines

<sup>97</sup> TTBER, art. 4(3), TT Guidelines, art, 31

<sup>98</sup> See section below

<sup>99</sup> TT Guidelines para.74, Jager (2005), p.183

<sup>100</sup> Ibid.

<sup>101</sup> TT Guidelines para 184

<sup>102</sup> Anderman (2006), p171

nies. The thought of art 102 builds on the concept that firms having a dominant position also have a special responsibility of acting fair and reasonable and not harm competitors, other firms or at the end of the day consumers. In the end, this means that firms in dominant positions can act freely using normal methods of performance-based competition, but are restricted to use competition that is regarded as abuse of the dominant position.<sup>103</sup>

Article 102<sup>104</sup> states:

"Any abuse by one or more undertakings of a dominant position within the internal market or in a substantial part of it shall be prohibited as incompatible with the internal market in so far as it may affect trade between Member States.

Such abuse may, in particular, consist in:

- (a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;
- (b) limiting production, markets or technical development to the prejudice of consumers;
- (c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
- (d) making 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."

#### 11.2.4.1 Dominant position

The principle for market domination is 50% or above, but will be based on market power and company specific constellations of the market. For example, in cases where the largest company has 40% market share and the second largest company has 10%, there might be strong indications of dominance.<sup>105</sup> Other factors that are taken into account are: size and nature of barriers of entry, access to necessary inputs, access to IP and access to distribution channels.<sup>106</sup>

There is a risk that the agreement might fall under this provision because of company size as many of the companies in the consortium are very large. But since it is not known what percentage of market power Largo has or how the market structure looks like, it will be hard to make a good evaluation of the scenario.

A comment on the other hand is that the more control a company has over the market, either through contractual relations or by being dominant, the more easy it is for the actor to become subject to the provisions of dominance.

#### 11.2.4.2 Abuse of a dominant position

There are a series of ways a dominant actor can abuse their dominant position. In our case, the provisions that might become applicable are: "imposing unfair purchase or selling prices" or "other unfair trading conditions", "limiting production, markets or technical development to the prejudice of consumers"; using "dissimilar conditions to equivalent transactions with other trading parties", "making 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

<sup>103</sup> Anderman (2006), p.268

<sup>104</sup> Consolidated version of the Treaty on the Functioning of the European Union - PART THREE: UNION POLICIES AND INTERNAL ACTIONS - TITLE VII: COMMON RULES ON COMPETITION, TAXATION AND APPROXIMATION OF LAWS - Chapter 1: Rules on competition - Section 1: Rules applying to undertakings - Article 102 (ex Article 82 TEC)

<sup>105</sup> Hoffman-La Roche [1979], ECR 461, Anderman (2006), p.270

<sup>106</sup> Ibid., United Brands vs. Commission [1978] ECR 207

subject if such contracts."<sup>107</sup> If a company is found to be in a dominant position it has to be very wary of how it acts. Below, the most relevant risks from the core scenario are brought up.

#### 11.2.4.3 *Unfair licensing conditions*

Largo has to be aware of the risk of creating unfair licensing conditions in the agreement. In our case unfair licensing conditions can be the creation of clauses that go over and beyond what is licensed in the agreement.<sup>108</sup> An example of this is; designing clauses that license back non-severable and severable improvements to the licensed product. Since severable improvements are considered to be separable from, and not part of the licensed technology, such a clause could constitute in abuse of dominant position and unfair license conditions under art 102.<sup>109</sup>

Another issue that Largo has to be aware of is negotiating royalty terms. It has to be said that it is very difficult to assess whether or not the royalty rate constitutes in an unfair price when dealing with technology licenses, since this concept is not fully developed in case law and price is dependent on many factors that are case dependent like: investments in the technology, prices in comparable markets, etc. It is hard to make a clear assessment of this issue, but in our case, Largo will have to look out for negotiating the price to low, since that could constitute in an unfair royalty term.<sup>110</sup>

#### 11.2.4.4 *Limiting technical development to the prejudice of consumers*

Largo also has to be cautious when trying to impose restrictions to Smallo on the field in which they can use the technology. By demanding an exclusive license or otherwise cutting Smallo off from developing or competing with Largo in the relevant markets, a limitation of technical development can occur, which depending on the technology and the market might be to the prejudice of the consumers. This might be a far stretched argument, but depending on the technology and the market, it can be relevant.<sup>111</sup> An example would be an exclusive license where Smallo is cut off from developing the technology further and they are the only ones who has the knowhow to develop it, thus cutting off the means for development.

#### 11.2.4.5 *Dissimilar conditions*

Another area is the issue with discrimination. One of the requisites for an abuse through discriminating licensing terms is that it has to do with equivalent transactions. Largo in this case has to look out for discriminating companies in the same technology market signing licensing deals with different provisions in them.<sup>112</sup>

### 11.2.5 CONCLUSION

A short conclusion of how EU antitrust Law works can be found in the figure below.

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<sup>107</sup> Consolidated version of the Treaty on the Functioning of the European Union - PART THREE: UNION POLICIES AND INTERNAL ACTIONS - TITLE VII: COMMON RULES ON COMPETITION, TAXATION AND APPROXIMATION OF LAWS - Chapter 1: Rules on competition - Section 1: Rules applying to undertakings - Article 101 (ex Article 81 TEC), Art 102

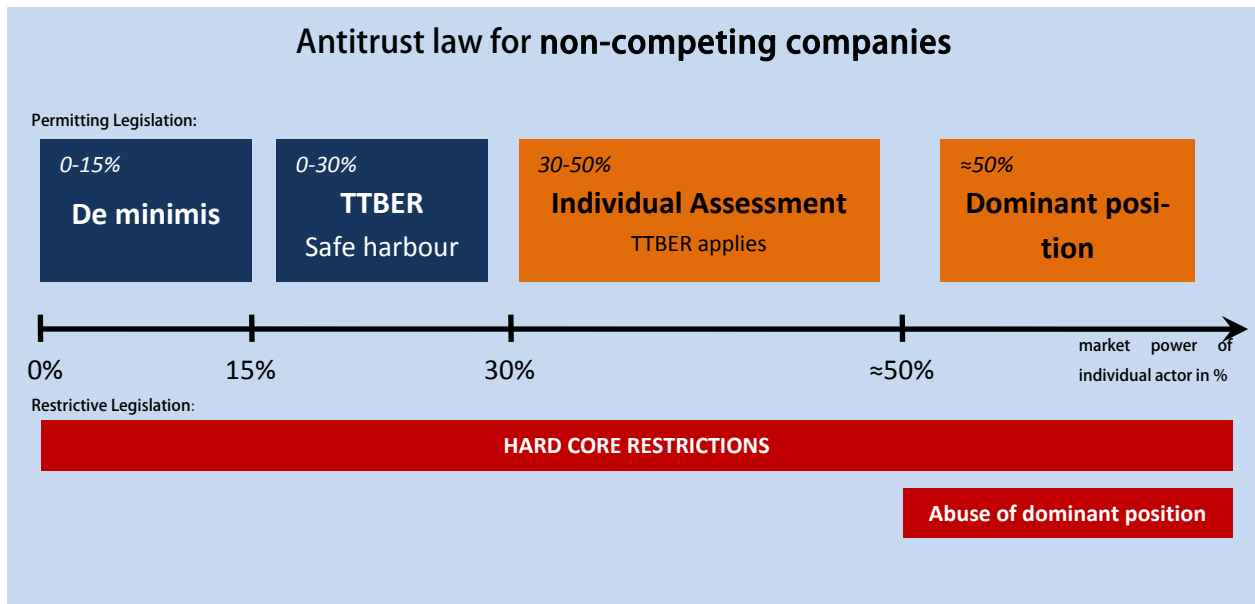
<sup>108</sup> See Elonex/Microsoft, Report on Competition Policy 2000, 152.

<sup>109</sup> Keeling (2003), p342. Anderman (2006), p.274.

<sup>110</sup> Anderman (2006), p273.

<sup>111</sup> Communication from the Commission — Guidance on the Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings (Text with EEA relevance)

<sup>112</sup> Anderman (2006), p275-276



This figure is made out of the core scenario for non-competing companies. To clarify some of it; when the market power of the companies are below 15% the deal is not considered to be restricting competition, unless the deal does not involve hard core restrictions. The same is true for 0-30% if the deal is a licensing deal which falls under the block exemption TTBER.

But when entering into market power of 30% and above, an individual assessment has to be done in each case to weigh competitive harm against competitive and customer benefits. When closing in on 50%, the company may be deemed to have a dominant position in the market and with that a whole new regulation immerge, the regulation of abuse of dominant position. When a company is this high up in market power, they have to be extremely cautious of what they do.

## 11.3 INITIAL IP IS TO BE LICENSED

### 11.3.1 DEFINING INITIAL IP

In our case Smallo is licensing the technology to Largo under certain terms elaborated upon below.

One of the difficulties in drafting a license deal is defining the licensed product. Both companies are, and need to be spending considerable time on this area. The better the companies understand each other on this area, the more value will come out of it and time will most certainly pay back itself several times.<sup>113</sup> The problems that have been encountered from the interviews is that smaller company does not always have much time to put into those understandings, but often need to move fast because of several reasons. Those reasons will not be elaborated on further, the technology might be fast moving thus the lifespan reduced,<sup>114</sup> but they can include urge to hit the market, insufficient funds, cutting deals quickly is sometimes vital, etc. This means that in situations where a deal takes 6-18 months, the company can become bankrupt or the technology can become obsolete before the deal is done.

If the actors fail to define the licensed product accurately, problems might arise in the forms of uncertainty of the boundaries of what is licensed and what falls under the licensed agreement because of problems in interpreting the agreement. It might also lead to problems in defining what improvements that are severable or non-severable to the initial IP. Furthermore, if know-how and other IP are not properly defined problems will occur to what is usable by the actors and what cannot be used. Moreover there is a problem concerning the confidentiality; if the licensed product is not properly defined, the confidentiality becomes loose and vague.

The more clearly the defined the product is, the more freedom to move both companies will encounter due to increased clarity and predictability.

### 11.3.2 SETTING THE STAGE

In the core scenario Largo wants to be able to use the Initial IP, and depending on the technology might want exclusivity on the market. Smallo on the other hand is hesitant to license the technology exclusively since they want to be able to explore further licensing options with other companies and make more money out of it. They also fear the risk of getting locked in IP-wise and not being able to use and improve on the technology. With that said we will start analyzing the grant of Initial IP.

#### 11.3.2.1 *Exclusive, sole or non-exclusive licenses*

The choice between an exclusive/non-exclusive or sole license is made on a case to case basis, but some considerations has to be taken into account.

Making the license to the initial IP *exclusive* will limit the freedom of the smaller company to the extent that will not be able to use or license out the initial IP at all. This means that for the smaller company, will be as bad as selling the initial IP completely, since it will be blocked when trying to develop it further, it cannot license out to others, nor license out any improvements of it to others since improvements will be based on the initial technology. Furthermore, an exclusive license has the highest potential of restricting competition on the market, thus might be problematic from a non-competition aspect, especially if the company is deemed to become in a dominant position.

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<sup>113</sup> Interview A1

<sup>114</sup> Especially in ITC technology

A non-exclusive license on the other hand will give the smaller company an ability to move freely and maintain an open business strategy involving licensing the technology to other companies and develop it themselves. This will in many ways benefit both the larger company and the smaller company in our case, since there will be an incentive for the smaller company to continue to innovate and the larger company will be able to use/implement the technology, in their devices. One of the obvious issues for the larger company in this case is the loss of control, and not being able to have exclusive access to the technology on the market. Moreover, non-exclusive licenses are very seldom accused of being anti-competitive.

A sole license, being something in-between exclusive and non-exclusive, will cut the smaller company out of licensing the technology to others, but leave it open to use and innovate on the technology further. Incentives to innovate are greatly diminished by not being able to pursue other ways to license the technology. Furthermore, a sole license is something in between an exclusive and non-exclusive and is not fully that restrictive to competition as an exclusive license.

### 11.3.3 BUILDING THE FRAMEWORK: SPLITTING THE MARKET

Apart from making the license exclusive, non-exclusive or sole, there are several other ways to tinker with the license deal to make it fit the specific need of your case. All those ways have one thing in common; they are used to split the market in one way or the other. Territorial restrictions are used to split the market in territories, restrictions on active and passive sales are used to restrict the quantity sold and to whom, field of use restrictions are used to split product or technology markets apart, or combinations of them.

#### 11.3.3.1 Territorial restrictions

In this thesis, territorial restrictions will be left out because of the low incentive to restrict technology in certain territorial areas, especially when the technology is made to add a new functionality to a device. Furthermore, Largo would not be interested in a deal where they are restricted in where they can sell their products.

#### 11.3.3.2 Field of use

Smallo who has the intention of dealing with many licensees to the initial technology, will find the question of whether or not to restrict the field of use thrilling. Especially if one of your licensee's want to for example enter into a new market with your technology, and need some assurance to be able to make investments in that field. Say for example that you want to make additional money on your license and license a new engine technology to two different companies. One will get a license to use/sell your technology in four cylinder engines and another one will get a license to use/sell your technology in six cylinder engines.<sup>115</sup>

There are different ways of restricting the field of use. The TT Guidelines identify two main groups of restrictions, namely: limitations to a technical field of application, and limitations to a specific product market.<sup>116</sup> There are some other cases that have been identified as field of use limitations by the commission, but those are outside the scope of our core scenario, and will not be investigated further.<sup>117</sup>

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<sup>115</sup> Anderman (2006), p.188, Gölstam (2007), p.238, TT Guidelines para. 179

<sup>116</sup> Anderman (2006), p.187

<sup>117</sup> For further reading see: Gölstam (2007), p.238

### 11.3.3.3 Limitations to a technical field of application

This group of limitations aims at cases where a technology is used in a field of application. The example given above would qualify in this group. Another example that will qualify is a technology with which you can make chipsets with different numbers of CPUs. For example restrictions in the field of using the technology to make chipsets with up to four CPUs and another license to make chipset with more than four CPUs would constitute in a limitation of a technical field of application. Another way of saying it is that a technology can be used for different fields in the same market.<sup>118</sup>

### 11.3.3.4 Limitations to a specific product market

Another group of limitations is when a technology can be used to produce items in different product markets. The TT Guidelines refers to the following example, where a molding technology is licensed to be used to create plastic bottles, and the same technology is licensed to another company to create plastic glasses.<sup>119</sup>

### 11.3.4 APPLICATIONS IN OUR CASE

In the core scenario, based on the different interest and problems of Largo and Smallo, a preferred setup of licensing would be that Smallo licenses the technology to Largo sole or non-exclusively with a restriction in the field of use of the relevant market of the device that Largo is going to incorporate the technology into. The reason between these choices is that by giving a sole or non-exclusive right, Smallo will still be able to develop the technology further and license it to others. Even though the technology is of such a caliber that Largo wants to have exclusive/sole access, Smallo can still license it to other areas of use. The problems with granting an exclusive license is that Smallo might not be able to use or develop upon the technology concerning that field of use that Largo will have exclusive rights into.

This setup will generally not be seen as anti-competitive, since agreements that fall within the thresholds of TTBER are often seen as pro-competitive even with the use of field of use restrictions and exclusivity,<sup>120</sup> as long as it is not restricting the passive sales of the contracted products.<sup>121</sup> Even passive sales can be restricted, even though it is not recommended, into Smallo's exclusive field of use, but just for a period of 2 years.<sup>122</sup>

Furthermore TT guidelines state that field of use restrictions in our core scenario are in many cases not even caught by art 101 of the EC Treaty because of that the large irrevocable investments that Largo has to do into the incorporation of the technology.<sup>123</sup> This is of course dependent on the investments, the technology, the market structure and the market power of the company and has to be assessed on a case to case basis. The reasoning behind this is in situations where the licensor can restrict the field of use, it normally leads to the spreading of new technology, higher efficiency and lower prices.<sup>124</sup> If a licensor could not restrict the field of use, the incentive to license the technology

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<sup>118</sup> TT Guidelines para.179

<sup>119</sup> Anderman (2006), p.188

<sup>120</sup> Anderman (2006), p.189

<sup>121</sup> TT Guidelines, para 98-100

<sup>122</sup> TT Guidelines, para 100

<sup>123</sup> TT Guidelines, para 101

<sup>124</sup> Anderman (2006), p.189

in areas where the licensor does not use the technology would most certainly decrease, which would lead to a series of unwanted effects, such as diminishing technology diffusion, etc.<sup>125</sup>

If the Smallo and Largo in our case turn out to become competitors at a later stage, the same rules shall apply throughout the period set out in the agreement, if it is not changed in any substantial way.<sup>126</sup>

### 11.3.5 CONCLUSION

Letting Largo license the technology from Smallo under a field of use restriction is assumed to be in line with the TTBER since it improves the production or distribution of goods and promotes technical or economic diffusion and progress and it also possibly allows consumers a fair share of the resulting benefit, especially if it is not exclusive or sole.

Licensing in this way is also assumed to be in line with what might be OK for Largo, since they are in it to incorporate a specific technology into their device. Therefore, Largo and Smallo would sit down beforehand and define the field of use that Largo wants to use the technology within and in what areas Smallo would like to license it out in. A problem with this is that when Smallo starts to license out into different fields of use, they really have to have a clear idea and structure of how to do this, so that they don't start licensing out the same field of use to different actors that wants exclusivity. On Smallo's account, if Largo is not really in need of an exclusive license, a non-exclusive license would help Smallo's freedom to move.

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<sup>125</sup> TT Guidelines para.184

<sup>126</sup> TTBER, Art4(3)



## 11.4 OWNERSHIP OVER IMPROVEMENTS MADE TO THE COMPONENT AND TO THE FUNCTIONALITY OF THE TECHNOLOGY INTO WHICH THE COMPONENT IS TRANSFERRED

### 11.4.1 THE DEAL

Looking at the deal of our core scenario, it shows that the Initial IP has been licensed from Smallo to Largo. Largo in our case now needs to make sure that they get access to further improvements by Smallo on the technology and Smallo might be interested in getting improvements by Largo.

This is suggested in the core scenario to be done by agreeing to transfer the ownership of all the improvements to Largo, giving Largo a control position as an owner of the IP.<sup>127</sup> If this isn't done, interviewees have argued that a large risk for Largo would be that Smallo will improve the technology much further, rendering the licensed technology of less value, since a new and improved one exists. Another risk is plainly not having the control of the IP in your own firm. This has some problems from a legal perspective, which will be gone through below.

From Smallo's perspective, its agenda is to get a continuing revenue stream while it fears to be locked in to the initial technology and not being able to use the improvements. This is understandable, since the small company often puts all the eggs in one basket, meaning that normally this is the only technology that will exist in the company. On the top of that it has been developing this asset for quite some time, and wants to continue to make money out of it.

We will analyze the type of transfer that would be suitable in this situation and discuss issues related to that below, starting with defining improvements.

### 11.4.2 DEFINING IMPROVEMENTS

The core question lies in defining what should be taken into the definition "improvements". This is of great importance to both companies as a basis for the rest of the agreement and the obligations/rights thereof. One issue to keep in mind is that it is hard to draft a good clause to get hold of the improvements since it can be hard to know what types of improvements that the technology will have. Improvements can be narrow or widely defined and the time period of the improvements can be limited or unlimited.<sup>128</sup> Defining improvements is a delicate problem which might lead to, if we define improvements too narrowly, that some "improvements" might not be transferred over to the larger company or licensed to the smaller company. On the other hand defining it too broadly might lead to consequences where "improvements" to other products that were not intended to be taken into the agreement might fall under this agreement and therefore be licensed/transferred. If the improvements are too broadly defined and unclear, the court will see to the licensors need to restrict the transfer of improvements and therefore define it more narrowly. A higher technical distance between the original technology and the improvements, the easier it is for the improvement to fall outside the scope of the license agreement.<sup>129</sup>

As discussed above, an exhaustive discussion on this topic beforehand is crucial to getting good protection. The definition of improvements is usually done from the perspective of the initial technology and can be defined such as a feature, addition or such that improves the functionality of the

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<sup>127</sup> We will discuss this and its implications below

<sup>128</sup> See non-competition restrictions below

<sup>129</sup> Gölstam (2007), p.337, Domeij (2003), p.162

product, decreases costs of producing it or using it, increases the lifespan, changes the utility of it, etc. Furthermore improvements can be severable or non-severable. Severable improvements are technology that is seen as an own invention separate from the initial technology.<sup>130</sup> Severable improvements can be used to improve the initial technology, but can be practiced without infringing the initial technology.<sup>131</sup> Non-severable improvements on the other hand are improvement that cannot be separated from the initial technology as such, and to use it one needs acceptance from the initial rights holder.

### 11.4.3 GRANT-BACKS/FORWARDS AND ASSIGNMENTS OF RIGHTS

Grant-backs/forwards and assignments of rights in this way can lead to competitive harm because of the way they de-incentivize the actor that improves the technology since they have to share the technology with the other actor. This means that the inventing actor will have less incentive to invest money into the technology if that would not lead to a comparative advantage. This is surely the case when the licensee is allowed to license the technology further, or when the licensee will get exclusive rights to the improvements. This deprives the licensor from profiting on the improvement. It has to be said though that sometimes in deals, this is a step that is necessary for the licensor to take to be able to get the deal to license the technology in the first place. This is specially the case when dealing with severable improvements. TTBER art 5:1(a-b) gives us that exclusive grant-back licenses for severable improvements are under the hard core restrictions even for companies found within the threshold of TTBER.

#### 11.4.3.1 Severable improvements

Exclusive grant-backs of severable improvements are included in the hard core restrictions of art5:1(a-b) TTBER and are thus not allowed under art 101 of the EC treaty. This is because such a clause would take away all incentive for the inventing actor of improving on the technology and completely restrict competition in that aspect, thus failing to comply with art 101(3).

Exclusive grant forwards of severable improvements are restrictive to competition in our case since they hinder Smallo to compete, create major dis-incentives for Smallo to innovate or perform additional R&D since all improvements will be property of Largo. It also reduces the technology diffusion, and is not exempted from violation of art 101 of the EC Treaty, because of the reason that it is not likely to be considered indispensable to the purpose.

Furthermore, when in a dominating position, non-exclusive grant-backs/forwards of severable improvements can be said to go beyond the scope of the initial license, anti-trust law will ban agreements that goes above or beyond the initial license and dis-incentivizes Smallo from developing the technology further. Thus in this case a clause to include severable improvements would be illegal under art 102.<sup>132</sup>

However, non-exclusive grant-backs restricted concerning severable improvements are allowed under the TTBER, under the circumstance of that they are drafted to cover genuine improvements of the licensors technology.<sup>133</sup> Concerning agreements that fall outside the TTBER, non-exclusive grant-

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<sup>130</sup> Keeling (2003), p342

<sup>131</sup> Anderman (2006), p208

<sup>132</sup> See *Elonex/Microsoft*, Report on Competition Policy 2000, 152, Keeling (2003), p342. Anderman (2006), p.208, 274.

<sup>133</sup> TT guidelines, para 109, TTBER art 4-5 e contrario

backs/forwards of severable improvements are dependent on an individual analysis taking into account the position of the actors on the market, if the licensee is compensated, etc. Even though it can be apparent that there are benefits in such a deal, it is many times harder to show that the grant-back is indispensable, or in other words comply with the criteria set up in art 101(3) of the EC treaty. In other words, not exempted from the non-competition regulations and thus not allowed.<sup>134</sup>

#### 11.4.3.2 *Non-severable improvements*

Grant-backs of non-severable improvement are generally allowed under art 101 and art 102 of the EC treaty and thus not considered to be of competitive harm, even though they are exclusive, since if this would not be allowed it would infringe upon the IP rights of the licensor to control their own inventions. Furthermore they are likely to create competitive benefits and technology diffusion.<sup>135</sup>

Grant forward of non-severable improvements to Largo can be restrictive to competition because of such a setup would hinder Smallo from gaining technological lead over Largo in the field. In certain situations it might also lead to decreased incentives to develop the technology further.<sup>136</sup> Given that the license is non-exclusive, will on the other hand foster technology diffusion and it will not hinder Smallo to use and develop the technology and make money on it. However when the license is exclusive there might be competitive restrictions to the grant because it will diminish incentives for Smallo to develop the technology further and the agreement would most probably not satisfy the conditions of art 101(3), especially not the condition that the clause has to be indispensable.<sup>137</sup> Thirdly, if Largo is in a dominating position, grants of future rights are not allowed since it will most likely have a restrictive effect to competition and it can be argued to go beyond and above the initial license.

#### 11.4.3.3 *Assignments of rights*

Problems arise in our situation when using assignments of rights. Assignments of severable improvements are not allowed under any circumstances, since it would be too restrictive to competition. According to the TT guidelines assignments of non-severable improvements are not restrictive to competition under art 101, thus allowed.<sup>138</sup> Anderman states that even though this can be theoretically justifiable, assignments of those types of rights are strongly disfavored, and a licensor can never be certain of their enforceability, unless the relevant technology is highly competitive.<sup>139</sup>

#### 11.4.4 CONTROL ISSUES

There are a couple of important control aspects for Largo in this deal. For Largo to benefit the most out of the technology transfer, they need Smallo to improve on the technology, be able to use the improvements that Smallo generates and to control the improvements so that they do not fall into the hands of competitors.

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<sup>134</sup> Anderman (2006), p. 210

<sup>135</sup> Anderman (2006), p. 207

<sup>136</sup> TT Guidelines, para 142, 208

<sup>137</sup> TT Guidelines, para 208

<sup>138</sup> TT guidelines, para 109

<sup>139</sup> Anderman (2006), p210-211

#### 11.4.5 BUILDING THE FRAMEWORK

Regulating such an issue to make both sides happy is a complex matter. There are conflicting interests in the business arena of how to regulate the ownership, the access to & ownership of improvements and to design the rights to fit with the two companies' business plans. Moreover there are conflicts as to how to create a long-term incentive structure for further business that will help and foster the development of both companies. Finally there are conflicting interests in the how to get protection for the assets that has been constructed coming out of the licensing agreement.

##### 11.4.5.1 *Incentive based collaboration*

When discussing licenses and improvements of a technology, it is crucial to stay focused of creating value from the license deal. An important topic in this discussion is creating incentives to innovate for both the small and the large company. Creating incentives can be enabled by establishing a legal foundation built around the creation of incentives.

To get the most out of a relationship as in the core scenario, Smallo and the Largo needs to sit down and identify what each party wants to get out of the relationship. An example from our core scenario could be that Largo needs to collaborate with Smallo to incorporate the technology into the device of theirs and to continually supply Largo with improvements to the technology and functionality of the device. Largo also needs to create incentives for Smallo to sign up for such a deal. For Smallo, it is crucial to get royalties streams going, not getting locked in technology-wise so that they cannot make money in the future, and finding partners. Out of this we will try to build collaborative incentive structures in the business area for both companies to follow.

To be able to create incentives in the business arena, as explained above, it is crucial for a company to build a good legal foundation that enables that exchange of incentives to take place. In this section, the attempt of identifying some core building blocks to our scenario and to work with them to enable the creation of a solid legal foundation.

##### 11.4.5.2 *Legal Framework*

###### 11.4.5.2.1 *Assignment of rights and grant-backs/forwards*

As shown above assignments of rights to severable and non-severable improvements are either illegal or strongly disfavored. Even if you can theoretically assign rights to non-severable improvements, it is unclear whether it will be enforceable or not. Furthermore, assigning of rights eliminates much of the potential incentive for Smallo to innovate further on the technology, since all the inventions will be property of Largo from the date of the contract and onwards. Largo will in many ways benefit from that Smallo improves the technology further and needs to create incentives for that to happen. Because of the problems with non-competition law and decreased incentives for Smallo to innovate it is suggested that both companies withhold from the assignments of rights.

As shown above, rights to exclusively grant licenses to severable improvements is illegal due to non-competition regulation and will thus not be elaborated on further. Rights to grant non-exclusive rights to severable improvements are allowed under the TTBER but problematic under art 102 since they are said to go above and beyond the scope of the license agreement, thus not allowed. Because of the risk of Largo being in a dominant position, we will exclude licensing of severable improvements from further analysis.

Grant-backs/forwards of non-severable improvements are normally allowed, even if they are exclusive. This will be further elaborated on below. To create incentives, a field of use clause will also be added to this and the compatibility of non-competition law will be further evaluated.

#### 11.4.5.2.2 Field of use

In order to shape the agreement after both companies' interests, using a field of use clause in the licensing of improvements might be a good idea. In this way Smallo will be able to continue to develop on the technology and further their out-licensing options in other field of uses and Largo will be able to use and control the technology in their field of use.

First, restrictions in the field of use in the core scenario fall under the TTBER when companies are within the thresholds of 30%. This means Smallo can restrict the field of use of Largo where they are both below the thresholds.<sup>140</sup>

Furthermore the analysis of that Largo wants an exclusive grant-forward license from Smallo to a specific field of use, gives that this act is considered restrictive to competition because of the limitations in competition such a license would have to Smallo,<sup>141</sup> however it is normally allowed according to art 101 EC treaty.<sup>142</sup> This is because; even though it is restricting competition in many instances, it is necessary for the licensee to make investments into the technology and product to be able to introduce it to the market. Therefore, depending on the level of investment that is needed it might still be allowed.<sup>143</sup> However if the licensee is in a dominating position, it will normally not be allowed due to the higher barriers to entry the market that might exist on the market with a dominant actor.<sup>144</sup>

Moreover, Largo might want to give Smallo a non-exclusive grant-back license to use the technology in their fields of use. Because of the non-exclusivity, it would be considered to foster technology diffusion, be beneficiary to competition and also have the potential to share the benefits to customers. Thus there are no competition restrictions to either Largo or Smallo in such a deal. This is the same for non-exclusive grant backs with field of use.

This gives us that Smallo will have no problem to restrict the field of use of Largo when below the thresholds of TTBER. However, once above the threshold, an exclusive field of use grant-back restriction can be considered non-competitive, even though it is normally allowed. If Largo is in a dominant position, exclusive field of use restrictions are not allowed in most cases. Finally, non-exclusive grant-backs/forwards are not considered anti-competitive.

#### 11.4.5.3 Ownership over the improvements

The interests in this case is that the Largo will want to gain control over the IP by owning the improvements, while the Smallo would also like to own them, or at least in some way gain some kind of control over them. The analysis above shows that assignments of severable improvements are not allowed and assignment of non-severable improvements can theoretically be allowed, but in practice can be hard to enforce.

Furthermore, letting go of improvements from Smallo's point of view might be very unfavorable for Smallo since the future value and the usage of the technology might lay in the improvements. Not

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<sup>140</sup> TT Guidelines, para. 184

<sup>141</sup> TT guidelines, para.185

<sup>142</sup> TT Guidelines, para. 165

<sup>143</sup> TT guidelines, para. 165

<sup>144</sup> TT guidelines, para 166

being able to control their own improvements will also lower the incentives to innovate further and limit the ability for them to pursue their business plan of making money out of the technology they innovate.

Given the above, and that there is a risk that Largo is in a dominant position and that increases the odds of the assignment of rights being non-competitive, we will not go further into the assignments of rights.

#### *11.4.5.4 Division of improvements*

When decided that improvements are not going to be assigned, a system to divide the improvements is needed. Both companies can in this deal make improvements to the technology. Smallo will however probably make improvements to a larger extent than Largo and it is in both companies' interest to gain control of the other ones improvements. For Smallo's part; to further develop and license the technology into other markets, and for Largo; to use the improvements and new functionality of the improvements and incorporate them into future products.

Smallo might want Largo to grant Smallo rights to improvements that they might come up with relating to the technology of Smallo's. This might also be of interest to Largo, since the more they share, the more Largo gets out of the relationship. At the same time Largo wants Smallo to grant rights to improvements in the same manner. This relationship, if treated right, has the potential of ending up in a long term collaboration. According to the interviews, making deals into long term collaborations are more likely to accomplish better innovation trade-off effects.<sup>145</sup>

It is worthwhile to notice that improvements to a technology when two companies are engaged into a collaboration, is normally owned by either the one that has contributed to the improvement, or by differentiation; the one whose initial IP that the improvement builds onto is the owner of the improvement. In practice this is however very hard to determine, and it is important that this is regulated properly. If not, the agreement will be lacking certainty and problems will arise further on.

In this section it was intended that the writer should have gotten hold of agreements from the actors to further develop the way in which improvements can be divided. But since this turned out to be hard, this topic will not be further elaborated upon.

#### *11.4.5.5 Protection of assets*

To properly gain protection over improvements, companies need to agree to how to protect the assets incorporated in the deal. To put it differently, how to keep know-how secret, protect assets such as patentable improvements from being released into public domain and how IP protection is to be acquired in each case. How the improvements are protected will be outside the scope of this thesis, but what has to be noted here is that someone has to pay for the protection, reasonably the owner of the improvement.

#### *11.4.5.6 Creating incentives by legal terms where ownership is transferred*

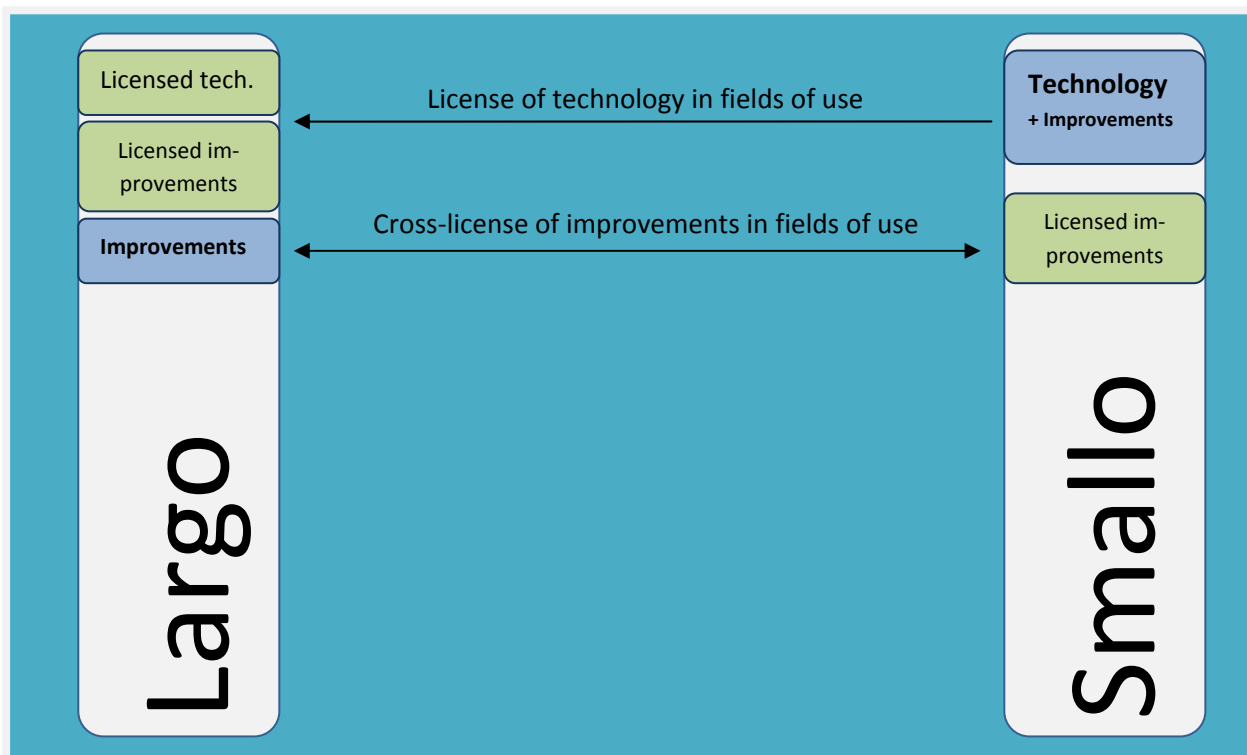
To create the highest incentives to innovate and collaborate, one has to look closely at the different companies' business models and try to shape an agreement that finds that space in the middle where both companies will have the highest potential freedom and incentive and to work hard for the improvements and where the agreement is legally valid.

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<sup>145</sup> Interview B2

According to the above; an example of this would be if Smallo will license a right to use non-severable improvements of the technology to Largo, either exclusive or non-exclusive, with a restriction for Largo to use it within the field of use of incorporating it into the device of Largo. A cross license back from Largo to Smallo for the potential improvements that are developed by Largo can be added to create incentives for a long term collaboration if needed.

What this deal gives us is that Smallo owns the technology and licenses it to Largo who can use it for the purposes that it needs it. To get the most out of the relationship and improvements to the product, a cross license to improvements will be issued. This will give Smallo incentives to improve even further on the technology that Largo is using, and it gives Largo a constant feed of new improvements to the technology. The license could look something like this:<sup>146</sup>



1. A royalty based non exclusive/sole/exclusive cross license to be able to:
  - a. Use;
  - b. Make;
  - c. Sell to a third party; and/or
  - d. sub-license to sub-contractors to a third party

the non-severable improvements; within the field of use.

Smallo might want to think twice about the implications of a license of non-severable improvements as long as the license agreement is valid. This is a very favorable clause to Largo and might be replaced by some kind of option to license improvements for Largo or a grant-back of all improvements that Largo will make to the technology. One of the issues for Largo in this case would be that it has less control over the improvement than when owning it. In this setting Largo has to govern the control by improving on the technology themselves and build a control position that way and controlling Smallo's improvements through contractual agreements. Largo is therefore is a little bit

<sup>146</sup> This is not supposed to be a clause, but an example of how the license can look like

more vulnerable after it has incorporated the technology into their products to that Smallo terminates the deal and they risk losing the technology and thus the functionality that it offers. It has to be added though that drafting a good contract can protect Largo from many of those dangers.



## 11.5 ACCESS TO KNOW-HOW

The companies will need to secure the transfer of know-how in this license deal. There are not so many good ways of doing this though.

### 11.5.1 PROTECTION OF KNOW HOW

Trade secrets and know-how, can include everything from industrial secrets to patentable inventions or secret recipes, the recipe for coca-cola being the most famous example of the latter. Furthermore, when claiming trade secrets, the regulations and ways to deal with this differs substantially from country to country. To even complicate matter, regulation concerning know-how is often absent. The intent of this section is to go through the common framework for trade secrets set out by the TRIPS agreement, explaining the way Swedish law deals with the topic and in the end explain how know-how is dealt with.

#### 11.5.1.1 TRIPS regulation

A trade secret is defined by the World Intellectual Property Organization (WIPO) as confidential business information that provides a company with a competitive edge, and further explains that it includes manufacturing or industrial and commercial secrets.<sup>147</sup> It can; contrary to patents, gain protection without registration. But to gain protection, some certain conditions have to be met. But once the conditions are met, the protection can be valid for an unlimited amount of time. The conditions that need to be met vary from country to country, but to acquire some sort of standard, countries that have ratified the TRIPS agreement have agreed to a "minimal"-standard. This standard is regulated in Art. 39 that states in order to gain protection as a trade secret the information must: 1. be secret and not generally known among, or readily accessible to, circles that normally deal with the kind of information in question, 2. have commercial value, and 3. some reasonable steps have to be taken by the company to keep the information secret, such as NDAs.<sup>148</sup>

Information that is considered trade secrets by TRIPS, will gain protection under national law of the country that has ratified the TRIPS agreement.<sup>149</sup>

#### 11.5.1.2 Protection under Swedish law

The Swedish law concerning trade secrets article 1; states that *information, concerning a business- or a management condition/circumstance in a business that the business administration keeps secret and if the disclose of it is meant to or has the effect of damaging the business in a competition regard* is considered a trade secret and therefore protected by Swedish law.<sup>150</sup>

To explain this further, the word information in this context has the same meaning as the word information in an ordinary sense; that is: data, knowledge of any type that can be communicated.<sup>151</sup> The word has a very broad coverage and includes all kinds of information, even basic and simple. It covers technical information as well as information concerning commercial relations.<sup>152</sup>

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<sup>147</sup> World Intellectual Property Organization, *What is a Trade Secret?*, [http://www.wipo.int/sme/en/ip\\_business/trade\\_secrets/trade\\_secrets.htm](http://www.wipo.int/sme/en/ip_business/trade_secrets/trade_secrets.htm) (last visited April 22, 2010).

<sup>148</sup> Blakeney, Michael (2007)

<sup>149</sup> Agreement (TRIPS) on Trade-Related Aspects of Intellectual Property Rights, Art 1

<sup>150</sup> Lagen (SFS1990:409) om företagshemligheter

<sup>151</sup> Svenskt näringsliv (2004)

<sup>152</sup> AD 2003 nr 21

However, to be classed as a trade secret, it has to be information related to a business- or a management condition/circumstance. Here we have to draw a line between what is: information that exists within a business and information that is merely a personal skill, experience or knowledge that is found within a certain individual of the company, where the latter is not classified as a trade secret.<sup>153</sup>

Furthermore, it is not enough that the information reside in the company as such, to be classified as a trade secret, it has to be company specific and by that is meant that it cannot be something that is commonly known within the industry.<sup>154</sup>

There is moreover a requirement that the information should be kept secret. This is not to be confused with that is has to be completely secret and no one can know about it. But it cannot be available to everyone at the company. An example of this would be a material that was claimed to be a trade secret was put in a binder at an office that everyone had access to, and because everyone had access to it that easily, it was deemed not a trade secret.<sup>155</sup> It is not a problem if the information is known by many if the company has made known, or if it is obvious that the information should not be spread outside of a certain sphere. This can be done by having the information locked in a room and that there are for example certain security measurements taken to always have the room locked.<sup>156</sup>

Furthermore the requisite that the disclosure of information is meant to cause harm is aimed toward that the information shall have value in the hands of the company. This is not a high demand in the law; it usually only takes that the situation in general can cause harm to the company.<sup>157</sup>

### 11.5.1.3 *Regulating know-how in agreements*

As said above, there is little regulation concerning know-how transfers. This is an area where the protection is designed using the agreement. If know-how should be included in a license, it should be explicitly and clearly stated so that it is clear what the know-how deals with that is included. Know-how can be licensed in a tangible form, such as documents, manuals, etc. This is often referred to as technical information or data. Know-how can also be licensed in an intangible form such as an expert from Smallo educates an expert from Largo in a specific matter or an expert visiting Smallo's facilities or such.

It is obvious that it is hard to control the information that is passed on and that is intangible in peoples' minds. This is a real problem when licensing know-how. The more explicitly stated in the agreement though, the easier it is to safeguard the agreement when know-how is disclosed to unauthorized persons.

### 11.5.2 CONCLUSION

The conclusion to this section is that it is hard to protect and claim know-how in the context of trade secrets. There are a many aspects to take into consideration and one has to fulfill many conditions for it to be upheld. Furthermore, when licensing know-how, it is important to clearly regulate what content that is to be transferred by explicitly stating it in the agreement.

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<sup>153</sup> Prop. 1987/88:155 s.34f

<sup>154</sup> AD 2003 nr 21

<sup>155</sup> AD 2003 nr 21

<sup>156</sup> AD 2003 nr 21

<sup>157</sup> For further reading see: prop. 1987/88:155 s.36ff

## 11.6 OWNERSHIP OF RESULTS

Ownership of results can be a big issue in deals where large numbers of results are generated. Those deals normally involve some kind of collaboration or any other setting which enables the generation of large numbers of data. In our case, we have a technology that is going to be incorporated into a larger device or Largo. Given that, Largo might not be so keen on sharing data on the incorporation of the technology, since that would most certainly involve disclosing how the larger device is working or build, which might be trade secrets. Smallo on the other hand would have little to benefit from knowing about Largo's device since that is probably outside the field of Smallo's specialization. Smallo on the other hand might not generate results that spring out of this deal, since they are only going to transfer the technology. Everything else could be included into the section of improvements.

## 11.7 CONFIDENTIALITY

Confidentiality core objectives are to hinder disclosure of secret or potentially harmful information, such as financial information, technical information, knowhow etc. As stated above, confidentiality is regulated in the rules of the agreement, apart from trade secrets which has its own regulation. Furthermore, confidentiality is strongly suggested to be mutual to assure both companies safety and assist protecting and claiming IPRs.

There have been problems in this section to get information from the interviews and from written material, therefore the analysis will be limited.

### 11.7.1 CONFIDENTIALITY AND THE CORE SCENARIO

#### 11.7.1.1 *Know-how disclosure and enforcement*

Problems might occur when regulating confidentiality between the actors in the core scenario. One has to keep in mind that the different companies have different relative strengths in a negotiation process. Largo might have a considerable stronger position because of the size, market power, buyer power, access to lawyers, money, etc. Being much larger, Largo has a higher potential to dictate the provisions of the confidentiality agreement.

Smallo on the other hand might be put in a situation where it, because of its size and resources might have to comply with provisions that Largo will dictate. This might lead to more extensive confidentiality which might affect how Smallo will be able to do business in the business arena. Furthermore, if Largo breaches the contract, enforcement is expensive and might not be affordable by Smallo. Therefore, Smallo will probably not be able to enforce the confidentiality in court proceedings because of the extensive costs of suing Largo. This puts Smallo in a potential unfavorable situation in respect to Largo when assessing the ability to protect its assets from being unlawfully exploited and to take measurements towards enforcement of the deal. This will equal to a greater risk for Smallo to disclose information and even though Smallo has an effective confidentiality clause, it might be of less value when Smallo cannot enforce it. This is of course highly dependent upon how the clause it worded.

Moreover, the gathering of evidence can be very tricky to deal with when you have such a large company against you, for example because of the problems of prove that the information was not

available to any of the divisions inside of Largo at the time of the agreement.<sup>158</sup> And if that can be shown, Largo will have a multitude of strategies to win if they need to, ranging from stalling the process in court proceedings until Smallo might run out of money, to showing that that information was already known to one of the divisions inside Largo.

On the other hand, even if the enforceability is hard, it is crucial to have such a clause in the agreement according to interviews, since having it there makes larger companies respect the deal to a much higher extent.<sup>159</sup>

Furthermore, another problem for Smallo would be the sharing to much of their information, for example; technical information that might be patented. Sharing this kind of information might put Smallo in a very risky position in relation to Largo. This is because of that Largo can in a situation like that say that this was known to one of their divisions beforehand and destroys the novelty criteria, leaving Smallo without protection for the technical information. In normal cases this might have been ok, since it was passed along using a NDA and thus not losing novelty. But in a case where the larger party can claim that the information existed within the company before the NDA was signed, will destroy the novelty and thus also the patentability.

#### 11.7.1.2 *Willingness to share confidential information*

Another issue in this is the willingness to share information by the two parties. From interviews it has been found out that both parties has the common understanding that nothing confidential will be disclosed before the agreement is in place, and additionally, for actors to share confidential information there has to be a deal. Before the actual deal is signed, Largo will in all cases try to get Smallo to not share any confidential information, since that will taint Largo.

But both Largo and Smallo has to share some information in a negotiation, and doing that will create a risk for Smallo in our case of losing the information and Largo being tainted by confidential information. Smallo will in most cases be forced to share more confidential information than Largo, since they need to show that they can answer to the specification that Largo has.<sup>160</sup>

When a deal is signed, the large company sees no problems with sharing information under a confidentiality agreement. Smallo on the other hand still has to face the risks of showing too much of their inventions. Solutions available to Smallo in our case is the production of a chip that includes all the functionality that Largo needs, since that will lower the risks of Smallo's technology to be exploited in a illegal fashion.

Given the above, the willingness from both sides to share confidential information is not considered to be high.

#### 11.7.1.3 *Keeping track of confidential information*

Moreover, when interviewing the companies, the larger companies claim that confidentiality is a problem to them and they are very hesitant to signing any confidentiality before an agreement is signed, since that would taint the company or certain people working within the company.<sup>161</sup> Another thing that has come up is the problem in large organizations to keep track of which information is confidential and what is not. This can potentially lead to reduced efficiency of larger companies,

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<sup>158</sup> Interviewee B1, B2, B5, B3

<sup>159</sup> Interviewee B1

<sup>160</sup> Interviewee B1, A7

<sup>161</sup> Interviewee A7

since it is hard to keep track of what can be said and what cannot in a large company like Largo.<sup>162</sup> On the other hand, smaller companies reply that confidentiality is less of a burden to them because of their size, but still far stretching competition clauses will put them in a less favorable situation since they might not be able to speak as openly as they ought to do to spread the word of and sell the invention.<sup>163</sup>

### 11.7.2 CREATION OF CONFIDENTIAL INFORMATION

This thesis will not go further into the creation of confidential information as a result of the licensing deal.

### 11.7.3 ALTERNATIVE WAYS OF HANDLING CONFIDENTIAL INFORMATION

#### 11.7.3.1 *Intermediaries*

Alternative ways to deal with the issue of confidentiality for the core scenario would be the use of intermediaries. This is proposed from several actors in the field.<sup>164</sup> Such a deal would include no sharing of confidential information between Smallo and Largo before the deal is signed.

Instead by the use of intermediaries; confidential information, such as technical information, specifications, etc, will be passed on by Largo and Smallo to an "objective" middle man who will, under confidentiality obligations, handle the confidential material, investigate it and see if there can be a deal between the two, before sharing anything confidential with either of the companies involved. This is supposed to happen before a negotiation so that neither Smallo, nor Largo will have to share anything confidential with each other until the deal is made.

Doing this will gain Largo since it will keep Largo from being tainted with confidential information if the deal should break down. From Smallo's perspective, this will lower the risks of losing control over information by sharing information with Largo.

This is not done by companies to a large extent right now in deals like the core scenario, according to interviews.<sup>165</sup> The question is whether or not this is a working solution. Firstly, the intermediaries might have conflicting interests in doing business with different actors and that might affect the outcome of the deal, potentially to the favor of the Larger companies, for example since the intermediary will be interested in being used again by the Larger company. Secondly, the intermediary will sign a lot of confidentiality agreements, and the question for how long the intermediary can stay in business without breaching any of them, because of the large access to confidential information it holds, doing business with different companies.

Moreover, using intermediaries will most certainly not save time or costs of a simple individual licensing deal.<sup>166</sup> However, this method might be more suitable and successfully used when it comes to complex and more time consuming licensing deals where confidentiality is highly valued.<sup>167</sup>

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<sup>162</sup> Interviewee A7, A6

<sup>163</sup> Interviewee B1

<sup>164</sup> Interviewee A7, B1, B6, A2, A6, B5

<sup>165</sup> Interviewee A7

<sup>166</sup> According to interviews; one deal will cost around €45'000

<sup>167</sup> Interviewee A7

### 11.7.3.2 Contractual

In confidentiality agreements it is of value to identify what information is to be confidential. An ill-specified confidentiality clause often leads to uncertainty for companies as to what can be used and shared and what cannot. Disputes over ill-specified clauses readily arise in courts whether information that is disclosed should or should not be seen as confidential. One example of overcoming this issue is that confidential information can be specified in the agreement or be agreed upon to be specified on sharing of that information by clearly marking the information confidential.

It is of value to specify the confidential information so that information does not leak out to third party. If that information is passed onwards, there might be a problem with patenting let's say an improvement that has been invented. Another example is financial information or information on the other company, which can be crucial to protect from coming in the hands of competitors.<sup>168</sup>

#### 11.7.3.2.1 Identifying recipients

Another way of making the confidential agreement more clear is to identify recipients within the receiving party. Even though in our case as the receiving party would be Largo, specifying people within the company who has access to the information would most certainly give Largo a headache since it can be hard to know in advance who needs access to the information.

#### 11.7.3.2.2 Specifying terms

Finally, it is of great value to specify a term when the confidentiality obligation ends. The most used term when it comes to technology transfer today might be five years after the termination of the agreement. In this case it is important to have a specified beginning to the five years, what is meant by the termination of the agreement, and a specified term, i.e. five years.

### 11.7.4 CONFIDENTIALITY AND NON-COMPETITION LEGISLATION

Confidentiality obligations are not generally restrictive to competition,<sup>169</sup> meaning it is generally ok to impose a confidentiality obligation to the other party. Furthermore it is ok for Smallo to make Largo obligated to maintain confidentiality for a period of time after the agreement is terminated. This is because of that the commercial value of the know-how that is licensed lies in having the know-how secret and confidential, and that every disclosure is of harm to the licensor.<sup>170</sup> Since non-disclosure is an indispensable condition to the licensing of know-how, the licensor can oblige the licensee to uphold the confidentiality-terms for as long as the know-how is secret.<sup>171</sup> This has been rectified in case law in *Boussois/Interpane*,<sup>172</sup> where the Commission upheld an agreement stating confidentiality to be valid for five years after the termination of the agreement. Five years was used because this was considered the average life of that type of know-how. As regards to patents or other IPRs, confidentiality can be upheld for as long as the right has not expired.

### 11.7.5 GENERAL REMARKS

Confidentiality is one of the core building blocks in IP management. Much of the IP protection is resting on confidentiality and novelty of innovation. Disclosing technical information or other informa-

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<sup>168</sup> Ramberg (2005), p.119ff

<sup>169</sup> TT Guidelines, para 155

<sup>170</sup> See *Delta Chemie/DDD* OJ [1989] 4 CMLR 535

<sup>171</sup> Anderman (2006), p.212

<sup>172</sup> *Boussois/Interpane* [1988] 4 CMLR 124

tion will many times jeopardize protection of the asset, thus the ability the build value on it. It is therefore of highest priority to be able to agree to handle matters with the highest degree of confidentiality to foster trade and technology transfer.

When signing a confidentiality agreement or taking in a confidentiality clause into the agreement of Smallo and Largo, both the companies need to be bound by the confidentiality. It is not sufficient that only Smallo will have to keep things secret, because a leak can harm Smallo in the same way as Largo. This is good and will benefit technology transfer and diffusion to end customers since it will lead to more IP protection which can be built value into by developing for example products. Furthermore if there is an improvement that will be patented, both the companies need to be bound by a secrecy clause to be sure to claim it.

### 11.8 BOTH PARTIES FREE AT THE END OF THIS ARRANGEMENT TO GO SEPARATE WAYS WITH NO CLAIMS MADE BY EITHER

The idea that both parties can leave the arrangement without claims made by either is hard to uphold in reality when we start dealing with improvements and other IPRs that are created in the future. When buying a product, like a lamp or a bike, one can pay the money and then go use the bike. But even then warranties and legal liabilities can still be binding. Such as if the bike has a substantial fault that was hidden at the time of the arrangement.

In our case, it gets more complicated. As our setup looks like right now, there are license deals that occur, there might even be technology ownership that is transferred and a whole bunch of confidential information in the form of know-how, trade secrets, patentable inventions, etc. There is just no way that both parties can leave a setup like this without obligations and liabilities.



## 12 RESULTS

By comparing the actors interests and problems, one can create incentives for the companies to work together to create future value for both companies involved. The deal that is drafted by the help of incentives must then furthermore fall within the legal gameplan in which it is legally OK to act within, considering non-competition and other legislation.

If interests, problems and incentives can be used and balanced in the business arena in deals like the core scenario, both the small and the large company will benefit. Taking into account the business plan and strategy of both the small and the large company might in many ways create additional fuel to spur inventiveness to innovate and improve the technology in the smaller companies, thus spilling over improvements into the larger companies as the collaboration advances.

By the use of legal tools in the creation of a business deal like the core scenario, one can create and manage incentives in an appropriate way to balance a deal. We will look at specific examples to the sections concerning initial IP, improvements and confidentiality and focus on them. Know-how is hard to claim and protect and therefore it will be left out.

### 12.1 LEGAL GAMEPLAN

Agreements signed in the core scenario are, as discussed above subject to a variety of restrictions by legislation. By using the above analysis, it can be analyzed whether or not the action/restriction is OK to do or if it is not OK from a legal point of view. The legal gameplan sets the limits for what is allowed and the examples below fall within the legal gameplan if not stated otherwise.

### 12.2 EXAMPLES ON HOW TO CREATE VALUE BY THE USE OF INCENTIVES

By regulating the ownership and the use of exclusivity in combination with field of use restrictions, one can help Smallo to build the freedom and incentives they need to be able to innovate further and allow for the creation of new revenue streams from deals within other markets, at the same time that Largo gets the control and the competitive advantage they need in their market. Furthermore, legal tools can be used to control the ownership of technology in a deal where Smallo will potentially stand for most of the improvements, thus enabling Smallo to profit and benefit from their improvements, and at the same time allow for Largo to profit from the use and incorporation of the functionality of the improvements into their devices. Moreover, legal tools is used to control know-how transfer between companies through confidentiality and thus allowing for a more open collaboration, which in turn might lead to more collaboration and further improvements. This thesis wants to show that legal tools can be used in a creative process that leads to further technology diffusion and more business opportunities for both Smallo and Largo.

#### 12.2.1 INITIAL IP TO BE LICENSED

When looking at the first topic of the analysis, the initial IP to be licensed. Smallo would be interested in; being free to develop upon, improve and own the IP so that it can pursue other licensing strategies to gain more profit. While Largo is interested in using and incorporating the IP into their device and depending on the case, sometimes this will have to be done exclusively. Since the exclusivity will be restricting Smallo, a field of use clause is suggested which restricts Largo from using the technology in other fields than stated. This will create additional freedom and incentives for Smallo to develop the technology and at the same time not restrict Largo's use of the technology according



to their interests. Doing so, Largo can even in certain cases, if it needs to, get an exclusive deal without restricting Smallo too much.

The problem here is defining the field of use. A too wide definition will diminish the field in which Smallo can act within. An example would be having the field of use for Largo defined as 'electronics' for a chip of which the functionality comprises in a novel way to turn machines on and off, making it cover mostly all electronic devices, thus making Smallo's ways to pursue other licensing strategies very limited and defeating its own purpose. This can even be problematic in a non-competition aspect. Here the field of use has to be balanced between to fit the goal and interests of the actors to gain the most out of the deal, but also to reduce the risk of problems concerning non-competition legislation.

The freedom that is given to Smallo in this context creates a freedom to innovate and improve on the technology and enables Smallo to pursue additional licensing deals to create additional revenue streams for Smallo outside Largo's field of use. Largo on the other hand will gain freedom to use the technology in their field of use and incorporate the technology into their device to gain increased functionality and a competitive advantage against its competitors. This is obtained with a small decrease of freedom for Smallo and no loss for Largo in relation to the goals that the companies have.

The core aspects to focus on when in negotiations concerning this topic is: arriving at a clear definition of what is included in the initial IP, attach a specification thereof and specifying the terms of the license. And finally define the field of use so that they fit the interests of the companies.

#### 12.2.2 OWNERSHIP OVER THE IMPROVEMENTS MADE TO THE COMPONENT AND TO THE FUNCTIONALITY OF THE TECHNOLOGY INTO WHICH THE COMPONENT IS TRANSFERRED.

Smallo would be interested in being able to develop the technology further, own the non-severable improvements and pursue other licensing strategies to gain more profit from it. Largo on the other hand is interested in owning or controlling the non-severable improvements so that a competitor will not get hold of them. Here, the usage of field of use clauses becomes a handy tool to solve the conflicting interests. We can by granting Largo a exclusive license to the non-severable improvements in a specific field of use restrict Largo's competitors from getting their hands on the technology at the same time as Smallo will be incentivized to improve the technology further by being free to pursue other licensing setups in other fields of uses.

In this case, Largo will sacrifice their ownership of the improvements and not being able to build their patent portfolio, but instead it will get access to future functionality in the form of non-severable improvements from Smallo. Smallo on the other hand will in this case be granted freedom to innovate, improve on the technology and to pursue additional licensing deals adding additional revenue streams for Smallo outside of Largo's field of use. Smallo will by this be incentivized to create additional improvements that will gain value to both Largo and Smallo's businesses. We can even go further and create a cross licensing deal of improvements between the actors, so that any non-severable improvements that Largo will come up with will be licensed to Smallo. This will further increase the incentives to work together and open up towards each other when it comes to development of the technology. Regulation of the division of ownership of improvements and confidentiality is needed if this is to be further explored.

Core aspects to focus on in the negotiations are: clearly define what is included in the non-severable improvements, define the terms and specify what is included in the license of the improvements, clearly define the field of use, define who owns future improvements.

### 12.2.3 CONFIDENTIALITY

The interests of Smallo in relation to confidentiality would be to lower the risks of sharing confidential information with Largo. The interests of Largo would be to gain control over the information shared and protect it so that nothing leaks to their competitors. Both companies have an interest of clearly defining what information is confidential and how that can be used, to be able to uphold the agreement.

By listening to Smallo's perspective, clearly defining what information that should be considered confidential and how it becomes confidential, working with the clarity of the confidentiality clause and using different methods to assure that the confidential information that is given by both actors is respected, Largo can create incentives for Smallo to finalize the deal and to work together with Largo in this case. According to interviews, deals can break down during this phase if Smallo feels too pressured. Furthermore, the clearer an agreement is on what information is confidential and how it can be used, the easier it is for companies to comply with the clauses in the agreement.

By doing this; benefits of the agreement can be gained concerning, clarity and trust between actors and incentives for both Smallo and Largo to comply with the agreement. Largo will also gain more control of the information so that nothing will fall into the hands of the competitors. By using methods as intermediaries in more complex licensing agreements, one might accrue the benefits for Largo by not being tainted by confidential information that it not necessary and Smallo will benefit from the lowered risks of sharing confidential information. This is a delicate matter and since the writer did not get hold of more agreements, the investigation in this part is limited.

When it comes to confidentiality, core aspects to focus on in the negotiations are: binding both parties to the confidentiality obligations, specify what is confidential and explicitly state what and how information becomes confidential, how it shall be handled, specifying terms and dates when the confidentiality begins and ends, specifying recipients of the confidential information, trying to use intermediaries or such to help Smallo limit the risks. Furthermore, never under any circumstances share confidential information that can be patented before a patent application is handed in. This is very risky to do and can lead to that the novelty criteria is destroyed making it un-patentable, since it opens for the risk that the other actor will say that this was already known to them.

### 12.3 LOOKING AHEAD...

The analysis above shows that by restricting the space in which the negotiations can be held by the application of the legal gameplan, the balancing of interests and creation of incentives done below addition value can be created for both of the companies in the deal. Additionally, one might also suspect that focusing on the issues above has a potential of leading to decreasing costs for and time spent on negotiating licensing deals for both actors.

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## 13.3 LEGISLATION, DIRECTIVES AND OFFICIAL DOCUMENTS

### 13.3.1 SWEDISH

#### 13.3.1.1 Acts

Act (SFS 2008:579) on Swedish non-competition

Act (SFS1990:409) on protection of industrial secrets

#### 13.3.1.2 Official documents

KKVFS 2009:1 Konkurrensverkets allmänna råd om avtal av mindre betydelse (bagatellavtal) som inte omfattas av förbudet i 2 kap. 1 § konkurrenslagen (2008:579);

Prop. 1987/88:155

### 13.3.2 INTERNATIONAL LEGISLATION

Agreement (TRIPS) on Trade-Related Aspects of Intellectual Property Rights

### 13.3.3 EUROPEAN

#### 13.3.3.1 Recommendations

Commission Recommendation (96/280/EC) of 3 April 1996 concerning the definition of small and medium-sized enterprises (Text with EEA relevance)

#### 13.3.3.2 Treaties

Consolidated version of the Treaty (2008/C 115/01) on the Functioning of the European Union - PART THREE: UNION POLICIES AND INTERNAL ACTIONS - TITLE VII: COMMON RULES ON COMPETITION, TAXATION AND APPROXIMATION OF LAWS - Chapter 1: Rules on competition - Section 1: Rules applying to undertakings - Article 101-102 (ex Article 81-82 TEC)

#### 13.3.3.3 Regulations

Council Regulation (EC) No 1/2003 of 16 December 2002 on the [implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty](#), Official Journal L 1, 04.01.2003, p.1-25

Council Regulation N° 19/65/EEC of 2 March 1965 on [application of Article 85 \(3\) of the Treaty to certain categories of agreements and concerted practices](#), Official Journal 36, 6.3.1965, p. 533–535

Commission Regulation 330/2010 of 20 April 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices. Official Journal L 142, 23.4.2010, p.1

Council Regulation No 2821/71 on [application of Article 85 \(3\) \[now 81 \(3\)\] of the Treaty to categories of agreements, decisions and concerted practices](#), Official Journal L 285 , 29.12.1971 p. 46-48

Commission Regulation (EC) No 2658/2000 of 29 November 2000 on the [application of Article 81\(3\) of the Treaty to categories of specialisation agreements](#), Official Journal L 304, 05.12.2000, p. 3

Commission Regulation (EC) No 2659/2000 of 29 November 2000 on the [application of Article 81\(3\) of the Treaty to categories of research and development agreements](#), Official Journal L 304, 05.12.2000, p. 7

TTBER, Commission Regulation (EC) No 772/2004 of 27 April 2004 on the [application of Article 81\(3\) of the Treaty to categories of technology transfer agreements](#), Official Journal L 123, 27.04.2004, p. 11-17

#### 13.3.3.4 Notices

Commission Notice on [agreements of minor importance which do not appreciably restrict competition](#) under Article 81(1) of the Treaty establishing the European Community (de minimis) Official Journal C 368, 22.12.2001, p.13-15

Commission notice on the [definition of the relevant market](#) for the purposes of Community competition law, Official Journal C 372, 9.12.1997, p. 5–13

Commission Notice - [Guidelines on the applicability of Article 81 to horizontal co-operation agreements](#), Official Journal C 3 of 06.01.2001, p. 2

TT Guidelines, Commission Notice (2004/C 101/02) - [Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements](#), Official Journal C 101, 27.04.2004, p. 2-42

#### 13.3.3.5 Communication

Communication from the Commission — Guidance on the Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings (Text with EEA relevance)

Communication from the Commission - Notice - [Guidelines on the application of Article 81\(3\) of the Treaty](#), Official Journal C 101, 27.04.2004, p. 97-118

## 13.4 CASE LAW

### 13.4.1 SWEDISH CASE LAW

AD 2003 nr 2

AD 2003 nr 21

### 13.4.2 EU CASE LAW

Almelo [1994] ECR I-1477

Boussois/Interpane [1988] 4 CMLR 124

CEWAL [1993] OJ L 24/20

Delta Chemie/DDD OJ [1989] 4 CMLR 535

Hoffman-La Roche [1979], ECR 461

Italian Flat Glass [1992] ECR II-1403

United Brands vs. Commission [1978] ECR 207

Elonex/Microsoft, Report on Competition Policy 2000, 152.

## 13.5 INTERVIEWS

A1: Large company; President, Strategy & Innovation (March 4th, 2010).

A2: Large company; Director of IP licensing (March 11<sup>th</sup>, 2010).

A3: Large company; Director of IP Licensing (March 10<sup>th</sup>, 2010).

A4: Large company; Director Legal (march 31<sup>st</sup>, 2010)

A5: Large company; Director Licensing (March 25<sup>th</sup>, 2010)

A6: Large company; Vice president, Head of Strategy & Partnerships. (march 31<sup>st</sup>, 2010)

A7: Large company; Vice president, General Counsel (June 2<sup>nd</sup>, 2010)

B1: small company; experienced in-house lawyer (March 12<sup>th</sup>, 2010).

B2: lawfirm; licensing/IP/business lawyer (March 11<sup>th</sup>, 2010).

B3: lawfirm; licensing lawyer (April 13<sup>th</sup>, 2010)

B4: small company; CEO (February 25<sup>th</sup>, 2010)

B5: Lawfirm; Licensing lawyer. (April 13<sup>th</sup>, 2010)

B6: small company conglomerate: CEO (February 24<sup>th</sup>, 2010)