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The Swedish Association for
the Protection of Industrial Property

Public consultation on the draft new block exemption regulation and draft guidelines on the application of Article 81 to technology transfer agreements

General remarks

It is today generally recognized that intellectual property rights (IPR) are important building blocks in an environment conducive to technical and economic progress. In most countries, and certainly in the EU-countries, sophisticated legal systems exist for awarding and enforcing such IPR. A delicate balance is continuously struck between the incentives for development and the foreclosure effects caused by IPR. This suggests that IPR are generally designed with the anti-competitive effects taken into account. The licensing of IPR does not in itself upset this balance. Licensing agreements should therefore basically be viewed as legitimate and daily use of the existing systems.

If the beneficial effects of IPR are to be fully realized, parties must be allowed to structure their agreements in favourable ways at reasonable costs. If the competition law regime applicable to licenses becomes too complicated and restrictive, the IPR system will be damaged. Small and medium sized companies will suffer disproportionately. They may not have the resources for a full legal audit of their contracts and therefore be exposed to uncertainty in their contractual agreements. It is essential that the competition law framework is clear, easy to understand and based on “common sense”. If not, it might be ignored by the parties which would be unfortunate both for the parties and the society at large.

One criticism that has been levied at the existing Technology Transfer Block Exemption (TTBE) is that it is too detailed and creates a straightjacket effect. The Swedish Association

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for the Protection of Industrial Property finds that the proposal for a new TTBE remains too complicated. It may thus fail to create the intended safe-harbour effect. In general, the Swedish Association for the Protection of Industrial Property fears that commonplace technology transfer agreements, which do not usually pose threats to competition, are not shielded sufficiently from competition law concerns by the draft regulation.

The Swedish Association for the Protection of Industrial Property will therefore highlight certain points in the draft, where the situation for parties entering into technology transfer agreements in our view would be unsatisfactory and could be improved without any damage to a healthy competition. Before such and other provisions of the similar kind are modified, the Swedish Association for the Protection of Industrial Property cannot support that the present Block Exemption be replaced by the draft.

Market share

The draft TTBE applies only if competitors have combined market shares that do not exceed 20 percent (article 3.1). If the parties are non-competitors, none of them may have a market share in excess of 30 percent (article 3.2). If these limitations are exceeded the safe-harbour effect provided by the TTBE cannot be used.

A distinction between competitors and non-competitors must be considered carefully. One problem is the difficult assessments involved and the legal uncertainty this may lead to. Both lawyers and economists might have to be employed to assess the market shares before a license agreement can be entered into. Furthermore, parties to patent licenses will continuously have to assess and possibly amend their agreements in response to changes in the market. This places a considerable burden on the parties. Market changes may occur rapidly in high technology. If developments in the markets lead to a situation in which the parties' market shares exceed the limits specified in the TTBE, the agreement may have to be renegotiated or else the parties run the risk of having the agreement invalidated.

Considering these difficulties, the Swedish Association for the Protection of Industrial Property believes that the market share thresholds in the draft regulation have been set too low. Even if two competitors have 10 percent each of the market and they enter into a license agreement, it is unlikely that they will affect the functioning of the market significantly. Market shares in high technology fields are often volatile. New products may appear and quickly replace a licensed product that has had a considerable market share. The threshold market shares could therefore be substantially higher without inflicting harm to competition. The apparent problem associated with too low market thresholds, is that the block exemption will not have the intended safe-harbour effect.

In a number of innovative markets in Sweden potential technology transfer parties will have a combined market share in excess of 20 percent. It may be that the TTBE will only cover minor licensing agreements at the “bottom end” of the market (up to a maximum of 30 per cent market share in the case of agreements between non-competitors). If the safe harbour in the block exemption cannot be applied in significant commercial deals it will decrease the legal certainty that would otherwise be available to parties on the Swedish market. The difficulties of too low thresholds increase when the exemption under article 81.3, according to Regulation (EC) No 1/2003, will get direct effect (from April 1, 2004). Then, it will no longer be possible to apply for an exemption and achieve desired legal certainty in that way. Life science or biotechnology companies may for example face difficulties in consequence of the proposed market share thresholds. Such companies must usually enter into license agreements with pharmaceutical companies in order to develop a product that can be marketed. Probably the parties to such agreements will have market shares in excess of the ones proposed.

Hardcore restrictions

The draft TTBE has a list of hardcore restrictions that apply to agreements between competitors and non-competitors. If an agreement contains one of these clauses the agreement may be invalid. It is stated in the draft Guidelines that only in ”very exceptional cases” can the hardcore clauses be accepted under the *de minimis* exception (cf. Guidelines point 16).

The draft TTBE contains the traditional hardcore restriction related to the setting of prices for contracts with third parties (articles 4.1(a) and 4.2(a)). However, it is also defined as a hardcore restriction between competitors to allocate markets or customers, at least in a reciprocal agreement (article 4.1(c)(i)). Under the present regulation (240/96), territorial restrictions are permitted for a limited period and whether or not the parties are competitors. The licensee can be restricted from making passive sales into another licensee's territory for up to 5 years from the date on which the product was first placed on the market within the EU.

Under the current proposal, no territorial restrictions at all can be imposed in licences between competitors (article 4.1(c)). This suggests that in a cross-license, e.g. an agreement entered into after a settlement of a patent infringement case, there will be a need for both parties to allow the other party an unrestricted use of the patented technology (cf. Guidelines point 81). If this interpretation is correct, it will not be allowed to limit the opposing party's use of the technology that has been in dispute (cf. Guidelines point 196 ff). This obviously risks preventing efficient settlements of infringement cases. Hardcore lists are meant to cover restrictions that are almost certain to lead to a reduction in competition. This does not appear to be the case with settlements of disputes where the parties desire to continue to utilise their own technology and at the same time benefit from the use of a competitor's technology in some field.

The draft regulation also proposes a change in the legal regime compared to the present regulation (240/96), in that it will no longer be permitted to prevent passive sales from other licensees for 5 years from the first market introduction of the product (cf. article 4.2(b)(2)). It will not be allowed to give an exclusive licensee a "head-start" by preventing passive sale to that territory for a limited period. It is very doubtful whether this will have the intended pro-competitive consequences. The lure of a guaranteed 5 years exclusivity – i.e. prevention of passive sales by other licensees – may be a strong motivation for a potential licensee to sign a contract.

Conditions

If certain conditions are present in a license, the agreement will not be eligible for a block exemption. This entails that an assessment in the individual case has to be performed. One such gray clause according to the draft regulation is an exclusive grant-back or assignment to the licensor of improvements to the licensed technology. This means a more liberal approach with regard to grant-back clauses, in that non-exclusive grant-back is permitted under the draft regulation, while non-exclusive grant-back have to be reciprocal under the regulation 240/96. This change is welcomed by the Swedish Association for the Protection of Industrial Property.

An additional gray clause in the draft pertains to clauses that prevent the licensee from questioning the validity of the patent or secrecy of the know-how (non-challenge clauses). The new draft regulation maintains the existing regime with regard to non-challenge clauses. The Swedish Association for the Protection of Industrial Property suggests that it is made clear in the Guidelines that a *bona fide* settlement of an invalidity dispute by way of a non-challenge clause is permissible.

Non-competition clauses

In a significant change from the current TTBE, non-competition clauses (under which the licensee undertakes not to use any competing technologies or manufacture or distribute any competing products) are no longer blacklisted, but permitted up to the 20 or 30 per cent market share level. The Swedish Association for the Protection of Industrial Property welcomes this important change.

The special study of the draft TTBE has been made within the Swedish Association for the Protection of Industrial Property by Bengt Domeij, Örjan Grundén, Jonas Gulliksson and Eric M. Runesson and has been communicated with the Board. Its chairperson hereby transfers the remarks on behalf of the Association,

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