Dr. Guntram Rahn

Dr. Guntram Rahn is a German attorney-at-law and partner in the IP law firm of Hoffmann Eitle, Munich – London.

His main field of practice is industrial property law. Dr. Rahn organizes and coordinates multi-jurisdictional patent litigation and is active as a litigator in Germany. He has handled many multinational lawsuits in Germany, Europe, and Japan. Dr. Rahn also advises clients on contract matters, including license agreements.

Having lived in Japan for fourteen years and studied Japanese law at Tokyo University, he counsels Japanese enterprises on German and European law as well as European enterprises on Japan.

From 1975 to 1992, Dr. Rahn headed the Japan and East Asia Department at the Max Planck Institute for Foreign and International Patent, Copyright and Competition Law in Munich.

From 1998 to 2002, he taught a course on “Innovation and Intellectual Property Rights” at the Koblenz/Kellogg Graduate Schools of Management Joint Executive MBA Program.

Dr. Rahn is author of numerous articles on intellectual property law and Japan.

LICENSING IN THE EUROPEAN UNION

by Dr. Guntram Rahn

Contents

I. Licensing of IP in the European Union
1. The enlargement of the EU and intellectual property licensing
2. Contents of license agreements
3. Applicable law

II. The Legal System of the EU
1. History
2. Community law
3. Text: EC Treaty, Articles 1-5, 28-31, 81-83

III. The 4 Freedoms and Intellectual Property in the EU
1. Free movement of goods etc.
2. Intellectual Property in the EU
3. Structure

IV. The Exercise of Intellectual Property Rights under the EC Treaty
1. Art. 28 EC: Quantitative restrictions and measures of equivalent effect
2. Art. 30 EC: Protection of industrial and commercial property
3. Case law

V. Licensing Intellectual Property and Restraints of Competition
1. Art. 81 (1) EC: Prohibition of agreements that restrain competition
2. Art. 81 (3) EC: Exemptions (individual/TTBER 772/04)
3. Texts: (1) 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
(2) Commission Notice: Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements

VI. Refusal to License and Restraints of Competition
1. Art. 82 EC: Prohibition of abuse of dominant position
2. Case law
3. Outlook

VII. Summary

I. Licensing of IP in the European Union

1. The enlargement of the EU and intellectual property licensing

On May 1, 2004 ten countries joined the European Union, establishing from that day on a common market of 450 million people (compared to a market of 285 million in the United States) in which goods, services and capital freely circulate. The now 25 member states of the European Union share high hopes that their economies will receive a new impetus and that production and trade will profit from this historic development.

As has been generally accepted since Schumpeter and Solow, technological progress is the foremost factor for productivity and competitiveness, for wealth creation and economic growth. Technological progress articulates itself in innovation, and innovation is protected by intellectual property rights. The creation and exploitation of intellectual property is thus a decisive element of innovation, technical progress and economic welfare in the enlarged European Union.

The exclusive right of the owner of intellectual property to use his protected intellectual creation and to prohibit others from using it constitutes the core of intellectual property protection under the national IP legal systems. However, the right to commercially exploit intellectual property is not limited to manufacturing, distributing and selling the protected innovative product. Many owners of intellectual property do not have the resources to engage in such activities, especially in foreign countries. Thus, intellectual property rights can also be exploited by authorizing third parties to use the intellectual property, in other words, by granting licenses.

The wheel had to be invented only once, but imagine how many times you could have licensed it. Many intellectual property owners therefore license their rights to other parties in order to realize a maximum of the financial potential of their intellectual property. This involves negotiating and entering into agreements which reflect the licensor's and licensee's commercial concerns.

Due to the enlargement of the European Union on May 1, 2004, intellectual property licensing in the European Union will certainly also increase.

2. Contents of license agreements

The contents of such license agreements will be determined by the kind of intellectual property right licensed, but apart from that the basic provisions will often be similar in all countries. Nevertheless, legal and cultural differences exist among the member countries of the European Union and must be taken into consideration when drafting a license agreement.

A typical license agreement includes a definition of the subject-matter of the agreement, some common general provisions as well as provisions on the obligations of the licensee and of the licensor.

3. Applicable law

3.1. National civil law

License agreements in the countries of the European Union generally contain standard provisions as exemplified above in the case of a patent license agreement under German law.

The law applicable to license agreements usually depends on the nationality of the parties. If they are both of the same nationality, most probably their own national law will govern their license relationship. If the parties are of different nationalities, they will often choose and agree on the applicable law. Frequently, it is the licensor who has stronger negotiating power and will determine which national law shall apply.

3.2. Competition law

In addition to the applicable civil law, there are regulatory schemes governing license agreements on the applicability of which the parties have no influence. Competition law impacts even standard provisions of license agreements, so that it

is practically impossible to draw up a valid agreement without giving careful attention to competition rules.

Competition law is not part of intellectual property law. However, both fields of law are closely related and have a common ultimate goal, namely to further economic growth. The specific objectives however are different: Intellectual property law, which includes the law prohibiting unfair competition, protects creative accomplishments and the fairness of competition, while competition law ensures the freedom of competition by prohibiting restraints of trade and abuse of economic power.

Generally, licensing is pro-competitive because it encourages the exploitation of intellectual property and ensures that there is more than one potential supplier of the protected products. However, licensing can also be anti-competitive, for example, cross-licensing arrangements between competitors in state of the art technology may reduce competitiveness between such parties if it lessens their incentive to gain technological lead.

In Europe, there exist both national and supra-national competition laws, and both are applicable if the license has an effect in the respective territories. An example of national competition law is the German Act Against Restraints of Competition (*GWB*). The applicable supra-national competition law is provided in the legal system of the European Union. While both the pertinent national and the supra-national regulatory scheme have to be considered when licensing IP in European countries, this paper will focus on the competition law of the European Union which is applicable to all license agreements having effect in the EU.

II. The Legal System of the European Union

Before discussing the specific effect of European competition law on licensing, let us take a short look at the history of what is popularly called the European Union today and the legal system governing it and relevant to intellectual property.

1. History

1.1 The three Communities

A recurrent dream of unification is part of the European cultural heritage. The Second World War finally demonstrated the futility of conquests and the vulnerability of the sovereign state concept. Interdependence of states rather than independence became the key to post-war international relations in Europe. This was also reflected in the trends of global international law, such as the concept and structure of the United Nations.

An admirable example of cooperation and practical application of the call for peace was the first instrument of European integration, the European Coal and Steel Community (ECSC) of 1951. It was built on the premise that, if the basic raw materials for war at that time, coal and steel, were removed from national control, war between the traditional enemies, France and Germany, would become impossible since they would be prevented from developing a war industry.

Some years later, in April 1957 in Rome, a treaty was signed to establish the European Economic Community (EEC), a common market in the six member states Belgium, France, Germany, Italy, Luxemburg and the Netherlands.

At the same time, a second Treaty of Rome which set up the European Community of Atomic Energy (EURATOM) was signed. Its purpose was the coordination of action of the member states in developing and marketing their nuclear resources.

These two Treaties of Rome added two new Communities to the Coal and Steel Community. However, the objectives of the European Economic Community were wider than the objectives of the other two Communities, because the EEC was not a mere specialist organization but an instrument of progressive economic integration with the corresponding political potential. Over the years an outward expansion of the Communities was accompanied by inner growth and consolidation.

1.2 The Treaty on European Union

In February 1992, the Treaty on European Union (TEU) was signed at Maastricht. The extent of this treaty was far wider than the Treaty of Rome. Firstly, it made substantial amendments to the EEC Treaty by widening its scope and effect beyond its original economic field. In doing so, it renamed the EEC Treaty as the European Community (EC) Treaty. It introduced the concept of Citizenship of the Union and set a goal for the creation of a single currency, which was introduced in 2002.

Secondly, the TEU established the European Union, which stands as a separate Treaty. This treaty is political in nature; it seeks to establish cooperation between the member states in fields such as foreign policy, security policy and defense.

The Treaty of Amsterdam of 1997 amended the Maastricht version of the EC treaty and incorporated the Schengen Treaties which abolished border controls for travel between all member states (except Denmark, Ireland and the UK).

The Treaty of Nice of 2001 introduced further amendments to prepare the EU for its enlargement in May 2004.

1.3 The Treaty establishing a Constitution of Europe

On June 19, 2004, a Treaty establishing a Constitution of Europe was signed by the now 25 member states which proclaims in its preamble that

> *while remaining proud of their national identities and history, the peoples of Europe are determined to transcend their ancient divisions and, united ever more closely, to forge a common destiny.*

In historical dimensions this development of European union in a time-span of little more than fifty years is truly incredible.

A few weeks ago the adoption of the Constitution was rejected in referendums held in France and The Netherlands, and the political plans of further fast

expansion and even the inclusion of Turkey in the European Union have suffered a setback. It may take a miracle to enact a European Constitution after all, and only the future will tell, but as Walter Hallstein, the first president of the EEC Commission once remarked, "If you don't believe in miracles in European affairs, you are not a realist".

2. Community law

2.1 The three pillars of the EU

As a political entity, the European Union today rests on three pillars.

The main pillar is the EC Treaty, at present as amended by the treaty of Nice. It establishes the European Community as a subject of international law and provides the primary Community law.

The second pillar consists of political provisions to establish a common foreign and security policy of the EU member states (Title V, Arts J et seq. TEU).

The third pillar consists of political provisions on cooperation between the member states in the fields of justice and home affairs (Title VI, Arts K et seq. TEU).

The political provisions of the second and third pillar are not legally binding. This is because the member states were hesitant to transfer their core competencies of traditional sovereignty, e.g. defense, police and justice, to the European Community. These political provisions are practically waiting to be transformed into Community law. And this process of integration is presently taking place. But as far as Community law is concerned, the EC Treaty alone is relevant.

2.2 Primary and secondary Community law

The EC Treaty embodies what is called the “primary Community law”. It contains the legal provisions on the principles of the Community, the citizenship of the Union, the Community policies and the institutions of the Community.

The EC Treaty also provides the legal basis for the so-called "secondary Community law", which are Regulations, Directives and Decisions.

Pursuant to Art. 249 (2) EC, a *Regulation* has general application. It is binding in its entirety and directly applicable in all member states. In the field of intellectual property law, this legal instrument has been employed to establish uniform rights, e.g. by the Community Trademark Regulation (40/94), the Community Design Regulation (6/2002) and the Regulation concerning Supplementary Protection Certificates (SPCs) for Medicines (1768/92).

Pursuant to Art. 249 (3) EC, a *Directive* is binding on each member state to which it is addressed as to the result to be achieved, but it leaves the choice of form and methods to the national authorities. Directives have been used to harmonize the IP laws in the member states as well as to provide the framework for IP rights yet to be created. Examples are the Council Directives on the legal protection of computer programs (91/250/EC), topographies of semiconductor products, and databases (96/9/EC)

Finally, an important source of law are Decisions (Art. 249 (4) EC Treaty), which are binding in their entirety on those to whom they are addressed.

Moreover, the case law of the European Court of Justice is important as legal precedents since it has the purpose to ensure that in the interpretation and application of the EC Treaty, the law is observed.

3. Text: EC Treaty, Articles 1-5, 28-31, 81-83

See: http://europa.eu.int/eur-lex/en/search/search_treaties.html

III. The 4 Freedoms and Intellectual Property in the EU

1. Free movement of goods, persons, services and capital

The EC Treaty provides for "4 Freedoms" in the common market of the European Union, the free movement of goods, persons, services and capital (Art. 14 (2) EC).

The free movement of goods is realized by a customs union covering all trade in goods and the prohibition of customs duties on imports and exports between the member states and of all charges having equivalent effect as well as the adoption of a common customs tariff in the relation with third countries (Art. 23 (1) EC). Furthermore, quantitative restrictions on imports and all measures having equivalent effect are prohibited between member states (Art. 28 EC).

The freedom of movement of persons in the Community is provided for workers (Art. 39 EC) and also comprises the freedom of establishment of self-employed persons (Art. 43 EC). The freedom to provide services cross-border within the Community may also not be restricted in principle (Art. 49 EC), and all restrictions on the movement of capital between member states and between member states and third countries are prohibited (Art. 56 EC).

2. Intellectual Property in the EU

If you consider the nature of intellectual property rights in the member states of the European Union, a conflict between such rights and the basic principle of free movement of goods in a common market becomes apparent.

Intellectual property rights which are established by the national law of a member state are confined to the territory where they are granted. They are subject to the so-called "principle of territoriality". As long as a Community patent which affords uniform protection in the whole territory of the European Union does not exist, a Europe-wide protection for an invention can only be acquired by obtaining parallel national patents in all member states of the EU.

Each of these patents affords its owner the right to prohibit any third party from making, offering, putting on the market or using a product which is the subject matter of the patent, or stocking or importing the product for these purposes into the territory, i.e. the country, for which the patent has been granted. It is obvious that this national limitation is difficult to reconcile with the concept of a common market.

The basic freedom of movement of goods in the common market proclaimed and guaranteed by the EC Treaty, which is realized by abolishing government restrictions such as customs duties and import and export quotas between member states, would be deficient if patent owners could impose zero quotas by enforcing their national patent right when a patented product is imported from one member country to the member country for which the patent has been granted. This raises the question of the relationship between the rules for the free movement of goods and intellectual property.

It would also be of little use to abolish the government restrictions on the free movement of goods if they could be replaced by agreements between undertakings to keep out of each other's home market. This raises the question of the relationship between rules for free competition in the EC Treaty and intellectual property.

In order to uphold the basic four freedoms and the principle of freedom of competition in the common market, national intellectual property rights are subject to the provisions of the EC Treaty as well, and this has a special impact on licensing in the European Union.

IV. The Exercise of Intellectual Property Rights under the EC Treaty

1. Art. 28 EC: Quantitative restrictions and measures of equivalent effect

The free movement of goods is a fundamental principle of the EC Treaty because it is the essence of a common market. This is reflected in Art. 3 (1) (a) EC, where in a long enumeration of activities of the Community,

> *the prohibition, as between Member States, of customs duties and quantitative restrictions on the imports and exports of goods, and of all other measures having equivalent effect*

is mentioned in first place.

The basic provision regarding the prohibition of quantitative restrictions between member states is Art. 28 EC.

Art. 28 EC reads:

> *Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between Member States.*

"Quantitative restrictions" is a term referring to customs quotas: only so many products A shall be imported from state B each year. An extreme quantitative restriction is a zero quota: no products A at all shall be imported. The right of the owner of intellectual property in one member state to prevent imports of the protected product into the territory where his IP right exists is a measure of equivalent effect to a zero quota: no IPR-protected products shall be imported without his consent. Art. 29 EC provides correspondingly for exports.

2. Art. 30 EC: Protection of industrial and commercial property

Exceptions to Articles 28 and 29 are provided in Art. 30 for measures justified on various grounds, including the protection of industrial property.

Art. 30 reads:

> *The prohibitions of Articles 28 and 29 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or* ***the protection of industrial and commercial property****. Such prohibitions or restrictions shall*

> *not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.*

The mention of "the protection of industrial and commercial property" in Art. 30 confirms that the authors of the EC Treaty thought that industrial property could be of equivalent effect to quantitative restrictions.

Since the IP rights granted by the member states pertain to intellectual property protected under the national laws of the respective state, the relation between the national laws on property ownership and the provisions of the EC Treaty is also relevant. In this regard, Art. 295 EC provides:

> *The Treaty shall in no way prejudice the rules in Member States governing the system of property ownership.*

On this background, the question important for licensing in the European Union is: To what extent are intellectual property rights which are granted pursuant to the national laws of the member states and may be licensed for use in the EU protected in view of Articles 28 and 30 EC Treaty?

3. Case law

1. ECJ, 31 October 1974 (Case 16/74) - *Centrafarm v Sterling Drug*

The leading case on the effect of Art. 30 EC Treaty and the principle of free movement of goods on intellectual property in the EU is the European Court of Justice decision of 31 October 1974 in the case of *Centrafarm v Sterling Drug*.

Sterling Drug held parallel national patents in several countries, including the Netherlands and the Great Britain on a drug for the treatment of urinary tract infections which was sold under the trademark "Negram". Centrafarm bought the drug in Great Britain where it had been put on the market by a Sterling Drug subsidiary and imported it into the Netherlands to sell it there and profit from a considerable price difference, as the product was sold cheaper in Britain than in the Netherlands.

Sterling Drug and its Dutch licensee brought actions before a Dutch court requesting injunctions based on infringement of its Dutch patent and the "Negram" trademark.

The Dutch Supreme Court stayed proceedings in both cases and referred the following question to the ECJ:

> *Do the rules in the EEC Treaty concerning the free movement of goods prevent the IP right holder from exercising the right conferred to him by legislation of the member state to prevent the protected products from being marketed by others, even where these products were previously lawfully marketed in another country by the IP right holder or his licensee?*

Pursuant to Art. 234 EC a national court can ask the ECJ to give a ruling concerning the interpretation of the EC Treaty if it considers a decision on its question necessary to enable it to give a judgment in the case before it.

The ECJ held (summarized):

> *(1) The effect of the provisions of the Treaty on the free movement of goods, particularly Art. 28, is to prohibit between member states measures restricting imports and all measures of equal effect.*
>
> *(2) Pursuant to Art. 30, Art. 28 does not however prevent restrictions on imports justified on grounds of protection of industrial and commercial property.*
>
> *(3) But it appears from the same Art. as well as from the context that while the Treaty does not affect the* ***existence*** *of the rights in industrial and commercial property recognized by the law of a member state, the* ***exercise*** *of such rights may nonetheless affected by the prohibitions in the Treaty.*
>
> *(4) In so far as it makes an exception to one of the fundamental principles of the Common Market, Art. 30 allows derogations to the free movement of goods only to the extent that such derogations are justified for the protection of the* ***specific object*** *of such industrial or commercial property.*

The Court continued:

> *(5) As regards patents, the **specific object** is to ensure to the holder, so as to recompense the creative effort of the inventor, the exclusive right to manufacture and first put into circulation the industrial products, either directly or by grant of licenses to third parties, as well as the right to oppose any infringement.*
>
> *(6) The existence of provisions in national laws on industrial property of provisions that the right of a patentee is not exhausted by the marketing of the patented product in another member state, so that the patentee may oppose the import into his own state of the product marketed in another state, may constitute an obstacle to the free movement of goods.*
>
> *(7) Such an obstacle to the free movement of goods is not justified when the product has been lawfully put on the market by the patentee himself or with his consent in the member state from which it has been imported, in particular in the case of a holder of parallel patents.*
>
> *(8) It a patentee could forbid the import of protected products which had been marketed in another member state by him or with his consent he would be able to partition the national markets and thus maintain a restriction on trade between the member states without such a restriction being necessary for him to enjoy the substance of the exclusive rights deriving from the parallel patents.*
>
> *(9) Thus the exercise by a patentee of the right given him by the laws of a member state to prohibit the marketing in that state of a product protected by the patent and put on the market in another member state by such patentee or with his consent would be incompatible with the rules of the EEC Treaty relating to the free movement of goods in the Common Market.*

This line of argumentation has become the standard reasoning of the ECJ for its *doctrine of exhaustion of national intellectual property rights in the European Union*: If a product protected by intellectual property is put on the market in one member state by the owner of the IP right or with his consent, the IP right is

exhausted and cannot be invoked when the product is imported into another member state.

2. ECJ, 14 July 1981 (Case 187/80) - *Merck v Stephar*

In *Merck v Stephar*, the ECJ held that while it is the specific object of a patent to accord the inventor an exclusive right of first putting the patented product into circulation to obtain the reward for his creative effort, this reward is not guaranteed under all circumstances. It is up to the patentee to decide in the light of all circumstances under what conditions he will sell his product. If he decides to market it in a member state where the law does not provide patent protection for the product in question, he must accept the consequences of his choice as regards the free movement of the product within the common market. National patent rights in the EU are exhausted when the product has been placed on the market by the patentee or with his consent in any member state regardless of whether patent protections exists in the state where the product was marketed. Thus Merck who had sold its drug in Italy at the time when drugs and their manufacturing processes were not patentable in that country was not able to prohibit, based on its Dutch patent, the import of the drug from Italy into the Netherlands by Stephar.

3. ECJ, 09 July 1985 (Case 19/84) - *Pharmon v Hoechst*

In *Pharmon v Hoechst*, however, the ECJ held that the doctrine of exhaustion of IP rights in the Common market does not apply when the product has been manufactured by the holder of a compulsory license. While Articles 28 and 30 of the EC Treaty preclude the application of national provisions which enable the patent owner to prevent importation and sales of a product which has been lawfully marketed in another member state by the patent owner himself or with his consent, these provisions do not preclude the application of legal provisions of a member state which give the patent owner the right to prevent the marketing in that state of a product which has been manufactured in another member state by the holder of a compulsory license, regardless whether the compulsory license fixes royalties payable to the patent owner. This is because where a compulsory license is granted to a third party, the patent owner is deprived of his right to determine freely the conditions under which he markets his product, which is the specific object or substance of the intellectual property right.

4. ECJ, 31 October 1974 (Case 16/74)) - *Centrafarm v Winthrop*

In *Centrafarm v Winthrop*, the ECJ applied its doctrine of exhaustion of IP rights in the Common Market to trade marks as well, holding that the specific object of this right is the guarantee that the owner of the trade mark has the exclusive right to use that trade mark for the purpose of putting products protected by the trade mark into circulation for the first time, and to protect him against competitors wishing to take advantage of the status and reputation of the trademark by selling products illegally bearing that trade mark.

5. ECJ, 20 January 1981 (Cases 55/80 and 57/80) - *Musik-Vertrieb and K-Tel v GEMA*

In *Musik-Vertrieb and K-Tel v Gema*, the ECJ held that the expression "protection of industrial and commercial property" in Art. 30 EC includes the protection conferred by copyright, especially when exploited commercially in the form of licenses for the distribution of goods incorporating the protected work in the member states. Accordingly, neither the copyright owner or his licensee can enforce his exclusive exploitation right conferred by copyright to prevent the importation in that case of sound recordings which had been lawfully marketed in another member state by the owner or with his consent.

6. ECJ, 14 September 1982 (Case 144/81) - *Keurkoop v Nancy Kean Gifts*

Likewise, in *Keurkoop v Nancy Kean Gifts*, the ECJ held that the protection of designs comes under the protection of industrial and commercial property within the meaning of Art. 30 EC as well, so that the doctrine of exhaustion of IP rights in the EU can be said to apply to all such rights that may be the subject matter of license agreements.

From the above case law the doctrine of exhaustion of national IP rights in the European Union can be stated as follows:

Exhaustion of parallel IP rights in the member states occurs if the protected product has been put into circulation in one member state by the IP owner or by a third party with his consent.

Parallel imports of such products from one member state into another member state can thus not be prevented by the IP owner or his licensee under the above circumstances.

V. Licensing Intellectual Property and Restraints of Competition

1. Art. 81(1) EC: Prohibition of agreements that restrain competition

As we have seen, the exercise of intellectual property rights may prevent the free movement of goods in the European Union and in order to safeguard this fundamental principle of the common market, the doctrine of Community exhaustion was established.

It is not difficult to imagine that the free movement of goods in the EU could also be prevented by agreements between undertakings, and such agreements can distort competition in the common market in many other ways. Thus it is also a basic objective of the Community pursuant to Art. 3 (1)(g) EC to establish

> *a system ensuring that competition in the internal market is not distorted.*

If trade between the member states could be affected, then the competition rules of the EU must be observed, even if the agreement, for example a license agreement, relates only to one member state.

The competition rules relating to agreements between undertakings are set out in Art. 81 EC.

Art. 81(1) prohibits agreements which have as their object or effect the prevention, restriction or distortion of competition within the common market. Art. 81(1) reads:

The following shall be prohibited as incompatible with the common 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 common 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.

Art. 81(2) provides that agreements prohibited under Art. 81 are void, at least in respect of the clauses having the prohibited object or effect. Consequently, national courts will not be able to order a party to fulfil its contractual obligation if the provision in question violates Art. 81 (1). Thus when enforcing a license agreement one may be met by the so-called "Euro-defense" that the agreement is void under EU competition rules.

2. Art. 81 (3) EC: Exemptions and Licensing

2.1 Art. 81(3) provides a "rule of reason" illustrated by some typical exemptions from the prohibition of Art. 81 (1). Art. 85(3) reads:

The provisions of paragraph 1 may, however, be declared inapplicable in 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.

2.2 A license agreement merely permits the licensee to do something that would otherwise be unlawful. Thus it clearly does not violate Art. 81 (1) unless it is coupled with other obligations that have the object or the effect of restraining competition in some way. Most systems of anti-trust law have had difficulty in distinguishing permissible license clauses from those that constitute undue restraints on competition.

The EC Commission formerly took the view that any license other than a non-exclusive license for the whole common market was caught by the prohibition of Art. 81 (1). The Commission was prepared to carry out an analysis based on Art. 81 (3). However, individual exemptions from the prohibition of agreements under Art 81 (1) required a cumbersome and time-consuming proceeding which imposes heavy burdens on the limited personnel of the Commission.

Finally, a block exemption for patent license agreements based on Art. 85 (3) was adopted in 1984 (Regulation 2349/84). The basic scheme of the Regulation was that a "white list" of clauses was provided that normally do not violate Art. 81(1) and were exempted as well as a "black list", which specified clauses that prevented the application of the exemption.

In 1989, the Commission drafted a block exemption for know-how licenses (Regulation 556/89), which was very similar to that relating to patent licenses, but the white and black lists permitted more provisions to be included in an agreement which qualified for the exemption.

In 1996, the two block exemptions were combined into a single regulation covering technology transfer agreements (Regulation 240/96). The 5TTBER reflected a more liberal attitude of the Commission towards license agreements

based on a change of perception of the significance of intellectual property for innovation.

However, after the turn of the century work began to redesign the competition law of the EU

> *to meet the challenges of an integrated market and a future enlargement of the Community.*

This objective was proclaimed in a new Council Regulation 1/2003 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty. Based on this so-called "Anti-trust Enforcement Regulation" which entered into force on May 1, 2004, the Commission put into effect its so-called "Modernisation Package" also on May 1, 2004. This Modernisation Package consists of a Commission Regulation and six Notices:

- Commission Regulation 773/2004 relating to the conduct of proceedings by the Commission pursuant to Articles 81 and 82 of the EC Treaty,
- Commission Guidelines on the application of Article 81(3) of the Treaty,
- Commission Notice on the handling of complaints by the Commission,
- Commission Notice on informal guidance to business (guidance letters),
- Commission Notice on cooperation within the Network of Competition Authorities,
- Commission Notice on the cooperation between the Commission and the courts of the EU Member States in the application of Articles 81 and 82 EC, and
- Commission Guidelines on the effect on trade concept contained in Articles 81 and 82 of the Treaty.

Part of this new legal framework of competition policy in the European Union is a novel Block Exemption Regulation 772/2004 on the application of Article 81 (3) of the Treaty to categories of technology transfer agreements (TTBER), which also entered into force on May 1, 2004. The new TTBER is accompanied by detailed Commission Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements. In face of all these changes competition lawyers in the EU are only half-jokingly speaking of "May Day Mayhem".

2.3 The purpose of the TTBER is to provide "safe harbour" for companies licensing in Europe with regard to Article 81(1) and (2) EC.

The old regime of Block Exemption Regulation 240/96 distinguished between a white list of clearly exempt provisions of license agreements, a black list of prohibited provisions and a grey list of potentially exempted provisions. Economic criteria such as the market shares of the respective companies and whether they were competitors or non-competitors were irrelevant. The old TTBER was straightforward in listing exempted clauses and this resulted in companies merely copying them into their license agreements. The Regulation was therefore criticized as being prescriptive, formalistic and having a strait jacket effect.

The new regime of TTBER 772/04 states the need to simplify the regulatory framework and its application and announces an economics-based flexible approach to assess the impact of licensing agreements on the relevant market. It exempts clauses in license agreements of companies not exceeding a certain level of market power, specifies some severely anti-competitive restraints called "hardcore restrictions" which are not to be contained in such agreements and distinguishes between agreements between competitors and agreements between non-competitors.

The new TTBER asserts that "the great majority of license agreements are compatible with Art. 81" and that it creates safe harbour for most agreements. But the assessment of exemption of license clauses has become more difficult. Although the new TTBER may be more liberal than the old one, it has resulted in less legal certainty.

2.4 Pursuant to Art. 2 TTBER, which refers to Art. 81(3) EC, and subject to the provisions of the Regulation, Art. 81 (1) shall not apply to technology transfer agreements entered into between two undertakings and permitting the production of contract products.

The further basic provisions of the TTBER are Articles 3, 4 and 5.

Art. 3 defines the market share thresholds which determine whether the exemptions of the Regulation are applicable or not. If the undertakings are competitors, their combined market share may not exceed 20% on the relevant technology and product market for their license agreement to be exempted. If the undertakings are not competitors, the market share of each may reach 30% and their license agreement will be exempted. Market shares are calculated on the basis of market sales value data (Art. 8). For the purpose of this calculation, the licensor' market share includes the market shares of his existing licensees.

Regardless of market shares, the exemption does not apply pursuant to Article 4 if the license agreement contains "hardcore restrictions" of competition. A distinction is made here between license agreements concluded between competing undertakings and license agreements concluded between not competing undertakings.

Hardcore restrictions in license agreements between competitors that bar exemption are

(1) price fixing,
(2) output restrictions,
(3) allocations of markets or customers,
(4) restrictions on licensee's RD or use of own technology.

However, as regards output restrictions, allocations of markets and customers and restrictions on the licensee's RD or use of his own technology, exceptions are stipulated which, if given, exempt the restriction.

Hardcore restrictions in license agreements between non-competitors that bar exemption are

(1) price fixing,
(2) passive sales restrictions,
(3) sales restrictions for the selective distribution system licensee.

In all these cases exceptions are stipulated which, if given, exempt the restriction.

Article 5 finally stipulates restrictions which are generally excluded from exemption, namely

(1) licensee must exclusively license or assign severable improvements or new applications of the licensed technology,
(2) no challenge clause, and
(3) if the parties are not competitors, restrictions on licensee's RD or use of own technology.

But here as well exceptions are stipulated for the no challenge clause and the restrictions on licensee's RD or use of own technology.

The TTBER is applicable to technology transfer agreements in a broad sense. They concern the licensing of technology and comprise patent licensing agreements, know-how licensing agreements, software copyright licensing agreements and mixed agreements covering all or some of these intellectual property rights (Art. 1(b)). The term patent is to be understood broadly as well (Art. 1(1)(h)). Patents as subject matter of licensing with regard to the TTBER means

- patents,
- patent applications,
- utility models,
- utility model applications,
- designs,
- topographies for semiconductor products,
- Supplemental Protection Certificates, and
- plant breeder certificates.

Know-how is defined as a package of non-patented practical information, which is secret, substantial and identified (Art. 1(1)(i)).

Mixed agreements to which the TTBER is applicable may also include provisions relating to other intellectual property right if these are not the primary object of the license agreement. The TTBER defines intellectual property rights as including industrial property rights, know-how, copyright and neighbouring rights (Art. 1(1)(g)).

2.5 If you are a company wanting to make sure that you are in safe harbour with your license agreement in the EU, studying the new TTBER will probably not bring the answer. Nevertheless, the TTBER 772/2004 is applicable to technology transfer agreements concluded on or after May 1, 2004, and all prior agreements must comply with the new regime at latest by March 31, 2006.

In order to provide guidance on the application of the TTBER as well as on the application of Art. 81 of the Treaty to technology transfer agreements that fall outside the scope of the TTBER, the Commission has issued Guidelines that are six times as long as the TTBER itself.

While the TTBER and the Guidelines cannot be examined here in all detail, I have prepared a list of common clauses of license agreements with references to the provisions of the TTBER and paragraphs of the Guidelines where these clauses are discussed. The list may serve as a tool to check the clauses of a license agreement having effect in the European Union or to draft such a license agreement. The numbers in the list refer to paragraphs of the Guidelines, articles refer to provisions of the TTBER.

Common licensing clauses/"restraints"

- **Exclusive and sole licences** 162
  - Between non-competitors 165
  - Dominant licensee 166
  - Cross license crating a de facto industry standard 167
  - Reciprocal exclusive licensing between competitors 4(1)(c) 163
  - Non-reciprocal exclusive licensing 164

- **Sales restrictions**
  - Between non-competitors 172
  - Restrictions on active selling between territories 174
  - Active sales into territory allocated to another licensee 171

Passive sales into territory allocated to another licensee: hardcore 4(1)(c) 171
Reciprocal agreement between competitors: hardcore 4(1)(c) 169
Non-reciprocal agreement between competitors 4(1)(c)(iv)
Sales restrictions on licensor 173

- **Output restrictions**
  Between non-competitors ≦30% 176, 178
  Non-reciprocal restriction on licensee between competitors ≦20% 175
  Reciprocal between competitors: hardcore 4(1)(b) 175
  Combined with exclusive territories or customer groups 177

- **Field of use restrictions** (technical fields of application or product markets)
  Normally block exempted 180, 182
  On licensees in agreements between actual or potential competitors ≦20% 183
  On licensee and licensor between non-competitors ≦30% 184, 185
  Symmetrical and asymmetrical 183
  Combined with exclusive and sole licences treated in same way 181
  If market sharing arrangement: hardcore 4(1)(c)

- **Captive use restrictions**
  Block exempted ≦20%/≦30% 186
  Above threshold: Competitor prevented from supplying components to third parties 187
  Above threshold: Licensee restricted in serving after-market for own products 189

- **Tying and bundling**
  Block exempted ≦20%/≦30% 192
  Above threshold: 193, 194

- **Non-compete obligation**
  Block exempted ≦20%/≦30% 197
  Above threshold: 198, 199, 200, 201, 202, 203

- **Obligation on licensee not to sublicense** 155b

- **Royalty obligation**
  Normally 156
  Beyond the period of validity of the licensed intellectual property right 159
  Products produced solely with licensee's technology 4(1)(d)
  Products produced with licensed technology and also on products produced with third party technology 160

Price fixing between competitors 4(1)(a)? 157
Disproportionate 158

- **Obligation to pay minimum royalty or to produce a minimum quantity of products incorporating licensed technology** 155e

- **Obligation to assist licensor in enforcing licensed intellectual property rights** 155d

- **Obligation to us licensor's trade mark or indicate name of licensor on product** 155f

- **Obligation not to use licensed technology after expiry of agreement, provided that licensed technology remains valid and in force** 155c

- **Confidentiality obligation** 155a

- **Settlement and non-assertion agreements**
  Block exempted if no hardcore restrictions set out in 4 205
  Cross license 207, 208
  Non-challenge clause 209

- **Technology pools**
  Not covered by TTBER, addressed in Guidelines 212 et seq.

2.6 For most companies licensing in the European Union, the TTBE and the Commission Guidelines on the application of Art. 81 EC Treaty to technology transfer agreements will be essential documents to guide them when drafting agreements in order to create safe harbour for their licensing of intellectual property rights.

3. Texts

3.1 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,
see: http://europa.eu.int/comm/competition/antitrust/legislation

3.2 Commission Notice: Guidelines on the application of Article 81 of the EC treaty to technology transfer agreements,
see: http://europa.eu.int/comm/competition/antitrust/legislation

VI. Refusal to License and Restraints of Competition

1. Art. 82 EC: Prohibition of abuse of dominant position

The basic provisions of the EC competition rules are Art. 81 and Art. 82 EC. While Art. 81 controls agreements of undertakings, such as intellectual property licensing agreements, Art. 82 controls the conduct, unilateral or otherwise, of undertakings that are subject only to remote competitive pressure because of their dominant position in the market. The same conduct may violate both articles.

Art. 82 reads:

> *Any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common 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.*

Examples of abuse of a dominant position are conduct that oppresses buyers and sellers: charging too much, paying too little, or discriminating against specific firms and so making it difficult for them to compete. But owners of intellectual property also have to beware of Art. 82. Since intellectual property law is concerned with granting monopolies, owners of IP rights may be put in a dominant position, which must not be abused.

2. Case law

In the context of Art. 82, the case law has primarily addressed the question whether the refusal of the intellectual property owner to license his IP right constitutes an abuse of a dominant position and is thus prohibited.

2.1 ECJ, 5 October 1988 (Case 238/87) – *Volvo v Veng*

In the leading case of *Volvo v Veng*, Volvo owned a UK registered design on a body panel of its series 200 cars and took action against Veng who imported and marketed such panels in the UK which were manufactured without consent of Volvo. Since Veng was willing to pay a reasonable royalty, the question arose whether Volvo's refusal to grant a license constituted an abuse of a dominant position.

The ECJ held that

> *the right of the proprietor of a protected design to prevent third parties from manufacturing and selling or importing, without its consent, products incorporating the design constitutes the very subject-matter of his exclusive right. It follows that an obligation imposed on the proprietor of a protected design to grant to third parties, even in return for a reasonable royalty, a license for the supply of the products incorporating the design would lead to the proprietor thereof being deprived of the substance of his exclusive right, and that a refusal to grant such a license cannot in itself constitute an abuse of a dominant position.*

However, in later cases the ECJ did find that the refusal of intellectual property right owners to license their right was abusive and therefore prohibited pursuant to Art. 82 EC.

2.2 ECJ, 6 April 1995 (Cases 241/91 and 242/91) – *Magill*

In the *Magill* case, three television stations in Northern Ireland each published guides exclusively covering their own program for which they claimed copyright protection. With their permission, daily listings were published in newspapers.

Magill TV Guide Ltd. wished to publish a comprehensive weekly guide but the TV stations obtained court injunctions against it based on their copyrights. Magill claimed that they were abusing their dominant position by refusing to grant licenses and thereby breaching Art. 82.

Referring to *Volvo*, the ECJ repeats that mere ownership of an intellectual propety right cannot confer a dominant position in the market. An intellectual property right constitutes a legal (de iure) monopoly, not an economic monopoly. However, the market situation may be such that the IP owner enjoys a de facto monopoly which puts him in a position to prevent effective competition on the market. In the present case the three TV stations occupied a dominant position due to their copyrights in their TV program guides.

Considering the substance of an intellectual property right, the refusal to grant a license even by an undertaking in a dominant position cannot in itself constitute an abuse of the dominant position. But the exercise of an exclusive right by its owner may in "exceptional circumstances" involve abusive conduct. In *Magill*, the ECJ held that this is the case when

- there is no substitute product but consumer demand for the product intended by the potential licensee,
- the refusal to license prevents the appearance of a new product,
- there is no justification for the refusal by objective considerations, and
- as a result of the refusal all competition on the market in question is excluded.

These conditions were considered to be fulfilled in the present case: There existed no weekly TV guide covering all programs but a potential demand for such product on the part of consumers, the refusal of the TV stations to grant licenses prevented the publication of such a guide which the stations themselves did not offer, and there was no justification for their refusal which excluded all competition on the market since they denied access to the basic information indispensable for the compilation of a weekly TV guide.

2.3 ECJ, 29 April 2004 (C-418/01) – *IMS Health v NDC Health*

In a case of last year, the ECJ further clarified the conditions under which the refusal of an intellectual property owner to license his right is prohibited pursuant to Art. 82 EC.

IMS Health collected and assembled sales data for pharmaceutical products in a "brick structure" that it had developed in cooperation with pharmacists, doctors and the pharmaceutical industry to whom the data were sold. Competitor NDC tried to use an alternative brick structure, but met with market resistance. It then revised its system to match the IMS brick structure more closely, and IMS sued for copyright infringement. NDC complained to the Commission that IMS was abusing a dominant position so that Art. 82 EC was applicable.

In its decision the ECJ again starts off by pointing out that the de iure monopoly afforded by an intellectual property right as such does not put an IP owner in a dominant position. But if the IP right leads to a de facto monopoly in the market, the first requirement of Art. 82 is fulfilled.

Nevertheless, even if the IP owner occupies a dominant position, his refusal to license his IP right will constitute an abusive conduct only in "exceptional circumstances".

Such exceptional circumstances exist if three cumulative conditions are satisfied:

(1) the refusal to grant a license prevents the emergence of a new product for which there is a potential customer demand,
(2) it is not justified by objective considerations,
(3) it excludes all competition on a secondary market, which is the case when the product protected by the IP right is indispensable for supplying the secondary market.

The ECJ states that in the balancing of interest in the protection of intellectual property and the economic freedom of its owner against the interest in protection of free competition, the latter can prevail only where the refusal to grant a license

prevents the development of a secondary market to the detriment of consumers. In other words:

> *…the refusal by an undertaking in a dominant position to allow access to a product protected by copyright, where that product is indispensable for operating on a secondary market, may be regarded as abusive only where the undertaking which requested the license does not intend to limit itself essentially to duplicating the goods or services already offered on the secondary market by the owner of the copyright, but intends to produce new goods or services not offered by the owner of the right and for which there is a potential customer demand.*

In the case at hand it was a question of facts still to be ascertained by the national court that had requested the preliminary ruling of the ECJ whether these conditions were fulfilled.

3. Outlook

The IMS Health decision of the ECJ addresses the appropriate balance to be struck between the protection of intellectual property rights and the freedom to license of the IPR owner and the freedom of competition in the European Union. The ECJ basically respects intellectual property rights, and the decision has made clear that licenses cannot be demanded for directly competing products even if the IPR owner has a dominant position on the market. But uncertainty remains because the ECJ did not spell out how new or different a secondary product has to be for the refusal to license to become abusive and Art. 82 EC to be applicable. Also it has not yet been clarified what objective considerations can justify the refusal in the given circumstances. These questions may be answered by national courts on the facts of the particular case.

VII. Summary

The regulatory system that governs licensing in the European Union is, as we have seen, the result of a constant balancing of interests. On the one side there is the protection of intellectual property and the economic freedom of the IPR owner,

which are acknowledged by the EC Treaty, on the other side there are the principles of free movement of goods and services and the freedom of competition, which are fundamental to the common market in the EU.

This balancing of interests is reflected in three groups of provisions of the EC Treaty:

Articles 28 and 30 EC are the basis of Community exhaustion of intellectual property rights in the EU.

Article 81 paragraphs 1 and 3 EC together with the Block Exemption Regulation 772/04 for technology transfer agreements are applicable to restraints of competition in license agreements and provide individual and block exemptions for such restraints.

Article 82 EC applies in exceptional circumstances where the refusal of an IPR owner occupying a de facto dominant position in the market to grant a license constitutes an abusive conduct.

If you intend to enter into an intellectual property license agreement in Europe, these, in summary, are the aspects you must take into consideration.

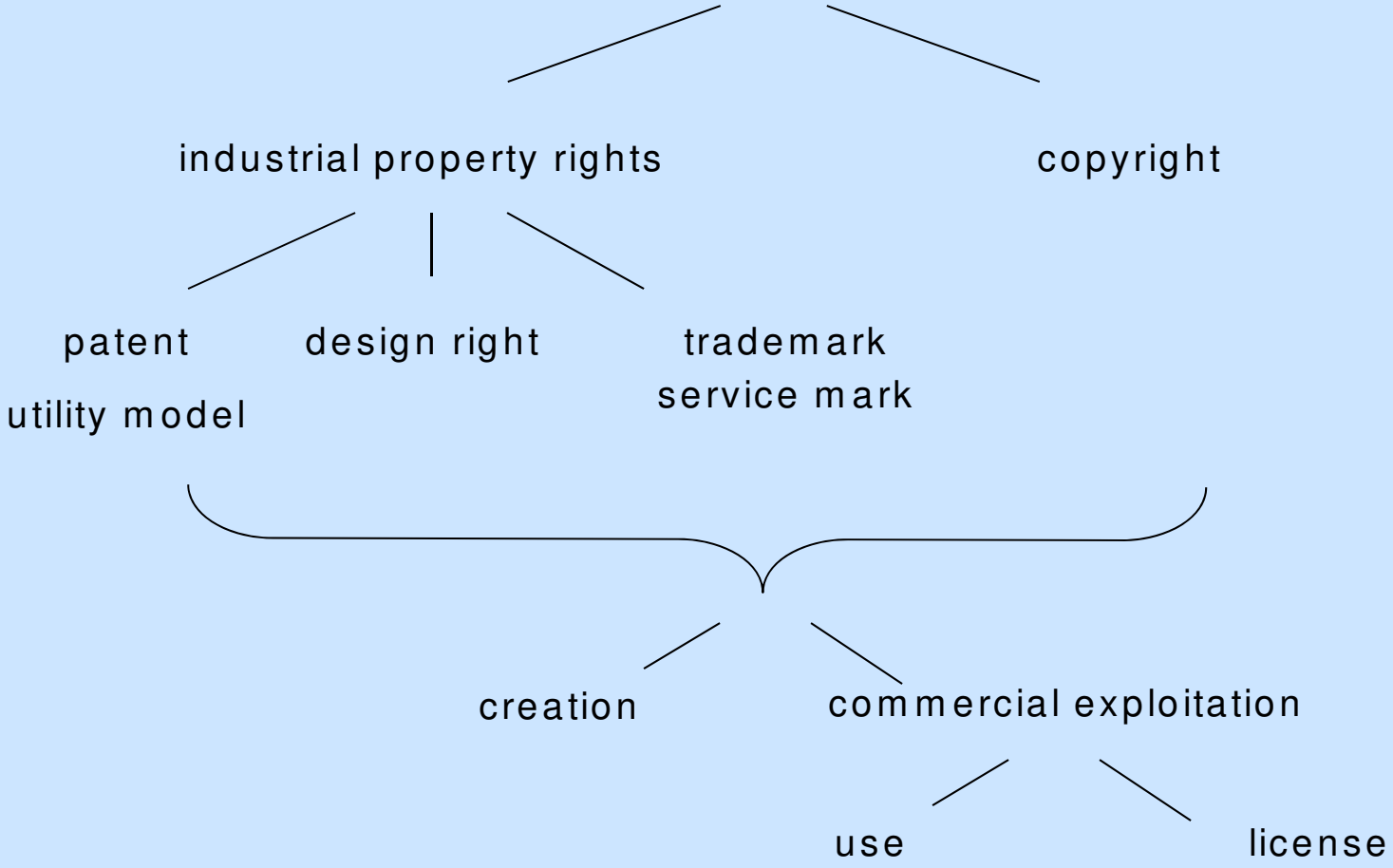
Licensing in the European Union

Dr. Guntram Rahn

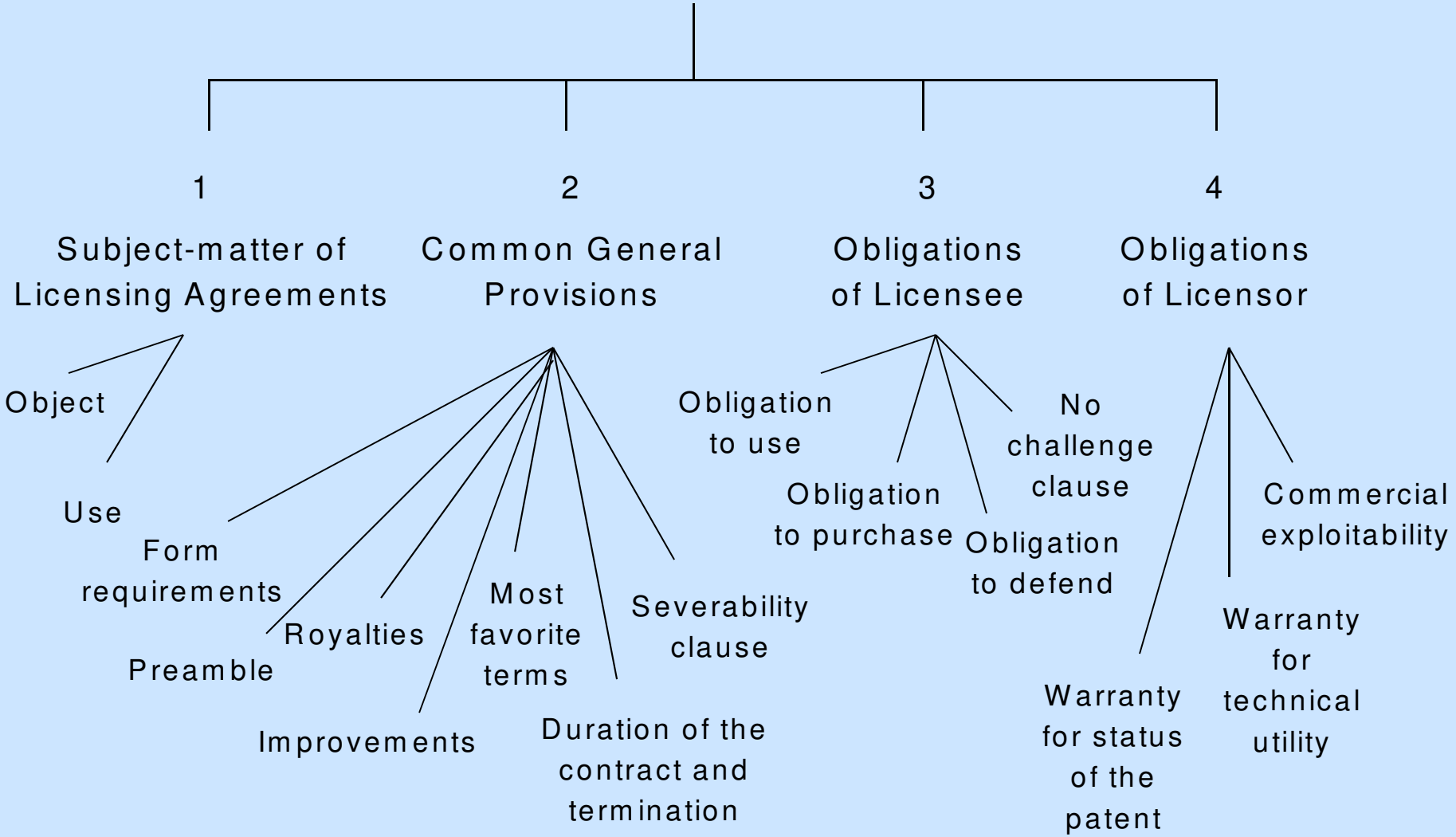
The European Union: May 1, 2004



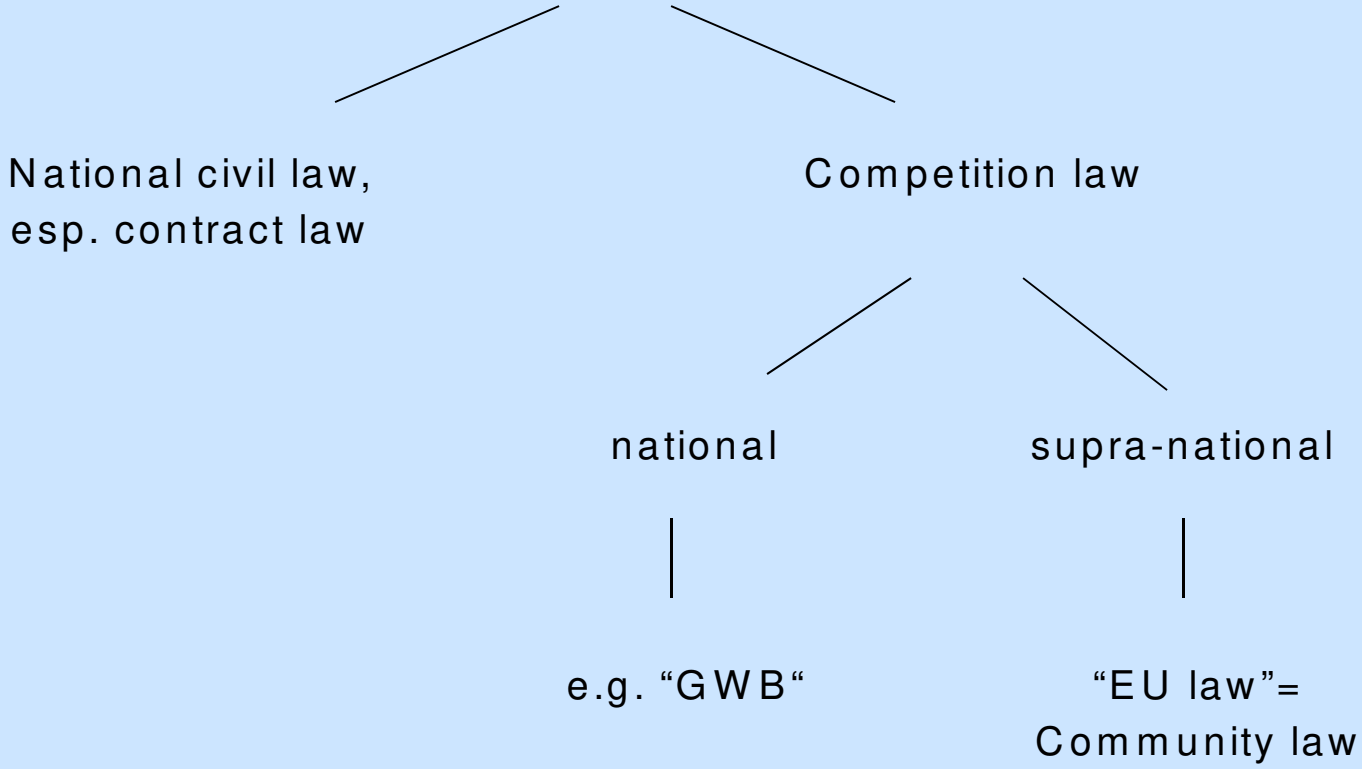
Technological Progress→
Innovation→
Intellectual Property Rights



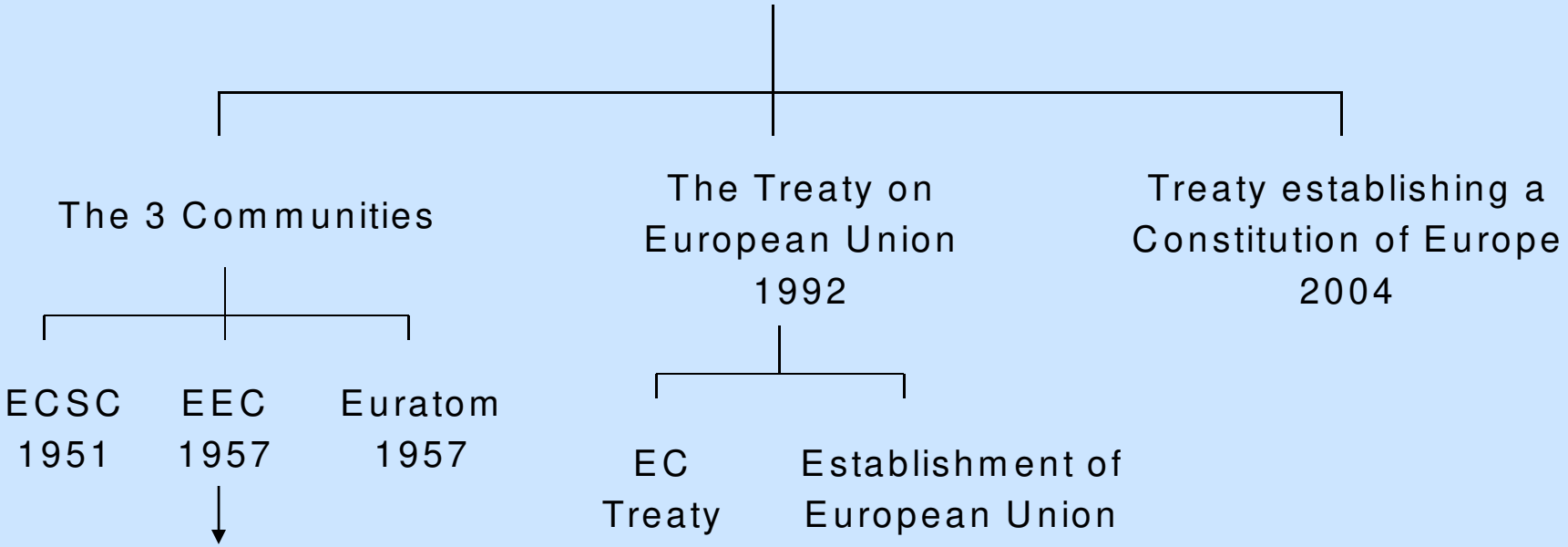
Licensing Agreements



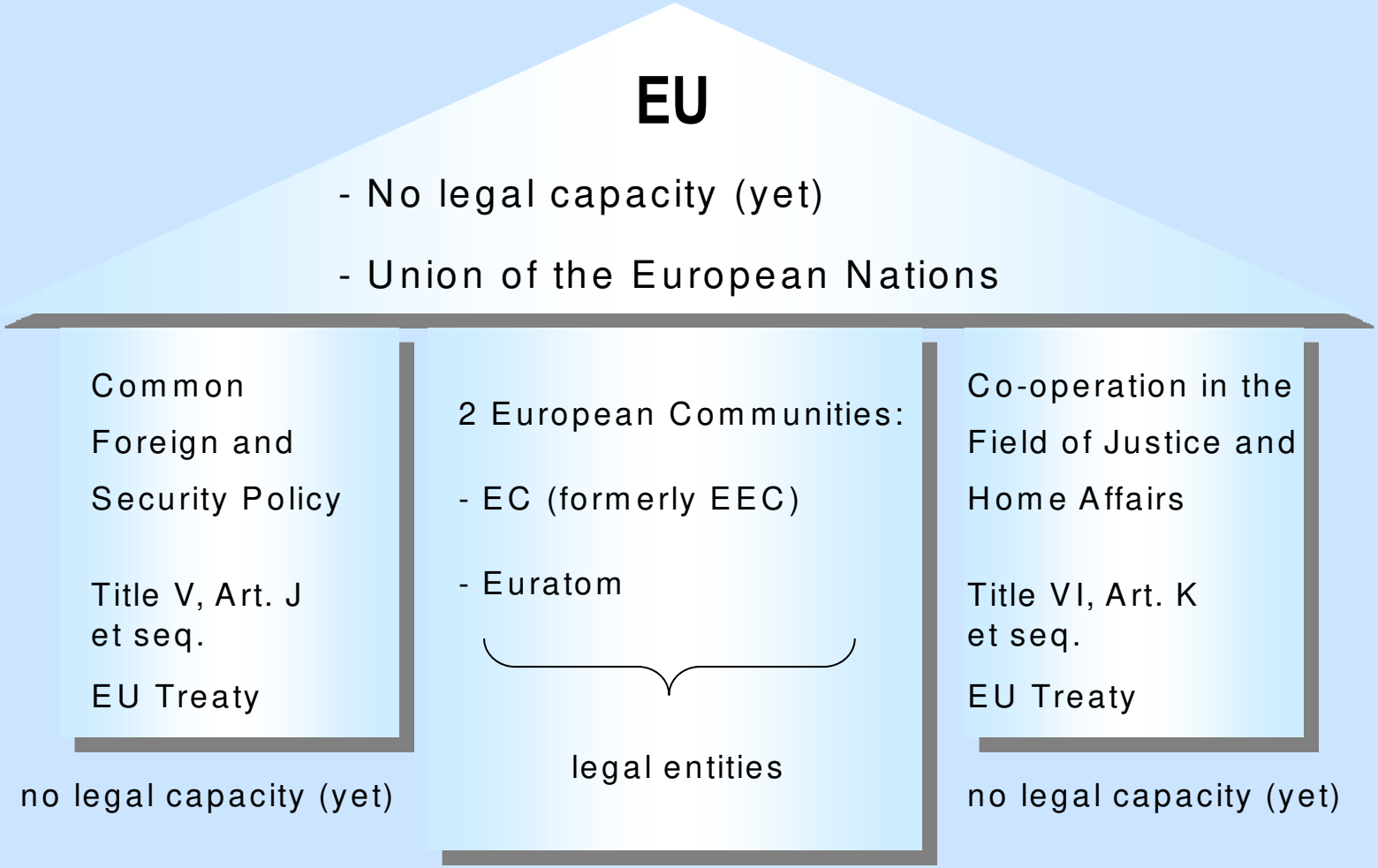
Licensing in the EU: Applicable Law



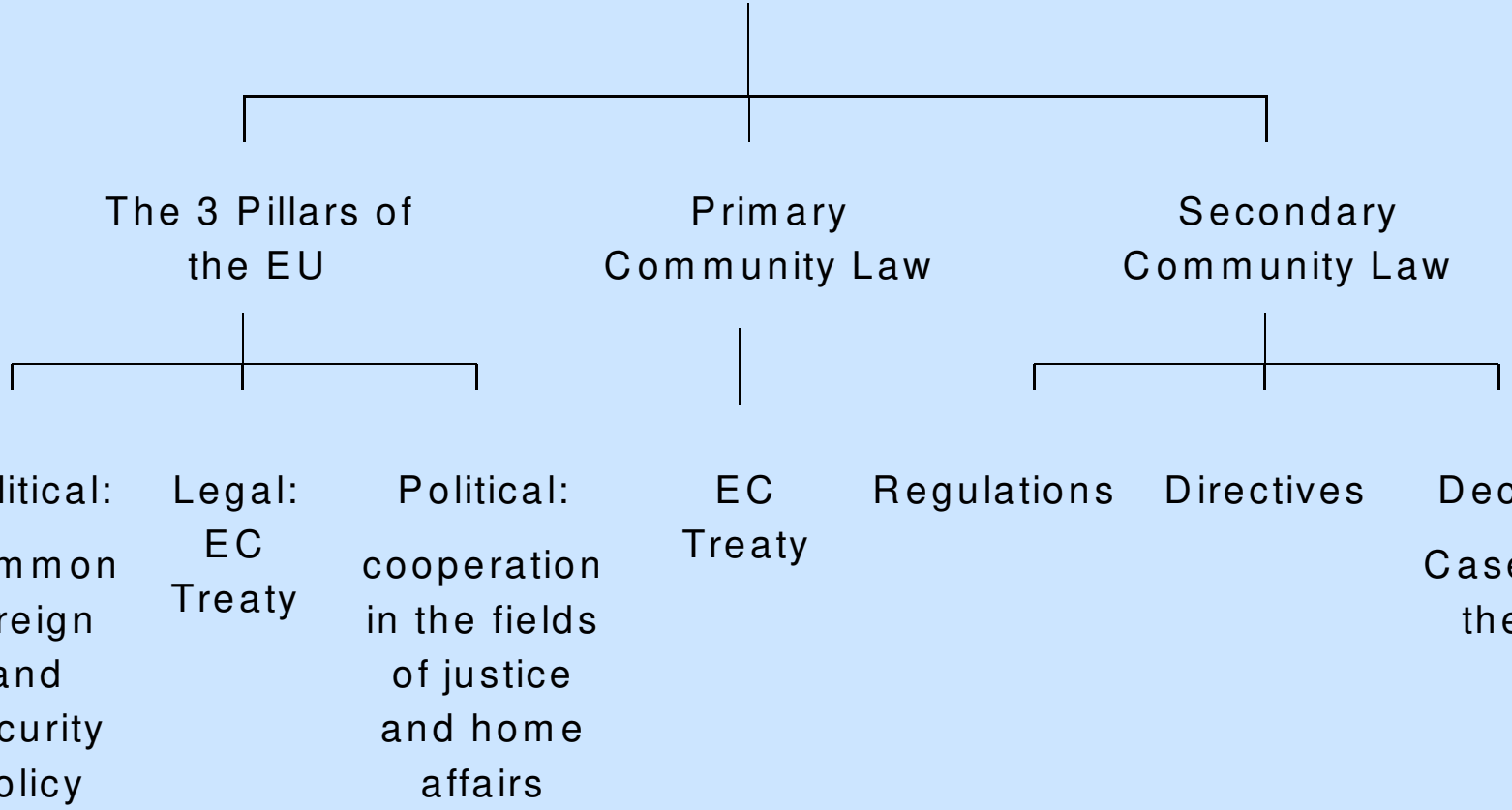
History of the EU



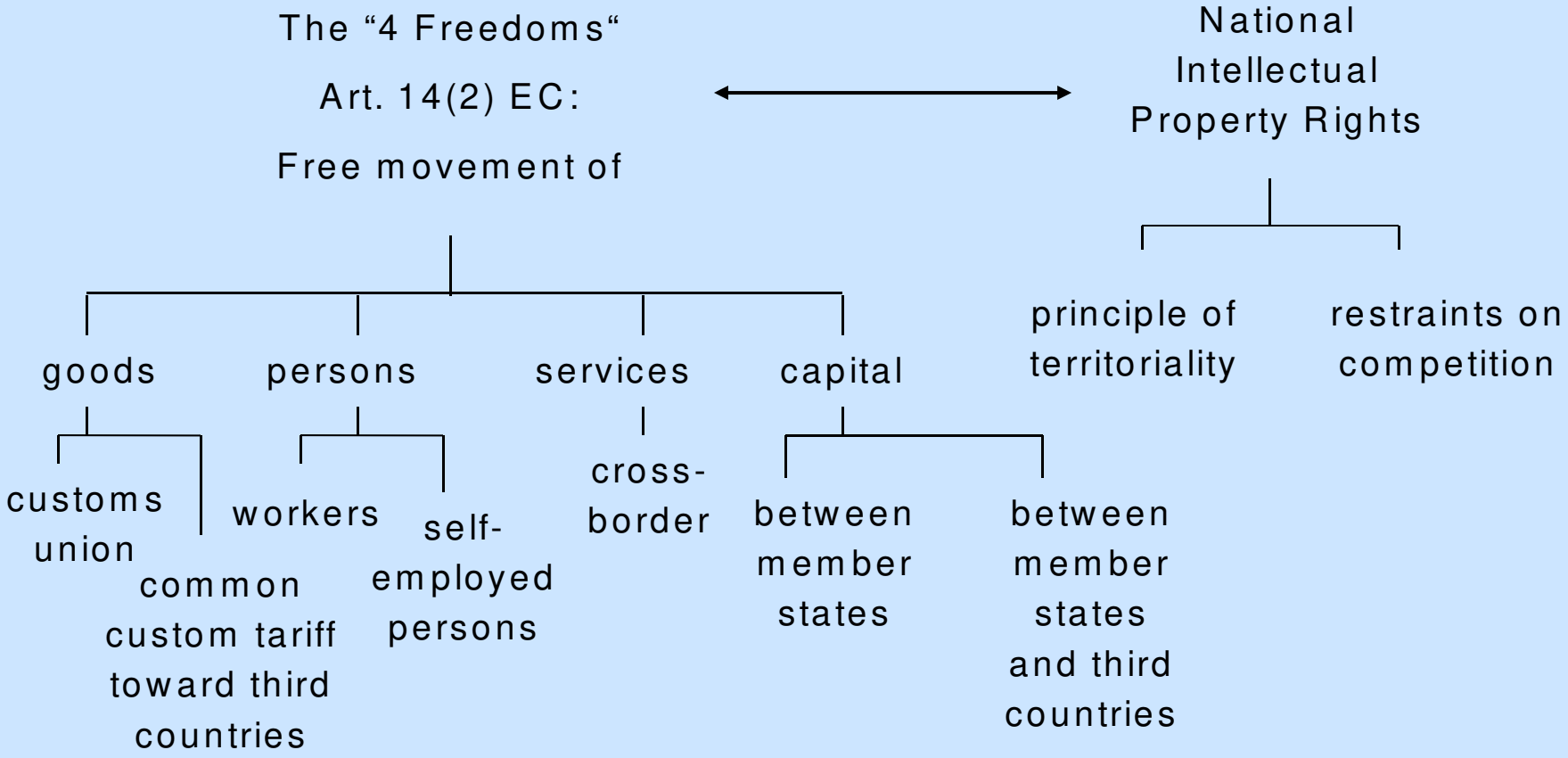
The 3 Pillars of the EU



Community Law



The 4 Freedoms and IPR in the EU



Art. 28 EC

Quantitative restrictions on imports and
all measures having equivalent effect
shall be **prohibited** between Member States.

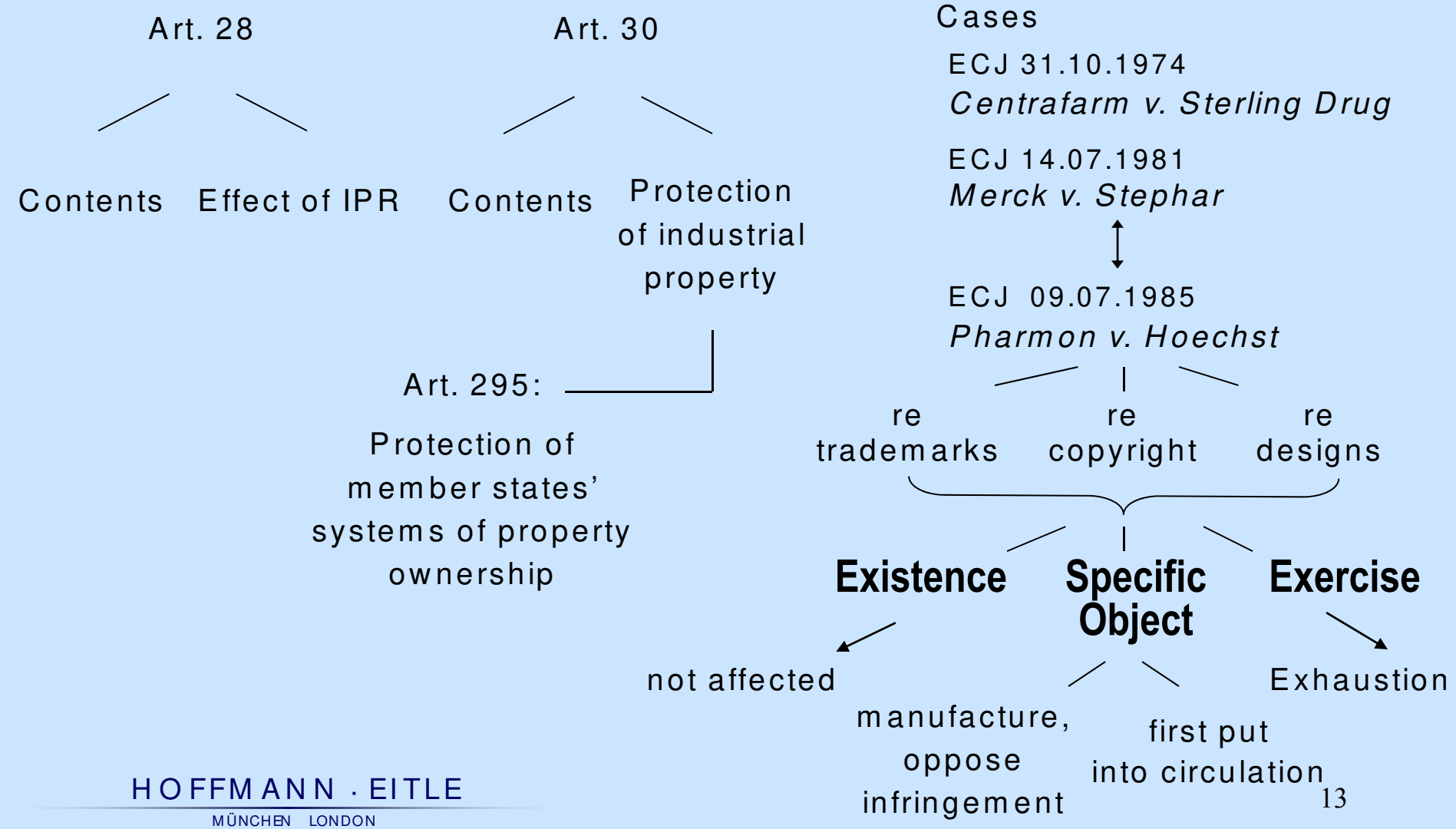
Art. 30 EC-Treaty

The prohibitions of Articles 28 and 29 shall not preclude prohibitions or restrictions on imports, exports or goods in transit **justified on grounds of** public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or **the protection of industrial and commercial property**. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States .

Art. 295 EC

The Treaty shall in no way prejudice the rules in Member States governing the system of property ownership.

The Exercise of Intellectual Property Rights under the EC Treaty



ECJ, 31.10.74 (C-16/74 – Centrafarm vs Sterling Drug

While the Treaty does not affect the **existence** of industrial property rights recognized by the law of a member state, the **exercise** of such rights may be affected by the prohibitions in the Treaty.

As an **exception to one of the fundamental principles of the Common Market**, Art. 30 allows **derogations to the free movement of goods only to the extent** they are **justified for the protection of the specific object of such industrial property**.

As regards **patents**, the **specific object** is to ensure the holder the exclusive right to manufacture and **first put into circulation** the products, either directly or by grant of licenses, as well as the right to oppose any infringement.

If the patentee could forbid the import of protected products which had been **marketed in another member state by him or with his consent**, he would be able to partition the national markets without such a restriction on trade being necessary for him to enjoy the substance of the exclusive right deriving from the parallel patents.

Prohibition of Agreements that Restrain Competition

Exercise of IP rights

↓

could prevent free movement of goods

Agreements restricting competition

↓

could prevent free movement of goods *and* result in other distortions of competition

Art. 3 (1)(g) EC

↓

Art. 81EC

Art. 81(1) "prohibition" of agreements which have as their object or effect the prevention, restriction or distortion of competition

Art. 81(2) "automatically void"

Art. 81(3) "defense"/ exemption from prohibition

Art. 81(3)

Art. 81(1) may be declared inapplicable in case of

any agreement — any category of agreements

which (4 cumulative conditions):

1. +	2. +	3. +	4.
improve production or distribution of products or promote technical or economic progress= **Efficiency gains**	allow consumers a fair share of the resulting benefit= **Fair share for consumers**	do not impose restrictions which are not indispensable to the attainment of these objectives= **Indispensability of restrictions**	do not afford the undertaking the possibility of eliminating competition in respect of a substantial part of the products concerned= **No elimination of competition**

1984:	BER Patent License (2349/84)
1989:	BER Know-How Licensing (556/89)
1996:	TTBER (240/96)
2004:	TTBER (772/2004)

"Modernization Package"

Council Regulation 1/2003 "Antitrust Enforcement Regulation"
in force from 1 May 2004

|

Commission Regulation 773/2004 on the conduct of proceedings pursuant to Articles 81 and 82 EC

+

6 Notices

1	5	3	2	4	6
Guidelines on the application of Art. 81(3)	Notice on cooperation between the Comm and the national courts	Notice on informal guidance to business (guidance letters)	Notice on handling of complaints by the Commission	Notice on cooperation between within the Network of Competition Authorities	Guidelines on the effect on trade concept contained in Art. 81 and 82

http://europa.eu.int/comm/competition/antitrust/legislation

TTBER

providing “safe harbour“

The old regime
Regulation 240/96

White list: clearly exempt provisions

Black list: prohibited provisions

Gray list: potentially authorized provisions

Criticism: formalistic
“strait jacket effect“
prescriptive

The new regime
Regulation 772/04

“ need to simplify the regulatory framework and its application“

“economics-based, flexible approach“

market power i.e. market shares

hardcore restrictions

distinction between agreements between competitors and between non-competitors

Criticism: complex
more restrictive?
more uncertainty?
assessment difficult

2 Requirements

ensuring effective competition

providing adequate legal certainty for undertakings

Effect of TTBER 240/96 on Individual Clauses in License Agreements

	White List Art.1	Super White List Art. 2	Black List Art. 3	Opposition Proceeding Art.4
1. Territorial Obligations of Licensor and Licensee	1(1), 1(2), 1(3), 1(4), 1(5), 1(6)	1(14)	(3)(a) (3)(b)	
2. Marking Clauses	1(7)	1(11)		
3. Tie-in Clauses		1(5)		2(a)
4. Royalty Clauses		1(9)		
5. Field-of-Use Provisions		1(8), 1(7)		
6. Temporal Provisions		1(3)	(7)	
7. Assignment/Sub-Licensing Provisions		1(2)		
8. Know-how Secrecy Provision		1(1)		
9. Legal Assistance Provisions		1(6)		
10. Quality Control Clauses		1(5)		2(a)
11. Grant-back Provisions		1(4)	(6)	
12. Most-favorable Term Clauses		1(10)		
13. No Challenge Clauses		1(15), 1(16)		2(b)
14. Non-Competition Clauses, Competition Bans		1(18)	(2)	
15. Quantitative Restrictions	1(8)	1(13)	(5)	
16. Resale Price Restrictions			(1)	
17. Customer Restrictions		1(13)	(4)	
18. Third Party Facilities Clause		1(12)		
19. Best Endeavors Clause		1(17)		

Exemption Art. 2:

"Safe harbour of the TTBER" created by

of technology transfer agreements

between two undertakings

permitting the production of contract products,

subject to:

Art. 3

market share thresholds

Competitors	Non-competitors
combined market share ≤ 20%	market share of each ≤ 30%

presence of licensed technology on relevant product market calculated on basis of market sales value data

Art. 8

Art. 4

hardcore restrictions: i.e. exemption does not apply in case of

Competitors:	Non-competitors:
- price fixing	- price fixing*
- output restrictions*	- passive sales restrictions*
- allocation of markets or customers*	- sales restrictions for selective distribution system licensee*
- restrictions on licensee´s RD or use of own technology*	

*note exceptions

Art. 5

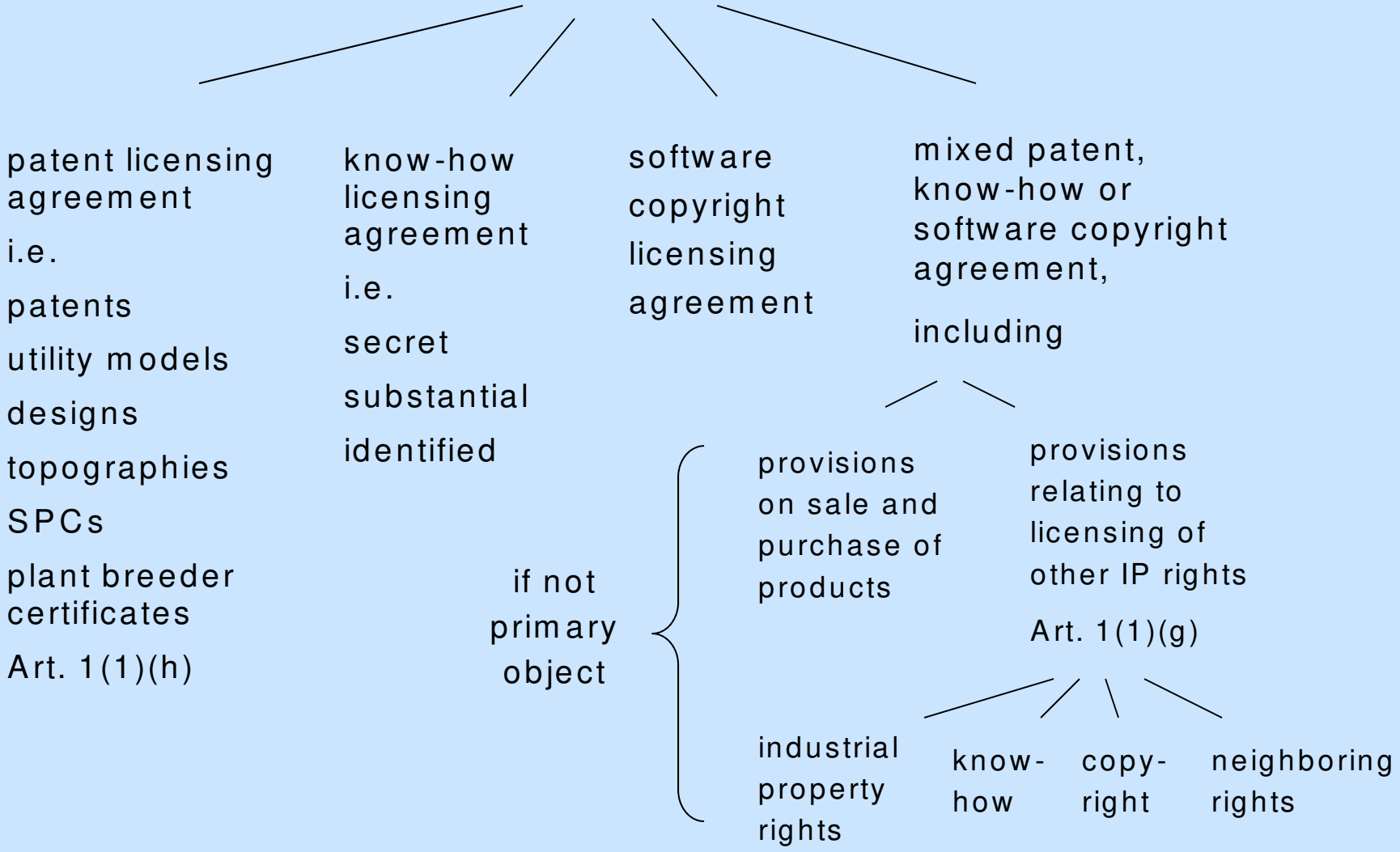
excluded restrictions

- licensee must exclusively license or assign severable improvements or new applications
- no challenge clause*

+

if not competitors: restriction on licensee´s RD or use of own technology*

Technology Transfer Agreements Art. 1 (1) (b)



Common Licensing Clauses/"Restraints„ (1)

See “Guidelines”

- **Exclusive and sole licenses** 162
  - Between non-competitors 165
  - Dominant licensee 166
  - Cross license creating a de facto industry standard 167
  - Reciprocal exclusive licensing between competitors 163: 4(1)(c)
  - Non-reciprocal exclusive licensing 164

- **Sales restrictions**
  - Between non-competitors 172
  - Restrictions on active selling between territories 174
  - Active sales into territory allocated to another licensee 171
  - Passive sales into territory allocated to another licensee 171:
    - 4(1)(c) hardcore
  - Reciprocal agreement between competitors 169: 4(1)(c) hardcore
  - Non-reciprocal agreement between competitors 4(1)(c)(iv)
  - Sales restrictions on licensor 173

Common Licensing Clauses/"Restraints„ (2)
See “Guidelines”

- **Output restrictions**

  Between non-competitors176, 178 ≤30%

  Non-reciprocal restriction on licensee between competitors 175 ≤20%

  Reciprocal between competitors 175: hardcore 4(1)(b)

  Combined with exclusive territories or customer groups 177

- **Field of use restrictions (technical fields of application or product markets)**

  Normally block exempted 180, 182

  On licensees in agreements between actual or potential competitors 183 ≤20%

  On licensee and licensor between non-competitors 184, 185 ≤30%

  and asymmetrical 183

  Combined with exclusive and sole licenses treated in same way 181

  If market sharing arrangement: hardcore 4(1)(c)

Common Licensing Clauses/"Restraints„ (3)
See “Guidelines”

- **Captive use restrictions**

  Block exempted 186: ≤20%/≤30%

  Above threshold: Competitor prevented from supplying components to third parties 187

  Above threshold: Licensee restricted in serving after-market for own products 189

- **Tying and bundling**

  Block exempted 192: ≤20%/≤30%

  Above threshold: 193, 194

- **Non-compete obligation**

  Block exempted 197: ≤20%/≤30%

  Above threshold: 198, 199, 200, 201, 202, 203

Common Licensing Clauses/"Restraints“ (4)
See “Guidelines”

- **Obligation on licensee not to sublicense** 155b

- **Royalty obligation**

  Normally 156

  Beyond the period of validity of the licensed intellectual property right 159

  Products produced solely with licensee’s technology 4(1)(d)

  Products produced with licensed technology and also on products produced with third party technology 160

  Price fixing between competitors 157: 4(1)(a)

  Disproportionate 158

- **Obligation to pay minimum royalty or to produce a minimum quantity of products incorporating licensed technology** 155e

Common Licensing Clauses/"Restraints„ (5)
See “Guidelines”

- **Obligation to assist licensor in enforcing licensed intellectual property rights** 155d
- **Obligation to us licensor’s trade mark or indicate name of licensor on product** 155f
- **Obligation not to use licensed technology after expiry of agreement, provided that licensed technology remains valid and in force** 155c
- **Confidentiality obligation** 155a
- **Settlement and non-assertion agreements**

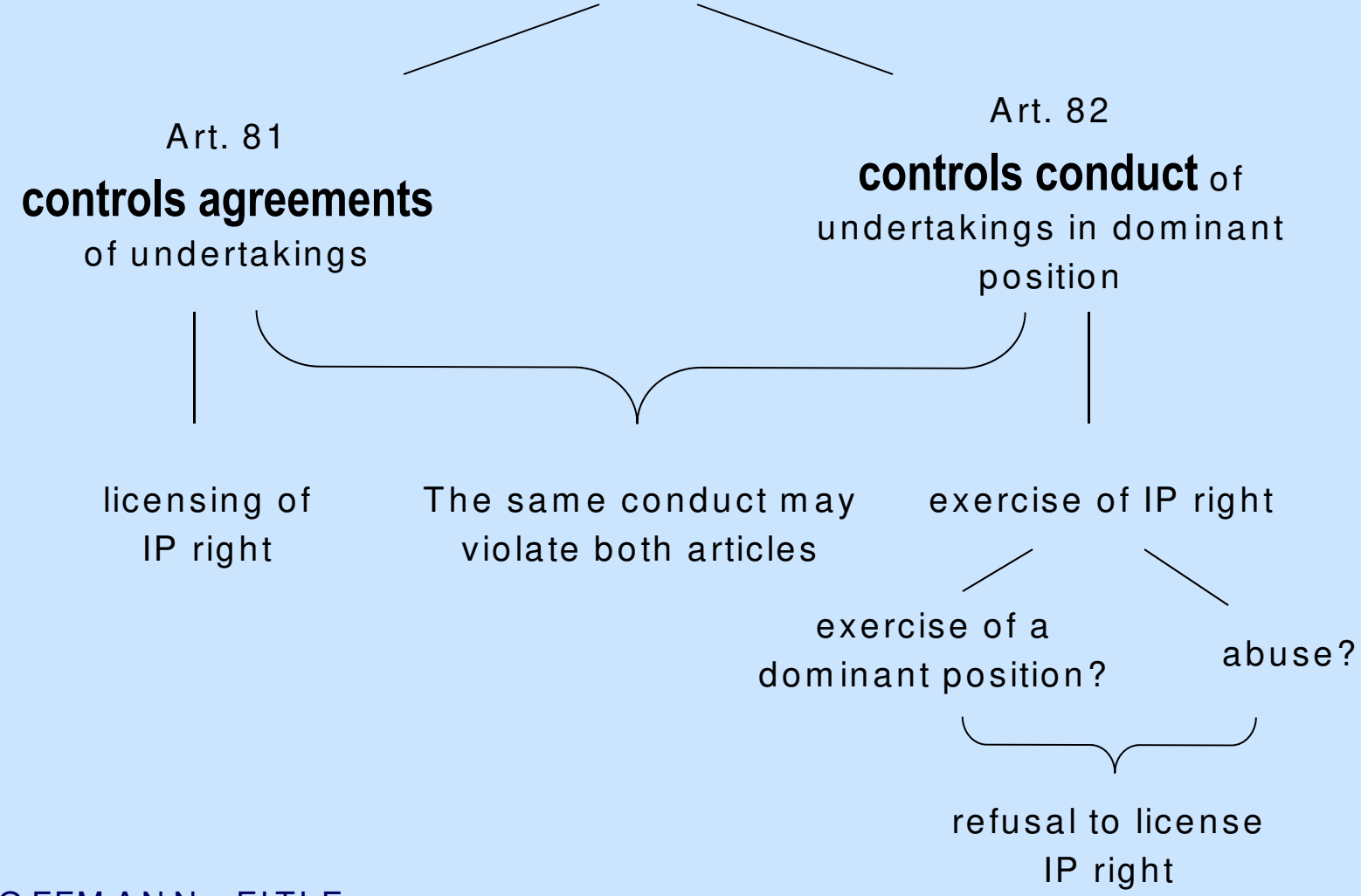
  Block exempted if no hardcore restrictions set out in Art. 4 205

  Cross license 207, 208

  Non-challenge clause 209
- **Technology pools**

  Not covered by TTBER, addressed in Guidelines 212 et seq.

EC Competition Rules



ECJ 05.10.1988 (C-238/87)
Volvo vs. Veng

AB Volvo

UK registered design

for

Volvo series 200 cars
front wings

Eric Veng (UK) Ltd.

imports same body
panels manufactured
without consent of Volvo
and markets in UK

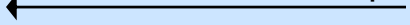
injunction

refuses to license



willing to pay reasonable royalty

"abuse of dominant position"



ECJ: „A refusal to grant a license cannot itself constitute an abuse of a dominant position"

ECJ 06.04.1995 (C-241/91P, C-242/91P)
RTE vs. Commission – "Magill"

Northern Ireland/Ireland
Television Stations

RTE

ITV

BBC

publish television
program guide

claim copyright protection

|

daily listings
licensed to press

Magill TV Guide Ltd.

attempts to publish
comprehensive weekly
TV guide

↓

complaint to Commission:

|

Commission: "breach of Art. 82"

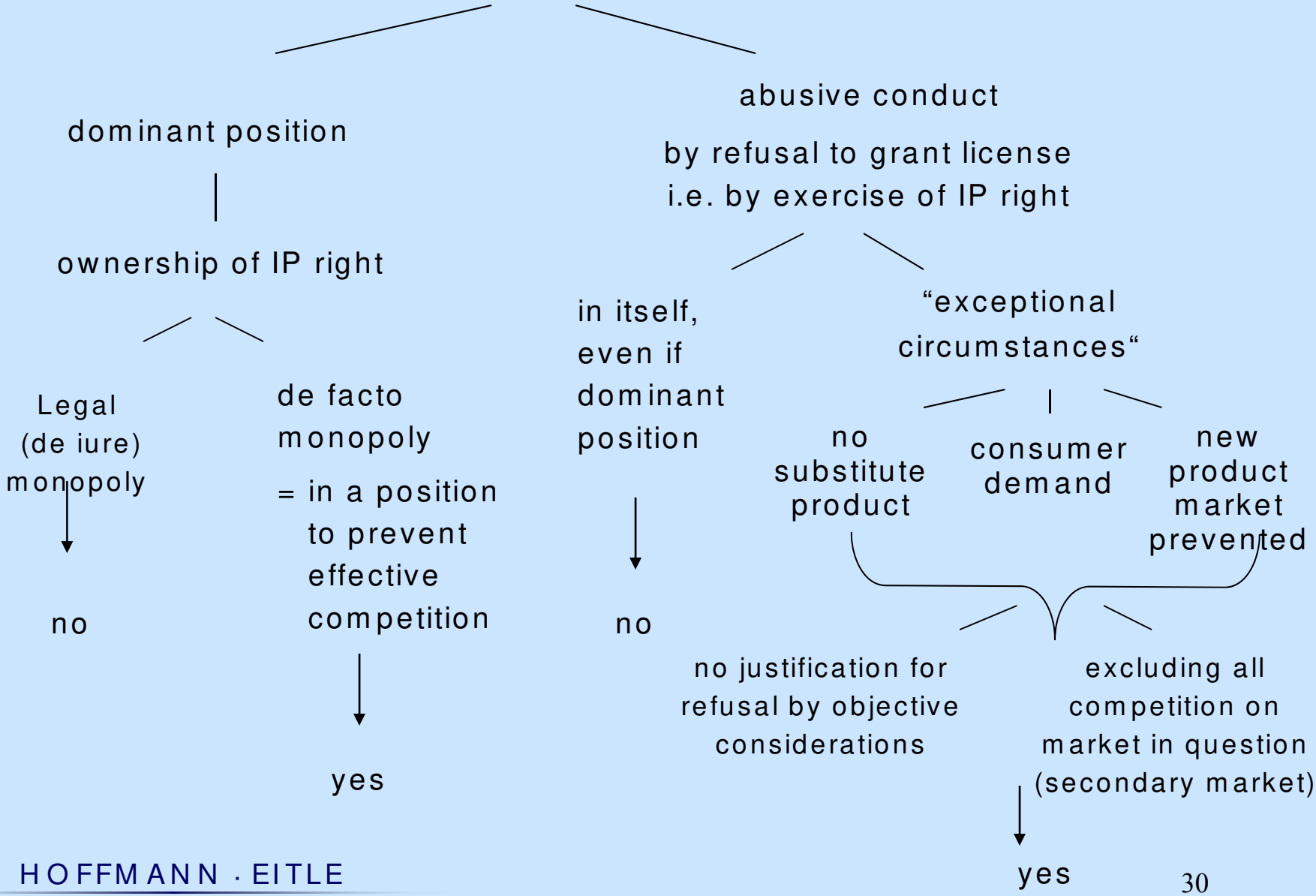
|

Court of First Instance

|

ECJ

Art. 82 EC ("Magill")



ECJ 29.04.2004 (C-418/01)
IMS Health vs. NDC Health

IMS Health

collects and assembles sales data for pharmaceutical products

↓

formatted according to "brick structure" (1860 or 2847)

↓

provided to pharmaceutical laboratories → Frankfurt Regional Court provisional injunction

"1860 brick structure"

↓

judgment

↓

appeal judgment:

"database copyright"

NDC Health

structures of 1860 or 3000 bricks

↓

complaint to Commission: "refusal to grant license violation of Art. 82 EC"

↓

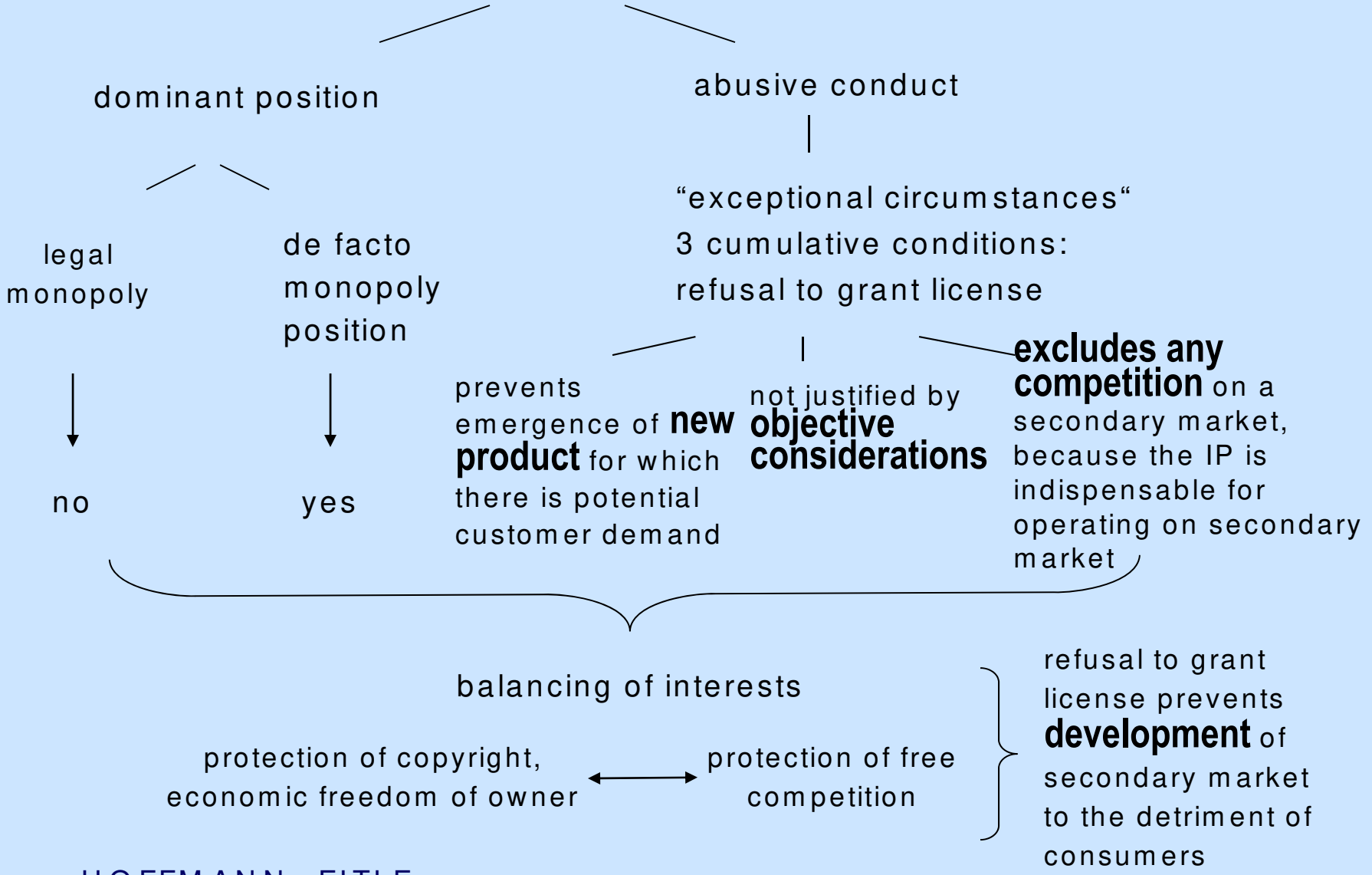
Commission Decision

↓

Court of First Instance

ECJ

Art. 82 EC (“ IMS Health“)



Separate Markets

Upstream market

constituted by the product or service

e.g. market for home delivery of newspapers

upstream product

indispensable for supply of

Downstream market = secondary market

on which the product or service in question is used for the production of another product or supply of another service

e.g. market for daily newspapers themselves

downstream product

Licensing in the European Union

- Protection of intellectual property
- Economic freedom of the IPR owner

⟷

- Free movement of goods
- Freedom of competition

•Art. 28 EC •Art. 30 EC	•Art. 81(1) EC •Art. 81(3) EC •TTBER 72/04	•Art. 82 EC
↓	↓	↓
Community exhaustion	Restraints of competition in license agreements. Individual and block exemptions	Abusive conduct of IPR owner in dominant position by refusal to license