FACULTY OF LAW
University of Lund

Master of European Affairs programme, Law

Master Thesis

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Technology Licensing Agreements

Comparative Study between the EU and the U.S.

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EC Competition Law
Spring 2005

Contents

To my family, for always
supporting me unconditionally.

Summary

Innovation is the source of new products and processes that expand the frontiers of competition. Advancements in technology are continuously occurring throughout the world as firms seek to develop new ideas for their products, services and markets. Most technology licensing is pro-competitive and should be encouraged by competition authorities. Nevertheless, in legal and economic spheres the connection among IP policy and competition law is an enduring subject matter of discussion, for the reason that both policies have possibly conflicting aims. In a higher level of analysis, it could be said that IP and competition law are complementary since they both pursue the promotion of consumer welfare. However they seek different interests towards the achievement of such target. IPR laws will attain consumer welfare by not encouraging the innovator's welfare, but ensuring an incentive to reward its effort, and by promoting technological development to the final profit of the consumers. On the contrary, competition laws will do such duty by protecting competition as the source of power of efficient markets, providing the best quality products at the lowest prices.

The purpose of this thesis is double. Firstly, to examine the key question of to what extent should competition policy intervene with IPR law. Is there any way to achieve a good balance between both policies? Indeed, it is in this field that marked differences exist between the EU and the US. In general, EC competition law has placed more limits on the exploitation of IPR than U.S. competition policy.

In view of the first aforesaid problem, the second aim of this work intends to investigate and compare the principles guiding the legal schemes of technology licensing agreements in European competition law (2004 Technology Transfer Block Exemption Regulation) and American antitrust law (1995 Guidelines for the Licensing of Intellectual Property). The new EC legal framework concerning technology transfer agreements, with its

new economic effects-based model, seems more similar to the US system, in both, style and substance Nevertheless, it will be further analyzed if in reality the EU approach remains stricter than the US one, or, to the contrary, the US policy is not as lenient in practice as it looks.

Throughout the development of the current report, the accomplishment of new similarities between the EC and US competition systems regarding technology licensing has been deeply and detailed discussed. This signifies a great progress towards the convergence across both jurisdictions. Nevertheless, there are still remaining substantial differences that should be counteracted in the coming future, such as a higher concern in the EU on intra-technology/brand competition in general, and on territorial restrictions in particular. To some extent, these lasting disparities of both systems reflect the distinct guiding principles in EU and U.S. competition law. While the U.S. antitrust law is motivated with the importance of efficiency and free trade policy, the EU competition law on the contrary is driven by the belief in the importance of fairness and the development of an integrated European market. Consequently, to achieve an ideal equilibrium between IPR and competition policies is not such an easy task.

Abbreviations

CMLR	Common Market Law Reports
Commission	European Commission
DOJ	Department of Justice
EC	European Community
ECJ	European Court of Justice
EC Treaty	Treaty Establishing the European Community
EEC	European Economic Community
EU	European Union
FTC	Federal Trade Commission
Guidelines	2004 Guidelines accompany the TTBER
IP	Intellectual property
IPR	Intellectual Property Rights
MS	Member States
R&D	Research & Development
TTBE	1996 Technology Transfer Block Exemption
TTBER	2004 Technology Transfer Block Exemption Regulation
U.S.	United States
U.S. IP Guidelines	1995 U.S. Guidelines for the Licensing of Intellectual Property

1 Introduction

The ability of firms to license intellectual property rights (IPR) internationally is one of the cornerstones since the foundation of a strong global economy. IPR are increasingly crucial to all sectors of the economy. We now live in an era in which the benefits of IPR are recognized throughout the world and the protection of such rights, once the intellectual property is created in any one country or region is often made global through a crucial patchwork of bilateral and multilateral agreements.

In legal and economic spheres the connection among IP policy and competition policy is an enduring subject matter of discussion for the reason that both policies have possibly conflicting aims.[1] Competition law should be careful not to constrain the legitimate exercise of IPR and should take account of specific IPR characteristics in order to properly protect dynamic efficiency (i.e. A non-compete obligation may be required to protect the confidentiality of the know how transferred or to prevent the know how benefiting competitors of the licensor). Antitrust laws may only be used to remove the certain legal monopoly that the IPR laws grant to innovators, such excluding other of exploitation, when the IPR holders go beyond the legitimate exercise of their rights using them to produce anti-competitive effects (i.e. the conditioning of licensing on the purchase of a non patented product or the imposition of a non compete obligation is to be dealt under competition law).

Nonetheless, IPR and competition law are also complementary since they both seek the same objective of promoting consumer welfare, however they pursue different interests towards the achievement of such target. Competition policy will attain consumer welfare by protecting competition

[1] Commission evaluation report on the transfer of technology block exemption regulation N° 240/96 - Technology transfer agreements under article 81/* COM/2001/0786 final 2001. Available at: http://europa.eu.int/comm/competition/antitrust/technology_transfer/en.pdf (last visited 20 May 2005) (Hereinafter Commission Evaluation Report).

as the source of power of efficient markets, providing the best quality products at the lowest prices. On the other hand, IPR laws will do it by not encouraging the innovator's welfare, but ensuring an incentive to reward its effort, and by promoting technological development to the final profit of the consumers. On the most essential level however, Competition law and IPR law are centered on the innovation process and the expansion of economic activity, without in principle presenting major conflicts with each other.[2]

1.1 Purpose

The purpose of this thesis, owing to the intimate relation of both issues, is twofold. Firstly, to examine the key question of to what extent should competition policy intervene with IPR law. Indeed, the real problem resides in how to distinguish the legitimate exercise of IPR from conduct that goes too far in constraining competition, and therefore to achieve a good balance between both policies. It is here that marked differences exist between the European Union (EU) and the United States (U.S.) approach. In general, the European Community (EC) competition law has placed more limits on the exploitation of IPR than U.S. competition policy.

In view of the above-mentioned statement, the second aim of this work intends to investigate and compare through a descriptive analysis, the progress and present situation of the principles guiding the legal schemes of technology licensing agreements in European competition law and American antitrust law. Especially now that the European Commission (Commission) has recently embraced as well, in order to examine licensing arrangements, an economic effects-based model, which formerly had a more structural approach. The notion that individual antitrust jurisdictions might separately develop and evolve their policies in this crucial area, with the hope that a sufficient degree of uniformity ultimately will emerge, is to risk

[2] Rill J., Schechter M & Wood D., Howrey Simon Arnold & White, "The antitrust and IP interface in the US and EU", Practical Law Company, Competition Law 2003/2004, p.86-91. Source: http://www.howrey.com/docs/IPInterfaceUSEU.pdf (last visited 20 May 2004)

a substantial drag on worldwide economic development. At a time of increasingly international markets and when the dramatic potential exists to achieve great technological advances that can propel consumer welfare, concerted efforts to bridge international differences are particularly important. The new EC legal framework concerning technology transfer agreements seems more similar to the US system, in both, style and substance Nevertheless, it will be further analyzed if in reality the EU approach remains stricter than the US one, or, to the contrary, the US policy is not as lenient in practice as it looks.

1.2 Method and Materials

The purpose of the present work is thus to examine, describe and compare the different legal approaches to technology licensing agreements in the EU and U.S. systems. The method chosen should correspond with the purpose of the study in order to achieve the best results. Therefore, in order to produce detailed and accurate results in this research, both the traditional legal dogmatic point of view and the comparative perspective are to be applied.

The materials used to analyze the technology licensing agreements in Europe and U.S. have been primary legislation and legal doctrine. Also, the literature selected was chosen starting with licensing agreements publications in the EU and U.S. References were then taken from these documents to find new and related literature. All of the literature used in this research is from academic journals, dissertations, and official publications of the EU. All of the articles have been peer reviewed and checked for accuracy and authentically. The location of sources of information was made through the traditional library search at the University of Lund. However, the most valuable database has been various online search engines, such as Lovisa, Kluwerlaw and Westlaw.

1.3 Delimitations

The current report is limited to only focus on the theoretical and doctrinal approach towards the analysis on how in practice IPR and competition policies are married in the EU and in the U.S. legal systems. For that particular reason the present investigation involves a deep study of the new 2004 Technology Transfer Block Exemption Regulation (TTBER)[3] and Guidelines on the Application of Article 81 to Technology Transfer Agreements Guidelines),[4] and the 1995 U.S. Antitrust Guidelines for the Licensing of Intellectual Property (U.S. IP Guidelines)[5]. Thus, based in such research, there is a consequent analysis of the new achieved convergences and the still remaining differences between both legal systems. Nevertheless, the present work will not develop an economic analysis, eventhough it could be a key and complementary element to better understand the market behaviour.

The study on the contrary will not cover the issue of the practical matter, although it is acknowledged as significantly important, because there is still not enough European case law to make a clear and strict comparison with the US case law. All due to the fact that the TTBER and Guidelines entered into force only one year ago and because of their recent applicability, there is not much jurisprudence to clarify how the new system will function in practice. Also, they are still under a transitional period where the old 1996 Technology Transfer Block Exemption (TTBE)[6] is still applicable.

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[3] 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, OJ 2004 L 123/11 (2004) (hereinafter TTBER).
[4] Commission Notice: Guidelines on the application of Article 81 of the EC Treaty to Technology Transfer Agreements, OJ 2004 C 101/2 (2004) (hereinafter Guidelines).
[5] U.S. Antitrust Guidelines for the Licensing of Intellectual Property, issued by the U.S. Department of Justice and the Federal Trade Commission, April 6 1995. Available at: http://www.usdoj.gov/atr/public/guidelines/ipguide.pdf (last visited 20 May 2005) (hereinafter U.S. IP Guidelines).
[6] Commission Regulation (EC) No.240/96 of 31 January 1996 on the application of Art. 85(3) of the Treaty to certain categories of technology transfer agreements, OJ 1996 L 31/2 (1996) (hereinafter Regulation 240/96).

1.4 Outline

Chapter 2 introduces a basic overview of the legal background characteristics of the EC competition laws and the US antitrust policies. It is fundamental to obtain a quick picture of the framework that guides these two different legal systems, especially in order to achieve a better understanding of the governance of the technology licensing agreements that is the axis of the present work.

Chapter 3 lays out the general principles, which lead the licensing of IPR legislations from the antitrust point of view. The old TTBE that has been recently repealed will be introduced firstly Secondly, the new TTBER and its corresponding Guidelines will be described. Lastly, the U.S. antitrust regime on the licensing of intellectual property shall be presented.

Chapter 4 states the scope of the new TTBER and Guidelines, as well as of the current U.S. IP Guidelines.

Chapter 5 discusses how the distinction in licensing agreements between competitors and non-competitors is handled in the TTBER and Guidelines and in the U.S. IP Guidelines. This chapter describes as well the consequent diverse policies that are settled in the regulations depending on the type of contractual relationship the arrangement has.

Chapter 6 analyses and compares the safety zones established in the TTBER and Guidelines and in the U.S. IP Guidelines. It also exemplifies how the distinct market share thresholds affect the categorization of agreements. Furthermore, the chapter develops how the competition authorities of both systems assess the possible anticompetitive effects of the agreements that fall outside of such safety zone.

Chapter 7 examines the diverse licensing agreement clauses that may be found restrictive of competition and describes the different rules the TTBER and Guidelines and the U.S. IP Guidelines apply to them. Restraints such as price, output, territorial, sales and field of use; as well as, non-compete obligations, grant backs and tying.

Finally, *Chapter 8* summarizes and concludes the relation existing between IPR and competition law and the similarities and still quite significant differences in the field of technology transfer agreements between the EU and US. Moreover, it gives the personal analysis of such conclusion.

2 General Legislative Framework of Competition and Antitrust Law in the EC and the U.S.

2.1 General Legislative Framework of EC competition laws

The competition laws of the EC are principally established in the Consolidated version of the Treaty Establishing the European Community (EC Treaty)[7], secondary legislation and the national competition law regimes of the various EC Member States (MS). Competition policy constitutes one of the Community objectives established in Article 2 of the EC Treaty. This latter ascertains as well in its Article 3 that one of the principal activities of the Community shall incorporate "the institution of a system ensuring that competition in the common market is not distorted".[8] It could be said that the competition system set out in Title VI of the EC Treaty has two main purposes. On one hand, it should promote and encourage trade activities among the various MS. On the other hand, it should guarantee that the undertakings ought not hinder commercial practices within the Community by eliminating the integration of the separate economies of the EC MS into a single European market and rebuilding the national borders.[9]

In order to reach the fundamental objetives of the EC itself, it must be stand out the application of two basic competition rules which are the main focus of the European authorities and of most relevance to this thesis, specially the first one.

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[7] As amended in accordance with the Treaty of Nice Consolidated Version (OJ 2002 C/325/1-184) and the 2003 Accession Treaty (OJ 2003 L236/17). (hereinafter EC Treaty)
[8] Article 3.1(g) of the EC Treaty.
[9] Lidgard, Hans Henrik, *Competition Classics, Part I, (Student material from the Faculty of Law*, University of Lund, 2004, p.14.

2.1.1 Article 81 of the EC Treaty

Article 81 of the EC Treaty provides that unless an exeption applies, any agreement which prevents, restricts or distorts competition within the EC is prohibited and automatically void, and is subject to investigation and penalties by the Commission. This provision is subdivided into three main parts, and due to its importance, it requires a further description.

Article 81(1) EC Treaty applies to both horizontal and vertical agreements and prohibits as incomaptible with the common market “all agreements between undertakings, decisions by associations of undertakings and concerted practices which have as their object or effect the prevention, restriction or distoriton of competition within the commmon market”.[10] Moreover, it lists non-exhaustively examples of arrangements that would be objectionable, such as fix prices, share markets or limit production.

Article 81(2) EC Treaty adds, in alingment with the above mentioned provision, that prohibited agreements or parts of the agreement affected by the ban "shall be automatically void”.[11] Consequently other contractual pRovisions which are not affected by the prohibitiion and chich therefore do not involve the application of the Treaty, fall outside Community law.[12]

Lastly, Article 81(3) EC Treaty provides for individual or category exemptions from the prohibition in 81(1). In general the European system appears to forbid all anti competitive activity, whether it grants benefits and efficiencies or not. The provision in 81(3) is aiming in another direction, it is considered the correction instrument of the competition system and allows to exempt agreements that restrict competition upon condition to the

[10] See Article 81(1) of the EC Treaty.
[11] See Article 81(2) of the EC Treaty.
[12] ECJ, Case 56/65, *Société Technique Minière (L.T.M.) v Maschinenbau Ulm GmbH (M.B.U.)*, (1966) ECR 337;. ECJ, Joined Case 56 & 58/64, *Établissements Consten S.à.R.L. and Grundig-Verkaufs-GmbH v Commission*, (1966) ECR 429

fulfillment of the four parameters established in its wording.[13] Moreover, the Commission, based in a delegation of power from the Council.[14], wants to provide guidance through the issuance of group exemptions for various significant and frequent types of arrangements, These categories of agreements that fulfill the required conditions are automatically granted an exception, but there is a possibility of withdrawing it in appropriate individual cases where competition could be in danger.

2.1.2 Article 82 of the EC Treaty

The other cornertstone of the Community competiton system is Article 82 of the EC Treaty. This one forbids abuses of a single company in a dominant position by a affecting the entire EU market or a substantial part of it. In this article there is also a non-exhaustive list of diverse forbidden activities. However, unlike Article 81, this latter does not offer possibilites for exemptions.

2.1.3 Regulation 1/2003

The application of Competition laws must track the procedures established by the EC Treaty, subsequent implementing provisions and fundamental principles of law.[15] Currently, Regulation 1/2003[16] has recplaced

[13] See Article 81(3) of the EC Treaty. “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; afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question”.

[14] Council Regulation No 19/65/EEC of 2 March 1965 on the application of Article 85(3) of the Treaty to certain categories of agreements and concerted practices (Delegating powers to exempt exclusive dealing and license agreements), OJ 36/533 (1965).

[15] Lidgard, Hans Henrik, *Competition Classics, Part II, (Student material from the Faculty of Law*, University of Lund, 2004, p. 167.

[16] 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, OJ 2004 L 1/1 (2003).

Regulation 17/62[17] completing the EU modernization apporach and aiming to achieve an integrated market with the recent entrance of the new MS. The regulation has simplifyed the system to apply exemptions, now being the exemption system directly applicable, in which both competition authorities and courts of the MS have the power to apply Article 81 and 82 in their entirety, and has also balanced the Community and national powers.

2.2 General Legislative Framework of U.S. antitrust laws

In the 19th century the U.S. had to battle trusts and monopolies, and consequently, competition was by then of primary importance.[18] For that reason, the basic sources of federal antitrust law within the U.S are set out in several different statutes that started emerging at that time. The antitrust foundations are mainly specified in the Sherman Act,[19] then followed by the Clayton Act[20] that sets the general anti-competitive activities and ultimately by the Federal Trade Commission Act.[21] In distinction from the European belief, the U.S. system is less interventionist and its antitrust laws give more importance to efficiency and free trade policy ("laissez-faire").

2.2.1 The Sherman Act

The Sherman Act was implemented in 1914 and is formed of seven different sections. However, the most remarkable ones are the first two provisions. Section 1 focuses on agreements that contain restrictions that affect commerce in the U.S. and specifically prohibits and considers illegal any contracts, combinations and conspiracies in restraint of trade among the

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[17] Council Regulation 17/62/EEC of 6 february 1962, First Regulation implementing Articles 85 and 86 of the Treaty, JO 1962 13/204 (amended by Regulations 59/62, 118/63/EEC and 2822/71/EEC) (1962).
[18] Lidgard, Hans Henrik, *supra* note 9, p.5.
[19] Sherman Act, 15 U.S.C.A. § § 1-7, 26 Stat. 209 (1890) (hereinafter Sherman Act)
[20] Clayton Act, 15 U.S.C.A. § §1-7, 38 Stat. 230 (1914) (hereinafter Clayton Act)
[21] Federal Trade Commission Act, 15 U.S.C. A. § 45 (1914) (hereinafter Federal Trade Commission Act)

several States or with foreign nations. Furthermore, whoever is responsible of restricting the trade will be considered guilty and punished with a fine.[22] Meanwhile, Section 2 treats the question of monopolies and considers a criminal offence any attempt to monopolize any part of interstate or foreign commerce.[23] The punishment for this infringment would be the same as in Section 1.

2.2.2 The Clayton Act

Hereinafter, in 1914, the Clayton Act was adapted as a supportive document to the Sherman Act, due to the reason that the enforcement needed to be strengthened and the latter lacked of some clarity in certain points of its content. Within this piece of regulation, Section 7 that regulates mergers, should be emphasized. This one prohibits the acquisitions of certain stock or assets, including intellectual property rights (e.g. exclusive licensing agreements) where the effect thereof may be to lessen competition substantially, or to create a monopoly, in any line of commerce[24] in any section of the country.[25]

The Hart-Scott-Rodino Antitrust Improvements Act, which is actually included in the Clayton Act as Section 7A,[26] forbids certain acquisitions of voting securities or assets unless a prior notification has been filed with the government and the soecified waiting period has expired.

2.2.3 The Federal Trade Commission Act

The Federal Trade Commission Act was adopted in 1914 at the same time as the Clayton Act. This normative tool declares unlawful any "unfair

[22] Sherman Act, 15 U.S.C.A. § 1.
[23] Sherman Act, 15 U.S.C.A. § 2.
[24] Section 2 of the Clayton Act (15 U.S.C § 13) actually includes another major piece of federal antitrust legislation, the Robinson-Patman Price Discrimiantion Act, which was added in 1936 to specified discriminatory pricing practices which injured competition among purchasers of the products.
[25] Clayton Act, 15 U.S.C.A. §18.
[26] Clayton Act, 15 U.S.C § 18a.

methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce".[27]

2.2.4 Per Se Rule and Rule of Reason

The Antitrust division of the Department of Justice (DOJ) and the Federal Trade Commission (FTC) are the principal enforcement actors of the federal antitrust laws. Though also, through private rights of action, individuals may claim damages resulting of the antitrust violations of another. In addition, according to Alan S. Gutterman, "injunctive relief is available against actions which violate the antitrust laws and courts may declare any relevant contract, including any license agreement and the underlying patent rights, to be unenforceable".[28]

It is substantially relevant to mention that the U.S. courts have come to develop two different rules to evaluate the pros and cons of the alleged restraints of trade contained in certain agreements, the per se and the rule of reason, that span over the whole antitrust system.

The per se doctrine applies generally to horizontal agreements and assumes that a practice alleged as very detrimental to competition, such as price fixing, allocation of markets, boycotss and similar agreements among competitors at the same distribution level, is illegal per se and lacks of any justifications in terms of promoting competition. This rule does not permit the courts to even consider the evidence given by the contracting parties in justification of the conduct,. Therefore, these agreements are conclusively presumed to be "illegal without elaborate inquiry as to the precise harm they have caused".[29]

[27] Federal Trade Commission Act, 15 U.S.C § 45.
[28] Gutterman, Alan S., *Innovation and Competition Policy: A comparative study of the regulation of patent licensing and collaborative research and development in the United States and the European Community*, Kluwer Law International Ltd., 1997, p.72.
[29] *Northen Pacific Railway Co. v United States*, 356 U.S. 1 (1958).

On the contrary, the rule of reason entails an inquiry into potential benefits or threats to competition and should be use to challenge the other type of practices, including vertical arrangements. On the basis of this rule, the courts will weigh up the procomptetitive and anticompetitive effects of the agreement and the various justifications alleged by the parties, to determine whether the restraint is reasonable or not. Therefore, to ascertain if a transaction infringes competition, an analysis should be taken into account under the rule of reason, where it should be determined the relevant geographic and product[30] markets, the market shares of the contracting parties and the market concentration.

[30] The parameters of the relevant product market are determined in general by the degree of interchangeability of use, or cross-elasticity of demand, between the particular product at issue and its substitutes. Accordingly, it is unlikely that a product will be deemed to be in a product market of its own if the other products could be readily substituted by end users.

3 General Principles

3.1 Regulation 240/96

The TTBE was designed to play a crucial task in the development of innovation within the EU economy and in contributing to the competitiveness of business operating in the Community. This regulation had the aim to aid the economic development of the Community encouraging the dissemination of technical knowledge in the Community and promoting the manufacture of technically more sophisticated products.[31] In the preamble of the TTBE the Commission stated that the regulation should be simplified in order to facilitate cross-border technology transfer. This regulation was the last piece of legislation under the "formalistic school".[32] The Commission never added Guidelines to aid the application of the TTBE, because they were believed to be unnecessary.

Particulary, the TTBE pursued three main objectives.[33] One, warrant effective competition in new or improved technological products. Two, generate a positive legal atmosphere for undertakings investing in the EU, by making them available with legal certainty and decreasing the adminsitrative burden of individual notifications under Article 81(3). Three, make less complicated the licensing agreement rules by joining the previous block exemptions on patent licensing[34] and know-how[35].

The scope of the TTBE was rather narrow as it only covered pure or mixed patent and know-how licensing arrangements entered into by two parties

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[31] See Recital 3 of the Preamble of Regulation 240/96.
[32] Lidgard, Hans Henrik, *supra* note 9, p.249.
[33] Commission Evaluation Report, para.10, page 6.
[34] Commission Regulation (EEC) No 2349/84 of 23 July 1984 on the application of Article 85 (3) of the Treaty to certain categories of patent licensing agreements, OJ 1984 L 219/15 (1984)
[35] Commission Regulation (EEC) No 556/89 of 30 November 1988 on the application of Article 85 (3) of the Treaty to certain categories of know-how licensing agreements, OJ 1989 L 61/1 (1988)

and did not extend its scope to multiparty licenses or pooling agreements. [36] Moreover, it enclosed only other IPR ancillary to such patent or know-how agreements, like copyrights and trademarks.

In principle, the TTBE relied on the assumption that any restriction overstepping the boundaries of the patent subject matter is potentially caught by article 81(1). For that reason, this block exemption distinguished three categories of clauses: "white clauses", those that generally unlikely restrict competition;"grey clauses", those that are neither exempted nor expressly excluded required individual assesmment to determine their competiive effects and the Commission must establish, within a specified period of time, whether the notified agreement may benefit from the block exemption; and "black clauses", those presumed to be anticompetitive and the inclusion of which would bring the entire agreement outside the scope of the block exemption. Hence, depending on the requirements of each list the restriction will benefit or not from the block exemption.[37] In addition, under the current TTBE, the Commission has the discretionary power to withdraw at any time the benefit of the TTBE on a case-by-case basis when effects of the agreements are incompatible with the conditions of Article 81(3). Furhtermore, the current TTBE applies regardless of market shares and may exempt agreements entered into by dominant undertakings. A requirement not to exceed a certain market share is not a condition for the application of the TTBE but an indication of the circumstances in which the Commission may withdraw the benefit of the block exemption.

Nevertheless, the system of the TTBE was subject to significant criticisms because it was very form-based and followed a legalistic and structural approach similar to the one that the Commission followed in the past in the

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[36] See Article 1(1) and Recital 4 of Regulation 240/96; Korah, Valentine, *An introductory Guide to EC Competition Law and Practice,* Hart Publishing, Oxford – Portland Oregon. 7th edition 2000, p.288 et seq.

[37]Fogt Jr, Howard W., "The New Draft EC Technology Transfer Block Exemption Compared with the current Technology Transfer Block Exemption ("TTBE")", OJ C 236/10, Foley & Lardner Bulletin, Legal News: Antitrust, October 1 2003. Source: http://www.foley.com/files/tbl_s31Publications/FileUpload137/1673/Antitrust10-24.pdf (last visited 20 May 2005)

field of vertical and horizontal agreements. The TTBE was mainly complicated in its structure, and focused in intra-brand competition and market integration. [38] Probably due to this formalistic framework; focusing on the mere wording of the licensing contracts rather than the economic environment, and on the lists of "dos" and "don'ts" that had nothing to do with commercial sense or with anti-competitive reality; the TTBE imposed a legal straitjacket on industry forcing companies unduly to enter into agreements limiting their effectiveness and possibly limiting the competitiveness of the European industry. [39]

Furthermore, there was a need to adapt the TTBE since it was considered to be incompatible with the recent reforms of EC competition rules. On the one hand, in recent block exemption regulations the Commission took a more economic and effects-based approach, focusing more on inter-brand competition issues and on the analysis of possible efficiencies of certain restrictions; On the other hand, the opposition procedure of the regulation had to be repealed because of the abolition of the notification system in the new Regulation 1/2003.[40]

3.2 The New TTBER

In line with the necessity of adapting the TTBE to ensure more consistency with the new generation of Commission block exemption regulations, which shifted from a legalistic and form-based approach to a more economic and effects-based one, the Commission re-evaluated its policies towards technology licensing. In December 2001 the Commission adopted a mid-term review of the TTBE followed by a consultation process. This latter led

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[38] Feil, Markus, "The new block exemption regulation on technology transfer agreements in the light of the U.S. Antitrust Regime on the Licensing of Intellectual Property", IIC – International Review of Intellectual Property and Competition Law, 2005, Vol.36, Issue 1, p.31-62.

[39] Fine, Frank, "The EU's new antitrust rules for technology licensing: a turbulent harbour for licensors", European Law Review, 2005, Vol. 29, Issue 6, p.766-787..

[40] Monti, Mario, "The New EU Policy on Technology Transfer Agreements", Ecole des Mines, Paris, 16th January 2004, p.1-7. Source: http://www.cerna.ensmp.fr/cerna_regulation/Documents/ColloqueAntitrust2004/Monti.pdf (last visited 20 May 2004)

to a publication of a new draft TTBER on 1 October 2003, which was followed by another public consultation period. Such Draft was highly and generally criticized as too restrictive[41].

Finally, on 27 April 2004 the Commission published a new TTBER, along with corresponding Guidelines. On 1 May 2004, the same day as the accession of ten new MS to the EU, the new TTBER and the Guidelines, and Regulation 1/2003, modernizing procedures for implementation of Articles 81 and 82, entered into force. [42]

On one hand the new TTBER regulation is legally binding and the idea behind the block exemption is to automatically exempt certain types of agreements from the scope of Article 81(1) of the EC Treaty, without the need to individually examine the anti- and pro- competitive effects of the restrictive agreement. On the other, the Guidelines are non-binding and are intended to provide further guidance on the application of the TTBER and to outline principles for the assessment of technology licenses under Article 81 EC in situations where the block exemption does not apply[43]. It could be said that the Commission used in this normative area a similar technique as the one applied for vertical agreements.

The new TTBER represents a welcome regulatory change, shifting from the legalistic and form-based approach of the TTBE to a more economic effects-based system that assesses the impact of agreements on the relevant market. It is a move away from the approach of listing exempted clauses and to place greater emphasize on defining the categories of agreements.

The intellectual property laws and the competition laws share the common purpose of promoting and enhancing innovation, an efficient allocation of

[41]Dolmans, Maurits & Piilola, Anu, "The Proposed New Technology Transfer Block Exemption, Is Europe better off with the current regulation?", 26 World Competition.4, 2003.
[42] Dolmans, Maurits & Piilola, Anu, "The New Technology Transfer Block Exemption. A Welcome Reform, After All", Kluwer Law International, 2004,Vol. 27, Issue 3, p.352-363.
[43] See Guidelines, para.2.

resources and consumer welfare[44]The TTBER takes into consideration that technology transfer agreements, integrating complementary technologies and assets, will usually improve economic efficiencies and be pro-competitive facilitating diffusion and generating product market competition. In this new regulation the agreements between competitors are treated stricter than agreements between non-competitors. Therefore, the principal aim of the present normative is the inter-brand competition.

The new TTBER does not any more list provisions that do not clash with Article 81 (1), even though the Guidelines list a certain amount of licensing clauses that do not normally limit competition[45]. This is certainly a difference with the old TTBE, which contained the so known “white list”. In accordance with the new TTBER, and similar to the old TTBE, the Commission or a national competition authority may withdraw the benefit of the block exemption, where they find in any particular case that a technology transfer agreement has effects which are incompatible with article 81(3) of the Treaty, even though the exemption provided in article 2 applies[46].

Overviewing the most important changes of the new TTBER it must be emphasized that it contains two main key considerations, the assessment of the competitive relationship of the contracting parties and their market shares[47]. This is due because the major innovations are that the TTBER has set different rules for agreements depending if these latter are established between competitors or non-competitors; and offers a general block exemption, the so called safe harbor, for technology transfer agreements below certain market-share thresholds. The possible competition problems differ depending on the competitive relationship between licensor and licensee. In the case of licenses between competitors, a further distinction

[44] See Guidelines, para. 7.
[45] See Guidelines, para. 155.
[46] See Article 6 of the TTBER.
[47] See recital 4 of the TTBER.

between reciprocal and non-reciprocal licenses is now a crucial analytical element.

The new TTBER embraces an important aspect such as the inclusion of a hardcore list that gathers certain licensing practices that are considered almost always anticompetitive. It is generally accepted that competition risks are greater for licensing between competitors and for reciprocal licensing. For that reason, price fixing, definite restrains of output, certain sales restrictions and allocation of markets and customers[48] should be hardcore when licensing between competitors is concerned. Thus, the hardcore list treats more favorably agreements between non-competitors than between competitors through establishing different provisions. In situations where the parties become competitors subsequent to the conclusion of the license[49], the hardcore list for non-competitors remains applicable for the full life of the agreement[50]. So, to prevent that suddenly the applicable hardcore list would change an "ex-ante" approach will apply[51]. In certain cases an agreement, as a whole, will fall outside the scope of the block exemption when it encloses one or more hardcore restrictions. It will then need an individual assessment and will only fulfill the conditions of art.81 (3) under extraordinary circumstances[52].

The TTBER exempts agreements between competitors only if the contracting parties' combined market share remains below 20 per cent of the relevant technology and product market. Where agreements between non-competitors are exempted up to the 30 per cent market share ceiling of the relevant technology and product market. The introduction of this market share ceilings has been widely criticized because they are pretty low and they will be quickly reached.

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[48] See Article 4 and recital 13 of the TTBER; Guidelines, para. 74 *et seq*.
[49] See Article 4(3) of the TTBER
[50] See Guidelines, para 31.
[51] See Guidelines, para.31; and Monti, Mario, *supra* note 40, p.4.
[52] See Recital 13 of the TTBER; Guidelines, para.75.

However, the Commission retained the ceilings on the ground that it would not be reasonable to introduce an unlimited block exemption for license restrictions without some safeguard that restrictions in agreements between parties with strong market position would be subject to at least ad hoc review. Nevertheless, the Commission refer to an alternative “technology centre” test, whereby an agreement could benefit from a favorable individual analysis under Article 81(3) as long as there was a sufficient number (4 or more) of independent poles of research available on the market[53]

Once you reach these market shares, the TTBER above those limits is not applicable. However, there is no presumption, as the Commission stands out, that such agreements are caught by article 81 or fail to satisfy the conditions of article 81(3)[54]

According to the TTBER there are two classes of relevant markets to take into consideration at the time of assessing the competitive relationship and market share. One, is the relevant technology market and the other, is the relevant product market[55]. Furthermore, some license agreements are pointed out by the Guidelines as being able to affect an innovation market[56].

The new TTBER not only sets a list of hardcore restrictions, it also establishes a list of excluded restrictions[57]. The block exemption will still be applicable to a license that contains such a restriction, although only the restrain in question will fall out of the TTBER and will need an individual assessment under article 81.

Like mainly all new regulations, the new TTBER provides for a transitional period, until March 2006, during which Article 81(1) is deemed not to apply

[53] See Guidelines, paras 24 and 131. This alternative test is also recognized in the US Guidelines for the Licensing of Intellectual Property; See U.S. IP Guidelines, § 4.3.
[54] See Recital 12 of the TTBER; Guidelines, paras 37 and 65
[55] See Article 1.1.j of the TTBER.
[56] See Guidelines, para 25.
[57] See Article 5 of the TTBER; Guidelines, para. 107.

to patent and know-how licenses in effect as of 10 April 2004 which do not satisfy the conditions of the new block exemption but which on 30 April 2004 did meet the criteria of the old TTBE. On 1 April 2006, the transitional period will expire, meaning that Article 81(1) will at that time become operative and an agreement, or an individual restriction contained in it, may be rendered null and void unless the agreement or restriction has either been brought into conformity with the new TTBER or otherwise fulfils the conditions of Article 81(3)[58].

3.3 U.S Law

In the U.S., unlike in the EC, there are no legally binding codified provisions for the assesment of the licensing of intellectual property rights under antitrust law. For that reason, the basic sources of federal antitrust law within the U.S apply.[59] These statues are, among others, the Sherman Act,[60] then followed by the the Clayton Act[61] that sets the general anti-competitive activities and ultimately by the Federal Trade Commission Act.[62] While the Sherman Act, as well as the Clayton Act, does not explicitly mention patents or any form of intelelctual property rights, it is settled that a license agreement may be a contract which runs afoul of the prohibitions set out in Section 1 of the Sherman Act.[63]

However, the federal antitrust enforcement agencies, courts and doctrine have created in the framework of antitrust law a particular system for intellectual property. At present, the U.S. IP Guidelines of April 1995 issued in cooperation by the DOJ and the FTC, have become the most significant

[58] See Article 10 of the TTBER.
[59]Heinemann, *Immaterualgüterschuftz in der Wettbewerbsordnung*, 38, Mohr Siebeck, Tübingen, 2002.
[60] Sherman Act, 15 U.S.C.A.: § 1, according to which every contract in restraint of trade is illegal and § 2, according to which monopolizing is punished.
[61] Clayton Act, 15 U.S.C.A.: § 13, according to which discrimination in price, services or facilities is unlawful; § 14, according to which exclusive dealing and tying is unlawful; and § 18, controls mergers and acquisitions.
[62] Federal Trade Commission Act, 15 U.S.C. A. § 45(a), according to which unfair methods of trade are declared unlawful.
[63] Gutterman, Alan S., *supra* note 28, p.72.

document with respect to the licensing of intellectual property protected by patent, copyright, trade secret law, and of know-how. Eventhough these Guidelines are a merely policy statement and are not specific legally binding for courts, the public or even the agencies themselves, they have a real effect on licensing practice. These US IP Guidelines will be applied reasonably and flexibly to each particular case in light of its own facts and will orientate the two federal enforcement agencies under what conditions they should challenge, in protection of the antitrust laws, the licensing agreements. [64]

The US IPR laws and the antitrust laws are two bodies that are actually complementary and share the common purpose of enhancing consumer welfare and encouraging innovation, industry and competition. On the one hand, the antitrust laws prohibit certain actions that may harm competition by existing or new ways of serving consumers. On the other hand, the IPR laws by establishing enforceable property rights for the creators of new and useful products, more efficient processes and original works of expression, provide incentives for innovation and its dissemination and commercialisation.[65]

The U.S. IP Guidelines embody three general principles. First, for the purpose of antitrust analysis, the Agencies regard intellectual property as being essentially comparable to any other form of property. Second, the Agencies do not presume that intellectual property creates market power in the antitrust context. Third, the Agencies recognize that intellectual property licensing allows firms to combine complementary factors of production and is generally pro-competitive[66].

The competitive effects of licensing arrangements often can be adequately assessed within the relevant markets, therefore the U.S. IP Guidelines

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[64] Feil, Markus, *supra* note 38, p.37.
[65] See U.S. IP Guidelines, § 1.0.
[66] See U.S. IP Guidelines, § 2.0.; Glader, Marcus, *Innovation Markets and Competition Analysis – EU competition law and US antitrust law,* Faculty of Law, Lund Universtiy, Intellecta DocuSys, Malmö 2004.

establish that there are three types of markets that could be affected by licensing agreements. Firstly, the goods market that involves final or intermediate goods that use intellectual property (IP) or goods that are used as inputs, along with the IP, to the production of other goods[67]. Secondly, the technology markets, which consist of the IP that is licensed and its close enough substitutes significantly to constrain the exercise of market power with respect to the intellectual property that is licensed[68]. Thirdly, the innovation market that is composed of the research and development directed to particular new or improved goods or processes, and the close substitutes for that research and development[69].

The U.S. Guidelines aiming to provide some level of certainty and to support licensing agreements, they have established an antitrust “safety zone” that applies to restraints that are related to the use of the intellectual property and are consequently established in a licensing agreement. On the contrary, the safety zone does not apply to those transfers of IPR to which a merger analysis is applied. If no such facially anti-competitive per se restraints are contained in a licensing agreement between competitors, absent extraordinary circumstances, the agreement will normally not be challenged if the licensor and its licensees collectively account for no more than twenty per cent of each relevant market significantly affected by the restraint[70].

Above this safety zone of 20% the rule of reason applies to evaluate the licensing restraints. Firstly, the restrain of the agreement will be examined if it has or is likely to have any anticompetitive effect. If it is found that it does have an anticompetitive effect, it will be then needed to observe if to achieve the pro-competitive efficiencies the restriction is reasonably necessary. If it appears that the possibility of using means that are significantly less restrictive to achieve similar efficiencies is possible, the

[67] See U.S. IP Guidelines, § 3.2.1.
[68] See U.S. IP Guidelines, § 3.2.2.
[69] See U.S. IP Guidelines, § 3.2.3.
[70] See U.S. IP Guidelines, § 4.3.

Agencies will not give weight to the parties' efficiency claim. On the contrary, if the restrain in reasonably necessary, the Agencies will balance the anti-competitive effects and the pro-competitive efficiencies to assess the probable net effect on competition in each relevant market[71]. Therefore, the balance generally requires complex evidence and analysis of market power and economic effects, taking into account all relevant facts[72].

Nevertheless, there is still in the U.S. IP Guidelines room for per se treatment of restraints, which is similar to the black list of the old TTBE or the hardcore list of the new TTBER. The per se rule it is based on the experience that there are certain practices that are conclusively presumed to be unreasonable and therefore illegal, without elaborate inquiry as to the precise harm that they have caused.[73] Some of these practices are naked price-fixing, output restraints and market division among horizontal competitors. The U.S. IP Guidelines further provide an abbreviated version of the rule of reason, dealing with situations between the per se rule and the complete rule of reason, named "truncated inquiry".[74].

[71] See U.S. IP Guidelines, § 4.2.
[72] See *Board of Trade of Chicago v. United States*, 246 U.S. 231, 238 (1918).
[73] See *Northern Pacific Railway Co. v. United States*, 356 U.S. 1, 5 (1958).
[74] See U.S. IP Guidelines, § 3.4.

4 Scope

4.1 The New TTBER

Firstly, the scope of the new block exemption still primarily covers the licensing of patents and know-how. Although now this latter requires to be both “useful” and “significant” in relation to the production of the contract products, not just “useful” to the licensee as obliged before under the old TTBE. However, the scope of the TTBER is broader than that of its predecessor, as the block exemption in addition currently covers licenses of software copyright[75] and design rights, which are at present equated to patents[76]. Despite the fact that other types of IPR such as trademarks and copyright, other than software copyright, are not in principle covered by the TTBER; this later will only cover such rights - like the TTBE- if they meet three specific requirements. 1) The provisions should be ancillary and never constitute the primary object of the licensing agreement, 2) the grant of such rights should be directly related to the exploitation of the licensed technology; and 3) they should serve to enable the licensee to better exploit the licensed technology[77]. Furthermore, the Commission when assessing licensing of copyright granted for the purpose of reproduction and distribution of the protected work will generally apply the block exemption by analogy, since they are considered to be of a similar nature as technology transfer agreements[78]. On the other hand, the licensing of rights in performances and other rights related to copyright, as well as trademark licensing, is considered to raise particular competition issues and therefore, the Commission will not apply by way of analogy the principles of the TTBER and Guidelines to the licensing of these other rights.[79]

[75] See Article 1(1)(b) of the TTBER; Guidelines, para.46.
[76] See Article 1(1)(h) of the TTBER; Guidelines, para.46.
[77] See Guidelines, para.50.
[78] See Guidelines, para.51.
[79] See Guidelines, para.52 and 53; and Feil, Markus, *supra* note 38, p.40.

Secondly, the TTBER provides that technology transfer agreements limited to two parties, even if the agreement stipulates conditions for more than one level of trade, will qualify for an automatic exception from Article 81(1),[80] This means that multilateral agreements are precluded of coverage. Nevertheless, the Commission intends to analyze multilateral agreements of the same nature as those covered by the block exception in a manner similar to the way it analyses two-party agreements. This is, applying the principles of the TTBER by analogy[81]. If the multilateral agreement involves a technology pool, it shall be treated in an individual assessment under Article 81 and a set of special rules set out in the Commission's Guidelines will apply.[82].

Thirdly, the same way as the old TTBE, the new TTBER can only apply to agreements concerning the "production of the contract products"[83], that is, the production of goods or services that either incorporate the licensor's technology or are produced with the use of that technology. The TTBER also applies to agreements providing for further development of a product by the licensee, so long as a contract product has been identified, such as in the case of a process patent or manufacturing know-how. In other words, the license must permit the licensee "to exploit the licensed technology, possibly after further research and development by the licensee, for the production of goods and services"[84]. In particular this implies that agreements that have as their primary object the purchase or sale of products (distribution agreements) or sublicensing, fall out of the coverage of the TTBER[85].

[80] See Article 2 of the TTBER, Guidelines, para. 38.
[81] See Guidelines, para. 40.
[82] See Guidelines, para. 210.
[83] De Schrivjver, Steven & Marquis, Mel, "Technology Licensing in the EU after the Big Bang: the New Technology Transfer Block Exemption Regulation and Guidelines", Business Law Review, July 2004, vol. 25, issue 7, p.163.
[84] See Recital 7 of the TTBER; Guidelines, para.41.
[85] See Guidelines, para. 42 and 48. Supply and distribution agreements are subject to Regulation 2790/99. See Guidelines, para.61.

4.2 U.S. Law

In the U.S., as it has been mentioned in chapter 3, the general rules of federal antitrust law apply in the licensing environment. In contrast to the EC system, the licensing rules are not limited to specific types of intellectual property or any other special kinds of licensing agreements.[86] The US antitrust principles will apply to any kind of property and IP is like any other form of property.[87] Nevertheless, under the particular regime set up in the context of antitrust law for intellectual property, the U.S. IP Guidelines offer limited coverage to technology transfer and innovation agreements associated with issues that normally come up with regard to the licensing of intellectual property protected by patent, copyright, and trade secret law, and of know-how.[88] However, these Guidelines do not cover the antitrust treatment of trademarks, that is to say, product differentiation issues; eventhough the identical general antitrust principles that apply to other forms of intellectual property apply also to trademarks.[89]. Moreover, in contrast with the TTBER, the U.S. IP Guidelines are not limited to only cover bilateral agreements. Additionally these latter include cross-licensing and pooling arrangements, as they consider this kind of agreements as often providing pro-competitive benefits by integrating complementary technologies, clearing block positions, reducing transaction costs and avoiding costly infringement litigation.[90]

[86]Feil, Markus, *supra* note 38, p.41.
[87] See U.S. IP Guidelines, § 2.1. and Rill J.and others, *supra* note 2, p.86.
[88] See U.S. IP Guidelines, § 1.0
[89] See U.S. IP Guidelines, § 1.0, Footnote 2.
[90] See U.S. IP Guidelines, § 5.5.

5 Distinction: Competitors v. Non-Competitors

5.1 The new TTBER

Speaking about the harm that competition may suffer with the existence of certain licensing agreements, it is generally considered that agreements between competitors bear more risks to competition than agreements between non-competitors. However, competition between undertakings that use the same technology (intra-technology competition between licensees) constitutes an important complement to competition between undertakings that use competing technologies (inter-technology competition)[91]. That is the reason why the new TTBER has now placed a different set of rules, the hardcore restraints lists,[92] depending if the parties are undertakings competing or not on the technology and product relevant market.[93] Hence, the distinction of the competitive relationship between the contracting parties of the licensing agreement is crucial within this new regulation, as it determines which group of hardcore clauses and which market share thresholds apply.[94] For the same reason, before the relevant market share thresholds can be applied, it is necessary to examine whether the parties would have been actual or potential competitors on the same product market or the same technology market in the absence of the agreement, to determine whether the parties were competitors at the time of the grant of the license.[95]

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[91] Commission Evaluation Report, para.26.

[92] Vollebregt, Erik, "The Changes in the new technology transfer block exemption compared to the draft", European Competition Law Review, 2004, Vol.25, No.10, p. 663.

[93] See Article 4 of the TTBER.

[94] Ritter, Cyril, "The New Technology Transfer Block Exemption under EC Competition Law", Legal issues of Economic Integration, Kluwer Law International, 2004, Vol.31, Issue 3, p. 173.

[95] See Article 1(1)(j) (ii) of the TTBER.

In the first place, in the case of product markets, the question is whether the parties are either actual or potential competitors in a market that embraces products that are regarded by the buyers as interchangeable with or substitutable for the contract products incorporating the licensed technology[96], by reason of the products' characteristics, prices and intended use.[97]. On the product market the parties are considered to be potential competitors if in the absence of the agreement, it is likely that they would have undertaken the necessary additional investment to enter the relevant product and geographical market, without infringing the IPR of the other party, in response to a small but permanent increase in product prices. However, the necessary investments for such entrance must occur in a relatively short period of time, of one or two years, to constitute a realistic competitive constraint.[98]The contractual parties are then considered actual competitors in the product market if in the absence of the agreement and without infringing each other's IPR, the companies are active on the same product and geographical market on which the contract products are sold.

In the second place, in case of technology markets, the question is whether the two undertakings actually license competing technologies without one or both of the parties infringing the IPR of the other party or, if the licensee is already licensing out his technology and the licensor enters the technology market by granting a license for a competing technology to the licensee[99]. In other words, assess if the contractual parties under the TTBER are actual competitors on the market where technologies which are regarded by the licensees as interchangeable with or substitutable for the licensed technology, by reason of the technologies' characteristics, their royalties and their intended use[100]. In contrast, potential competition on the technology market, when one of the two parties merely owns substitutable technology or the licensee is not licensing its own competing technology but would be

[96] See Article 1 (1)(f) of the TTBER.
[97] See Guidelines, para.21
[98] See Guidelines, para.29.
[99] See Guidelines, para.28.
[100] See Art.1(1)(j)(i) of the TTBER; Guidelines, para.22.

likely to do so in the event of a small but permanent increase in technology prices, is not taken into account in the TTBER.[101]

In any other circumstances, the contractual parties are deemed to be non-competitors, if without the agreement they would not have been actual or potential competitors in any relevant market affected by the agreement[102]. If the parties are not competing with each other when the license is granted, they may nevertheless later start to compete if the licensee was already active on the product market prior to the grant of the license and the licensor later enters that market. However, under those circumstances, the hardcore list for non-competitors under the TTBER remains applicable so long as the parties do not amend their agreement in any material respect. This approach is designed to maintain continuity and legal certainty for the parties.[103]

Furthermore, the Guidelines indicate that, in situations where the parties own technologies that are in a one-way or two-way blocking position, they are considered non-competitors on the technology market.[104] In assessing whether a blocking position renders the parties non-competitors for purposes of the TTBER, the Commission will only take into account objective factors, meaning that the subjective views of the parties will be given little weight. The Commission will require particularly convincing evidence from the parties where there is a common interest in claiming the existence of a blocking position, such as where an alleged two-way blocking position concerns technological substitutes. Such evidence may consist of court judgments, independent expert opinions, or other forms of convincing proof.[105]

Finally, in exceptional cases the parties will be deemed non-competitors if the licensed technology is such a drastic innovation, that the licensee's

[101] See Guidelines, para 66.
[102] See Guidelines, para.27.
[103] Monti, Mario, *supra* note 40, p.4.
[104]See Guidelines, para.32. A blocking position exits when a technology cannot be exploited without infringing upon another technology.
[105] Ritter, Cyril, *supra* note 94, p.173.

technology has become obsolete or uncompetitive. This presupposes that the licensor's technological breakthrough; either creates a new product market or excludes the licensee's technology from the market. However, since it is normally difficult to know whether a new technology does in fact represent a drastic innovation until a certain period of time has elapsed, the Commission will consider the parties to be competitors if, at the time of the grant of the license, it was not obvious that the licensee's technology had been rendered obsolete or uncompetitive. If it later becomes clear that this is indeed the case, then the parties will be deemed non-competitors.[106] It could be argued that, under those circumstances, the classification of the parties' relationship as non-competitive should apply retroactively to the time the agreement was concluded. However, the Commission's relatively skeptical tone suggests that this approach might not be accepted. Once more there is here some insecurity as to the standard of proof that the parties need to meet in order to show that they are non-competitors. Particularly, it would be practical to refer to the Commission's 1997 Notice on the Definition of the Relevant Market.[107]

5.2 U.S. Law

The TTBER moves toward the U.S. antitrust policy not only by determining the competitive relationship of the parties, but also distinguishing horizontal from vertical agreements. This distinction impacts the substantive assessment of the licensing agreements in both legal systems. However, the TTBER seems more concerned in characterizing parties as either competitors or non-competitors by means of substantive rules set depending upon how the parties are classified. On the other hand, the U.S. Guidelines focus more on the nature of the license terms and whether the relationship between the parties is vertical or horizontal.[108]

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[106] See Guidelines, para.33.
[107] Commission Notice on agreements of minor importance which do not appreciably restrict competition under Article 81(1), OJ C 368/13, (2001).
[108] Delrahim, Makan, "US and EU Approaches to the Antitrust Analysis of Intellectual Property Licensing: Observations from the Enforcement Perspective", issued by U.S. Department of Justice. Presented at American Bar Association, Section of Antitrust Law,

As it has been stated in Chapter 2, the significant U.S. antitrust rules on licensing agreements, especially Sec.1 of the Sherman Act, apply to both horizontal and vertical agreements. [109] Nevertheless, in real practice, U.S. courts and enforcement agencies have developed different principles for these two essential types of arrangements.

Generally U.S. antitrust law and enforcement agencies, not wanting to deter efficient innovation efforts, are more lenient on vertical restrictions that enable the ability of licensors to maximize profits by more fully exploiting their intellectual property.[110] Conversely, when the relationship in the arrangement is horizontal, the U.S. enforcement agencies tend to focus more in assessing the competitive harm that may arise. A relationship between a licensor and its licensees, or between licensees is considered to be horizontal, if in the absence of the license, the parties would have been actual or potential competitors in a relevant product, technology or innovation market.[111] The U.S. IP Guidelines' approach uses a "but for" counterfactual analysis "for all licensing restraints that asks whether competition under the licensing agreement would be less than which would occur in the absence of any licensing agreement at all".[112]

Nevertheless, even among competitors, the U.S. IP Guidelines recognize that the IP relationship may be vertical when for instance, the technology protected by the IP is far superior to a competitor's technology, and the competitor is not likely to develop a competing technology in the absence of the license[113]. In a comparable way and similar alignment with the TTBER, an agreement where a manufacturer who does not own a competing

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Spring Meeting, Washington D.C.; April 1 2004. Source: http://www.usdoj.gov/atr/public/speeches/203228.htm (last visited 20 May 2005)

[109] Hovenkamp et Al., *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law*, Aspen Publishers, Supp.2004.

[110] Commission Evaluation Report, para.46.

[111] Gilbert, Richard, "Converging Doctrines? US and EU Antitrust Policy for the Licensing of Intellectual Property", Institute of Business and Economic Research, Competition Policy Center (University of California, Berkeley), 2004, Paper CPC04'044, p. 4. Source: http://repositories.cdlib.org/cgi/viewcontent.cgi?article=1045&context=iber/cpc (last visited 20 May 2005).

[112] Delrahim, Makan, *supra* note 108, p.3.

[113] See U.S. IP Guidelines, §3.3. Example 5.

technology is granted a license by a patentee for the production of the patented goods, even if the patentee produces such goods himself, the agreement is primarily considered intra-brand and the licensing parties in the absence of the license would not have been competitors.[114].

[114] Hovenkamp et Al, *supra* note 109, § 33.2.

6 Market-Share Thresholds

6.1 The new TTBER

The main point of criticism, in the comments of the new TTBER, has been the introduction of the use of market share thresholds. On one hand, a group of commentators consider that where licensing takes place it is usually too complex to delineate markets as it may concern new products or new technologies with unclear function and demand. Therefore, the assessment of the market share is notoriously difficult in the context of technology, and that parties' market shares in an innovative environment may necessarily tend to be significant. On the other, the use of market share thresholds is mainly opposed because it is considered of no relevance in high technology sectors, which decreases legal certainty and increases the costs needed to permanently assess market shares throughout the life of the agreement.[115]

Under the TTBER the safe harbor depends on whether the parties were competitors at the time the license was granted, in view of the fact that there are two different market thresholds that may apply. In agreements between competitors, the block exemption applies provided that the combined market share of the parties does not exceed 20% on the affected relevant technology and product markets.[116] In agreements between non-competitors, the block exemption applies provided the combined market share of each of the parties does not exceed 30% on the affected relevant technology and product market.[117].

[115] Submissions on the Transfer of Technology Block Exemption Review Report (*19 July 2002*), "Summary of Submissions on TTBE Review Report", p.3. Available at: http://europa.eu.int/comm/competition/antitrust/technology_transfer/summary_of_comments.pdf (last visited 20 May 2005); and e.g., International Chamber of Commerce, "Comments on the European Commission´s proposal for a revised transfer of technology block exemption regulation (TTBER) and accompanying Guidelines", 3. Source: http://europa.eu.int/comm/competition/antitrust/technology_transfer (last visited 20 May 2005).
[116] See Article 3(1) and recital 10 of the TTBER.
[117] See Article 3(2) and recital 11 of the TTBER.

Once it is defined which market is relevant, market shares can be assigned to the various sources of competition in the market and used as an indication of the relative strength of market players. Nevertheless, the calculation of the market share, as stated above, is not an easy task. The TTBER and Guidelines establish that the market share of a party on the upstream technology market is determined by reference to the sales that incorporate the respective licensed technology on the relevant downstream product market. The licensor's market share on that relevant technology market is calculated as the combined market share on the relevant product market of the contract products produced by the licensor and by its licensees.[118]. In the case of new technologies that have not yet generated any sales, a zero market share is assigned on the technology market.[119]

Additionally, the new TTBER gives further instruction on the application of the market-share thresholds.[120] Firstly, it says that the market share shall be normally calculated, if available, on the basis of market sales valued data, because this one provides a more accurate indication of the strength of a technology than volume data. Otherwise, to determine the market share of the undertaking concerned, estimations based on other reliable market information, such as market share volumes, may be taken into account.[121] Secondly, the market share shall be calculated on the basis of data relating to the preceding calendar year.[122] Thirdly, the regulation takes into consideration that market share is subject to change quickly, specially, in innovative and fast-growing industries. According to this last application, the general rule is that if those changes never occurred, the market share thresholds continue to apply throughout the life of the agreement. Nevertheless, if the parties conform to the market thresholds when the agreement is initially concluded but subsequently gain market share and surpass the thresholds, the TTBER continues to apply but only for a grace

[118] See Art.3(3) of the TTBER; Guidelines, para.23.
[119] See Guidelines, para.70.
[120] Feil, Markus, *supra* note 38, p.45.
[121] See Art.8(1) of the TTBER; Guidelines, para.72.
[122] See Art.8(1) of the TTBER; Guidelines, para.73, example 1.

period of two consecutive calendar years, following the year in which the relevant threshold was first exceeded[123].

Normally, if the parties stay below the fixed ceilings and their agreement does not contain any hardcore restriction, the block exemption would apply. Quite the opposite, in many cases while calculating the market share threshold, it will not be difficult for the relevant market share threshold of 20% or 30% to be exceeded, thus precluding application of the block exemption to the agreement, to the extent that the affected relevant market is concerned. Therefore, once the ceilings have been reached, an individual assessment of the license agreements under Articles 81(1) and 81(3), using the Commission's Guidelines where appropriate, would be required.[124] However, if the agreement covers two different product or geographic markets, it is possible for the TTBER to cover the agreement insofar as one market is concerned but not the other.

Nevertheless, in line with the critics of the new TTBER, if a sector is highly dynamic, with new products of entrants wiping out existing products of incumbents in the short term, high market shares will not be a good indicator of market power[125]. In such sectors, a more accurate measure of market power might well be the number and the strength of other competing technologies on the market. To the extent that there is a sufficient number of competing technologies and provided such technologies are commercially viable and exert real competitive discipline on the licensor in question, the parties to a license will benefit from the "second safe harbor", meaning that the Commission will treat the license as if it were block exempted, provided the other relevant conditions are fulfilled.[126]

[123] See Art.8(2) of the TTBER.
[124] See Guidelines, para.65.
[125] Monti, Mario, *supra* note 40, p. 7.
[126] De Schrivjver, Steven & Marquis, Mel, *supra* note 83, p. 166.

6.2 U.S. Law

In the U.S. system one of the principle parameters when assessing licensing agreements is to determine the market position of the contracting parties. This shows that in this aspect the TTBER approach is quite similar to the U.S. IP Guidelines. Alike the market share thresholds established in the TTBER that set up a safe harbor for those undertakings willing to obtain a block exemption of their licensing agreements, the U.S. IP Guidelines have the so called antitrust ”safety zone”.[127] However, this safety zone differs from the one establsihed in the TTBER, because it does not distinguish market share caps between competitors and non-competitors.

This U.S. antitrust safety zone is extremely useful in order to provide some degree of certainty to the owners of intellectual property, in those situations in which anticompetitive effects are so unlikely, and thus, encourage the activity of innovation and enhance competition. In spite of the existence of these specific safety limits, parties should not be discouraged from adopting the necessary restrictions with the aim of achieving an efficiency integration of economic activity in their licensing agreements, just because of the fact that their agreements fall outside the safety zone. For those cases, the antitrust enforcement agencies will analyze such arrangements individually, as they might not be anticompetitive merely because they do not fulfill the scope of the safety zone.

The safety zone applies to agreements where the restraint is not facially anticompetitive,[128] and where the licensor and its licensees collectively account for no more than 20% of each relevant market affected by the restraint. Nonetheless, it is remarkable to add that the status of a licensing agreement may change with the passing of time in respect to the safety zone. It is also relevant and interesting to outline that this 20% safety zone for

[127] See U.S. IP Guidelines, § 4.3.

[128] See U.S. IP Guidelines, § 4.3, footnote 31. ”Facially anticompetitive” refers to restraints that normally warrant per se treatment, as well as others restraints of a kind that would always or almost always tend to reduce output or increase prices.

licensing arrangements in the U.S. IP Guidelines served as a mirror to the TTBER safe harbor involving agreements among competitors, during the elaboration of the new regulation's draft.[129]

To be able to observe if the restraint is under the coverage of the safety zone, the determination of the effects of the licensing agreement on competition will be in reference only to good markets, unless effects on competition among technologies or in research and development cannot be adequately addressed with the analysis of markets of goods alone.

If that is the case, the Agencies will not challenge a restrain that may affect competition in a technology market if the restriction is once again not facially anticompetitive and there are four or more independently controlled technologies in addition to the technologies controlled by the parties to the licensing arrangement that may be substitutable for the licensed technology at a comparable cost to the user. In the case of the possible effects on the innovation market, the criterion that the agencies will apply is the following. The restraint will not affect competition if the restraint is not facially anticompetitive and four or more independently controlled entities in addition to the parties to the licensing agreement possess the required specialized assets or characteristics and the incentive to engage in research and development that is a close substitute of the research and development activities of the parties to the licensing agreement.[130]

[129]Gilbert, Richard, *supra* note 111, p.12.
[130] See U.S. IP Guidelines, § 4.3.

7 Rules applying to Specific Licensing Clauses

7.1 Price Restraints

In the EC, according to the new TTBER, in case of licensing agreements between competing undertakings, the restriction of both parties' ability to determine its prices when selling products to third parties is on the hardcore list. It is important to see that what matters is that any price restraint, minimum, maximum, fixed or recommended, are not exempted.[131] In the case of agreements between non-competitors, the TTBER is not as strict. Vertical price fixing is a hardcore restraint, but imposing a maximum or recommending a sale price is blocked exempted up to the 30% market-share threshold, provided that it does not amount to a fixed or minimum sale price.[132]

Meanwhile, the U.S. IP Guidelines distinguish between price restrictions on the first sale and price restrictions on the resale of patented products. This distinction has been subject to a long debate. Concerning price restrictions on the first sale of the product of a manufacturing licensee, the Guidelines are less precise having in mind the famous General Electric decision of the Supreme Court in 1926.[133] This judgment decided that in practice only recommended prices are admissible, and although this case has never been overruled, courts have defined its holding in various contexts.[134] It is also

[131] See Article 4(1)(a) of the TTBER; Guidelines, para.79.
[132] See Article 4(2)(a) of the TTBER; Guidelines, para.97.
[133] See *United States v. General Electric Co.*, 272 U.S. 476, 490 et seq. (1926), where the Court permitted a patent licensor to restrict first sales prices of a patented product reasoning that the licensor (General Electric) could have excluded competition entirely by not licensing at all and therefore could lawfully permit others to use its invention without the threat of price competition.
[134] See *United States v. New Wrinkle*, 342 U.S. 371 (1952); *United States v. Line Material Co.*, 333 U.S. 287 (1948); *United States v. Huck Mfg. Co.* 382 U.S. 197 (1965); Winschel, *Antitrust-Intellectual property Handbook*, Glasser Legal Works, 2000; Handler & Blechmann, "The Proposed EC-Group Exemption for Patent Licenses: A comparison with

important to mention that vertical maximum price restrictions are analyzed under the rule of reason, following the Supreme Court's doctrine.[135] With respect to resale price maintenance, the antitrust agencies will intend to put into effect the per se rule in such situations.[136]

7.2 Output Restraints

Output restrictions are limitations on how much a party may produce and sell. In a case of a licensed product, they may take a form of limitations on quantity, or in a case of a licensed process, a limited number of operations. Under the new TTBER, minimum quantity obligations, in horizontal and vertical agreement,s do not violate Art.81(1) and therefore do not need exemption under Art.81(3).[137] This attitude implies a less rigid approach of the Commission towards such restrictions.

With regard to agreements between non-competitors, the Commission marks its more liberal approach toward intra-technology restrictionss and block exempts them up to the market share threshold of 30%.[138]

In agreements between competitors, output restrictions are generally considered to be hardcore restraints, since they tend by nature to reduce output in the market, which could lead to higher prices or inefficient allocation of resources. Hence, the TTBER makes two exceptions. Firstly, in an agreement between competitors non-reciprocal output restrictions on the licensee are block exempted up to the combined market share threshold of 20%. Secondly, even such restrictions in reciprocal agreements[139] are

US Antitrust Law", 11 International Review of Industrial Property and Copyright Law, 1980, IIC 295, pgs.320.

[135] See *State Oil Co. V. Khan,* 522 U.S. 3 (1997).

[136] See U.S. IP Guidelines, §5.2, citing *United States v. Univis Lens Co.*, 316 U.S. 241 (1942) and *Ethyl Corp. v. United States*, 309 U.S. 436 (1940)

[137] See Guidelines, para.155, where the Commission sets some sort of "white list".

[138] See Guidelines, para.176. et seq.

[139] Under Art.1(1)(c) of the TTBER "reciprocal agreement" means a technology transfer agreement where two undertakings grant each other, in the same or separate contracts, a patent licence, a know-how licence, a software copyright licence or a mixed patent, know-

exempted if they are only imposed upon one of the licensees.[140] Thus, the general rules is that reciprocal output restraints on both parties and on the licensor in respect of his own technology, are identified as hardcore restrictions.[141]

Concerning the treatment exposed above towards output limitations, the Commission seems to converge with the legal position adopted in the U.S., with its more permissive attitude. In the U.S. the courts have reviewed output limitations under the rule of reason and have generally upheld such clauses in licensing agreements. This is accurate for both maximum and minimum production maximums.[142] On the contrary, in the 1970's, the DOJ treated as per se violations of the antitrust rules some output restraints; restrictions on the licensee's sales of products made by the patented process became part of the famous "Nine No-No's".[143] The U.S. IP Guidelines simply state that output restraints among horizontal competitors have been held per ser unlawful but do not address that issue in detail.[144]

7.3 Territorial Restraints

7.3.1 Exclusivity

Exclusivity clauses are restrictions on the licensor and the production withing a given territory. The TTBER and the Commission's Guidelines distingish between exclusive licenses and "sole" licenses. By definition, an exclusive licence implies that within a given territory, the licensor is obliged not to exploit the licensed technology itself or not to license it to third

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how or software copyright licence and where these licences concern competing technologies or can be used for the production of competing products.

[140] See Art.4(1)(b) of the TTBER; Guidelines, para.82. et seq. and 175.

[141] See Guidelines, para.82

[142] *Atari Games Corp. v. Nintendo, Inc*., 897 F.2d 1572, 1578 (Def. Cr. 1990); and Hovenkamp et Al, *supra* note 109, § 32; Pagenberg & Geissler, *Lizenzverträge, License Agreements*, 5th edition, Carl Heymanns Verlag KG, Cologne, Berlin, Bonn, Munich 2003.

[143] The Nine No-No's constituted intellectual property licensing practices that were viewed by the DOJ as illegal per se. They have never been published officially but have been announced. The Nine No-No's were repudiated in the early 1980's.

[144] See U.S. IP Guidelines, § 3.4.; Pagenberg & Geissler, *supra* note 142, p.121.

parties to exploit it within the licensed territory. Only the licensee may produce the contract products on the basis of the licensed technology. By contrast, the sole licence is a licence whereby the licensor agrees not to license third parties to produce within a given territory but retains the right to exploit the technology itself, in competition with the licensee within the territory.[145]

Under the new TTBER the legal effects of exclusive and sole licenses may differ depending on whether the agreement in question is between competitors or non-competitors.

If an exclusive licence is agreed between competitors and the exclusivity is reciprocal, the arrangement is regarded as amounting to market sharing and is treated as a hardcore restriction.[146] However, if the exclusivity is non-reciprocal, then the licence is block exempted up to the combined market threshold of 20%.[147] With regard to sole licensing between competitors, whereby each party undertakes not to license its respective technology to third parties and thus does not grant the other party total exclusivity, it is block exempted by the TTBER up to the combined market share threshold of 20%. Thus, as long as the parties remain free to exploit their own technologies, the block exemption applies irrespective to reciprocal or non-reciprocal agreements between competitors [148]

The Commission recognizes that some vertical licensing agreements with exclusivity clauses are not caught by Article 81(1).[149] If an exclusive or sole license is between non-competitors, it is block exempted up to the market share threshold of 30%.[150] Above that market-share cap the Commission states that if in the first place the licence falls within Article 81(1), it is

[145] See Guidelines, para 162.
[146] See Art. 4(2)(c)(ii) of the TTBER; Guidelines, paras 86 and 163.
[147] See Art. 4(1)(c)(ii) of the TTBER; Guidelines, paras 86 and 164.
[148] See Art. 4(1)(c)(iiI) of the TTBER; Guidelines, paras 88 and 163.
[149] See Guidelines, para 165. See also ECJ, Case 258/78, *C. Nungesser KG and Kurt Eisele v Commission*, (1982) ECR 2015.
[150] See Guidelines, para 165.

likely to satisfy the conditions of Article 81(3) and will ususally be exempted on an individual basis, [151] since territorial protection for the licensee in agreements between non-competitors can have porwerful pro-competitive effects in terms of simulating efficient investment by the licensee within its territory.

On the contrary, in the U.S. system there is no distinction between exclusive and sole licensing. The term of exclusive licensing comprises both, the restriction of the right of the licensor to license to others (sole license in EC terminology), as well as the possibility to use the technology itself.[152] The U.S. antitrust enforcement agencies are of the view that exclusive licensing generally may raise antitrust concerns only if the parties to the contract are in a horizontal relationship, especially when it comes to (1) cross licensing by parties that collectively possess market power, (2) grant-back provisions, and (3) acquisition of IPR.[153] Furthermore, the U.S. IP Guidelines state that exclusive licenses are most appropriately analyzed by applying the principles and standards used to analyze mergers[154] as laid down in the 1992 Horizontal Merger Guidelines[155]. This means that the 20% safety zone does not apply to exclusive licensing.[156]

[151] See Guidelines, para.165; Commission Evaluation Report, para.122.
[152] See U.S. IP Guidelines, § 4.1.2.
[153] See U.S. IP Guidelines, § 4.1.2. See also, Preovolos, "Licensing Pitfalls: Territorial, Field of Use and Customer Restrictions, Resale Price Maintenance, Output Restrictions, Royalty Provisions and Grantbacks", 2002, 708 PLI/Pat 671, 680.
[154] See U.S. IP Guidelines, § 5.7; Clayton Act, § 7; Sherman Act, § 1&2; Federal Trade Commission Act, §5.
[155] U.S. Horizontal Merger Guidelines, issued by the U.S. Department of Justice and Federal Trade Commission, 2 April 1992 and revised 8 April 1997. Available at: http://www.usdoj.gov/atr/public/guidelines/horiz_book/hmg1.html (last visited 20 May 2005)
[156] See U.S. IP Guidelines, § 4.3.; Opi, "The Approaches of the European Commission and the U.S. Antitrust Agencies towards Exclusivity Clauses in Licensing Agreements", 24 B.C. Int'l & Comp. L. Rev.85, 139, 2002, p.1-26. Source: http://www.bc.edu/bc_org/avp/law/lwsch/journals/bciclr/24_1/03_TXT.htm (last visited 20 May 2004)

7.3.2 Territorial Restrictions on the Licensee

This time the restrictions are imposed on the licensee, not on the licensor, with respect to the territory in which he may exploit the licensed technology.[157]

For agreements between competitors, the TTBER block exempts an obligation on the licensee not to produce with the licensed technology within an exclusive territory reserved for the licensor up to the 20% market-share cap, on condition that the agreement is non-reciprocal, whereas such restriction in a reciprocal agreement constitutes a hardcore allocation of markets.[158] However, when the contracting parties are not competitors, the obligation on the licensee not to produce in the territory of the licensor is subject to the general block exemption up to the 30% market-share threshold, as such clauses are neither mentioned in the hardcore list[159] nor in the list of excluded restrictions.[160]

Nevertheless, the new TTBER remains silent when it comes to restrictions on the licensee not to produce with the licensed technology in the territories of other licensees. However, the block exemption should apply to restrictions in agreements between non-competitors, because they do not constitute sales restrictions within the meaning of Art.4 (2)(b) of the TTBER. However, in respect of agreements between competitors it is unclear. Nonetheless, as none of the listed exceptions apply, the Commission might have projected to cover this licensing practice by the hardcore provision of Art.4 (1)(c) of the TTBER.

In the Patent Act[161] of the U.S., the territorial restrictions in a patent license are exempted from the antitrust laws. However, such exception does not

[157] Sales restrictions (on the licensor) often also have a territorial impact.However, following the approach of the new TTBER, sales restrictions are discussed separately.
[158] See Art.4 (1)(c) (ii) of the TTBER.
[159] See Art.4 (2) of the TTBER.
[160] See Art.5 of the TTBER.
[161] 35 U.S.C. § 261

apply to restrictions beyond the first sale of a patented product. Those ones are normally upheld and analyzed under the rule of reason,[162] eventhough it is stated in the U.S. IP Guidelines that territorial limitations of this class may serve pro-competitive ends by allowing the licensor to exploit its property as effectively and efficiently as possible.[163] For that reason, it can be concluded that comparing to the TTBER and Guidelines, the U.S. approach towards certain geographical restraints where the licensee can exploit the licensed territory is much more flexible and less significant.

7.4 Sales Restrictions[164]

7.4.1 Territorial and Customer Sales Restrictions

The TTBER, among all possible sales restrictions on the licensing parties, treats equally those major sales restraints that have to do with the territory or customers to whom they may sell the products that incorporate the licensed technology. One can differentiate between principally three main types of sales restrains in the new regulation and to determine the treatment given to each one of the restrictions, the TTBER distinguishes once again agreements between competitors and non-competitors.

7.4.1.1 Sales restrictions on the licensor with respect to the territory or customer group of the licensee

One one hand, in a reciprocal agreement between competitors, restrictions on active and passive sales by one or both of the parties into the exclusive territory or customer group reserverd for the other party are classified as hardcore due to the risk of market sharing. Thus, any sales restrictions in such an agreement are caught by Article 81(1) and are unlikely to qualify for an exemption under Article 81(3). In contrast, in a non-reciprocal agreement between competitors, the licensee and licensor are block

[162] Preovolos, *supra* note 153, p. 686.
[163] See U.S. IP Guidelines, § 2.3.
[164] Ritter, Cyril, *supra* note 94, p.176-177 & 180-181.; De Schrivjver, Steven & Marquis, Mel, *supra* note 33, p.171-172 & 174; and Feil, Markus, *supra* note 35, p.52-55.

exempted up to the market-share threshold of 20%.[165] On the other, in agreements between non competitors, all sales restrictions on the licensor – including active and pasive sales restrictions to territories and customer groups of the licensee- are block exempted up to the market share threshold of 30%.[166]

7.4.1.2 Sales restrictions on the licensee with respect to the territory or customer group of the licensor

On one side, agreements between competitors containing restrictive clauses on active and passive sales on the licensee with restect to the territory or customer group of the licensor, differ in the treatment given by the new TTBER, depending if the arrangement is reciprocal or non-reciprocal. If the agreement is reciprocal the sales restrictions are subject to hardcore treatment,[167] but if it is non-reciprocal, the block exemption applies up to the 20% market share threshold. The sales restraints above such market share threshold are caught by Art.81(1) when one or both of the contacing parties have significant degree of market power. However, such restraints may be indispensable for the dissemination of valuable technologies and therefore fulfill the conditions of Art.81(3).[168]

On the other, under the TTBER, arrangements among non-competing undertakings where there are clauses with sales restrictions on the licensee in reference to the territory or customer group of the licensor, such restraints are block exempted up to the market share threshold of 30%. Even above this threshold, according to the Guidelines, where it can be concluded objectively that the licensing agreement would not occur in the absence of the sales restrictions clauses, the latter may fall outside Art.81 (1).[169]

[165] See Article 4(1)(c)(iv) of the TTBER; Guidelines, paras.87 and 170.
[166] See Guidelines, paras. 99 and 172 et seq.
[167] See Guidelines, para.169.
[168] See Article 4(1)(c)(iv) of the TTBER; Guidelines, paras.87 and 170.
[169] See Article.4 (2)(b)(i) of the TTBER; Guidelines, paras.98 and 172.

7.4.1.3 Sales restrictions on the licensee with respect to territories or customer groups of other licensees

Concerning the sales restrictions on the licensee with regard to customer groups of territories of other licensees, a distinction is not only made in the TTBER among active and passive sales, but also between horizontal and vertical agreements.

In relation to agreements between non-competitors, *active* sales restrictions on the licensee with respect to territories or customer groups of other licensees are block exempted up to the 30% market share cap.[170] In contrast, restrains of *passive* sales in an exclusive territory or to a customer group allocated to another licensee is block exempted for a period of two years calculated from the date on which the protected licensee first markets the product that incorporates the licensed technology inside his exclusive territory.[171] Furthermore, passive sales restrictions exceeding this two-year period are subject to hardcore treatment and are unlikely to fulfill the conditions of Art.81 (3).[172]

Whereas with respect to agreements between competing undertakings, if the licensee is obliged not to pursue *passive* sales in the territory or to a customer group of another licensee, such a restriction constitutes a hardcore allocation of markets.[173] Quite the opposite, restrictions on *active* sales by the licensee in the exclusive territory or customer group allocated by the licensor to another licensee, are block exempted upon the fulfillment of two conditions up to the 20% market share thresholds. Firstly, the agreement must be non-reciprocal and secondly, at the time of the conclusion of the license the protected licensee was not a competitor of the licensor.[174]

[170] See Guidelines, paras.99 and 174.
[171] See Article 4(2)(b)(ii) of the TTBER; Guidelines, para. 101.
[172] See Guidelines, paras. 174.
[173] See Guidelines, para.171.
[174] See Article 4(1)(c)(v) of the TTBER; Guidelines, 89 and 171.

7.4.2 Other Sales Restrictions

7.4.2.1 Captive use restrictions

A captive use restriction, sometimes called an "own use" license, is an obligation on the licensee to limit its production of the licensed product to the quantity needed for the production of the licensee's own products and for the maintenance and repair of its own products. The licensee is also precluded from selling the licensed product to other producers for further incorporation. As is the case with most restrictive licensing provisions, analysis of the compatibility of captive use restrictions with the competition rules depends in part on whether the agreement in question is between competitors or non-competitors.[175]

Captive use restrictions pursuant to the new TTBER are block exempted, as long as the licensee is not restricted in selling the contract products actively and passively as spare parts for its own products,[176] up to the combined market share threshold of 20% if contained in agreements between competitors and up to the market share threshold of 30% if enclosed in arrangements between non-competitors.

7.4.2.2 Second/alternative sourcing

The block exemption granted by the TTBER also applies to agreements whereby the licensee is obliged to produce the contract products only for a particular customer in order to provide that customer with an alternative source of supply.[177] In the case of agreements between competitors, but only non-reciprocal, they are exempted up to the 30% market share threshold[178]. While in the case of agreements between non-competitors, such restrictions are unlikely to be caught by Art.81 (1) and are exempted up to the 20% market share threshold.[179]

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[175] De Schrivjver, Steven & Marquis, Mel, *supra* note 83, p.174.
[176] See Art.4(1)(c)(vi) and 4(2)(b)(iii) of the TTBER; Guidelines, paras.92, 102 and 186.
[177] See Guidelines, paras. 93 and 103.
[178] See Art. 4(1)(c)(vii) of the TTBER.
[179] See Art. 4(2)(b)(iv) of the TTBER.

7.4.2.3 Restrictions of sales on members of a selective distribution system.

Unlike the old TTBE which did not explicitly deal with sales restrictions on members of a selective distribution system, the new TTBER introduces particular rules concerning this issue.

In the first place, where the licensee is also a member of a selective distribution system, the restriction of sales to unauthorised distributors by the licensor in agreements between non-competitors, are blocked exempted up to the market share threshold of 30%.[180] This exception allows the licensor to impose on the licensees an obligation to form part of a selective distribution system,[181] and seeks to maintain the integrity of the selective distribution network (a legitimate objective in terms of competition law in line with the *Metro I* judgment).[182]

In the second place, the TTBER considers the restriction of active and passive sales to end users by a licensee who is member of a selective distribution system and who operates at the retail level as a hardcore restrain. This does not preclude the possibility of prohibiting a member of the system from operating out of an unauthorised place of establishment. Licensee/distributors operating at the retail level must be allowed to sell both actively and passively to all end users.[183]. By reason of the Community-wide exhaustion principle laid down in the *Centrafarm v. Sterling Drug* judgement,[184] a licensee may not rely on his exclusive patent right in order to prevent import from other exclusive territories.

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[180] See Article 4(2)(b)(vi) of the TTBER.
[181] See Guidelines, para.105.
[182] See ECJ, Case 26/76, *Metro-SB-Großmärkte GmbH & Co. KG v. Commission,* (1977) ECR 1875, where the Court ruled that selective distribution systems do not breach Article 81(1) provided that distributors are selected on the basis of objective criteria of a qualitative nature and that such conditions are applied uniformly and in a non-discriminatory manner.
[183] See Article 4(2)(c) of the TTBER; Guidelines, para.105.
[184] See ECJ, Case 15/74, *Centrafarm BV et Adriaan de Peijper v Sterling Drug Inc.*, (1974) E.C.R. 1147.

The TTBER adopted a similar approach towards non-competitors. It brings an obligation on the licensee not to sell to end users and thus only to sell to retailers. Such an obligation allows the licensor to assign the wholesale distribution function to the licensee and normally falls outside Art.81(1).[185] In parallel, the licensor may oblige the licensee to establish a certain type of distribution system such as exclusive or selective distribution.[186] This is block exempted. Int his case the licensee is considered to be the "supplier" for the purpose of applying the block exemption on vertical agreements to the distribution system.

7.5 Field-of-Use-Restrictions

Under a field of use restriction the license is either limited to one or more technical fields of application or one or more product markets. Within the new TTBER, those agreements below the market-share thresholds are generally block-exempted; however now the Commission differentiates restrictions of field-of-use in agreements between competitors and non-competitors.

As regards agreements between competitors, these latter are treated with more suspicion about the potential allocation of markets or customers. In its wording the TTBER[187] does not consider as hardcore restrictions the clauses that oblige the licensee to produce with the licensed technology only within one or more technical fields of use, or one or more product markets. Such restraints are block exempted, regardless of whether the agreement is reciprocal or not, up to the combined market share ceiling of 20%.[188] This block exemption applies irrespective of whether the field of use restriction is symmetrical or asymmetrical,[189] although the Commission believes that the

[185] See Article 4(2)(b)(v) of the TTBER; Guidelines, para.104.
[186] See Guidelines, para.63.
[187] See Article 4(1)(c)(i) of the TTBER.
[188] See Guidelines, para.90.
[189] An asymmetrical field of use restriction is defined as an agreement where one party is allowed to use one licensed technology within one field of use and the other party is allowed to use the other licensed technology within another field of use. See Guidelines, paras. 91 and 183.

latter has a greater risk that the licensee ceases to be a competitive force outside the licensed field of use than the former.[190]

Meanwhile, in licenses between non-competitors field of use restrictions on the licensor and/or the licensee are block exempted up to the market share cap of 30%. Above that ceiling, such agreements where the licensor reserves one or more technical fields of use or more product markets for himself are considered to be usually either non-restrictive of competition or justified by their pro-competitive effects.[191]

Resembling to what was mentioned before concerning the territorial restrictions, the U.S. IP Guidelines also consider as pro-competive[192] the horizontal or vertical restrictions of field-of-use. The U.S.system analizes these agreements with the rule of reason. Normally,they are upheld.[193] Nonetheless, U.S. courts are much more critical vis-à-vis field-of-use-restrictions between competitors than the TTBER approach, especially in cross-licensing agreements with the aim of allocating markets or excluding third parties from the market.[194]

7.6 Non-Compete Obligations and Exclusive Dealing

The new TTBER and Guidelines make a methodical distinction between restrictions of the contracting parties to use their own technologies from the restraints to use of third party technologies.

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[190] See Guidelines, para.183.
[191] See Guidelines, paras.179 et seq.
[192] See U.S. IP. Guidelines, § 2.3.
[193] For vertical field of use restraints: See *Continental TV v GTE Sylvannia*, 433 U.S. 36 (1977)-applying the rule of reason to all vertical non price restraints.
For horizontal field of use restrictions: See *General Talking Pictures Corp. v. Western Electric Co.,* 304 U.S. 175 (1938).
[194] *Hartford-Empire Co. v. United States*, 323 U.S. 386, clarified, 324 U.S. 570 (1945); *United States v. Singer Mfg. Co.,* 374 U.S. 174 (1963).

On one hand, a non-compete obligation in the context of technology licensing is an obligation on the licensee not to use third party technologies that compete with the licensed technology.[195] The main risk to competition in these clauses is the possibility that they could foreclose third party technologies and thus hinder inter-technology competition, though only in the presence of significant market power. For that reason such obligations are block exempted up to the respective market share thresholds of 20% in agreements between competitors, and 30% in agreements between non-competitors.[196]. Above the market share ceilings, the analysis of non-compete obligations with respect to agreements between competitors and non-competitors is generally the same.

On the other hand, non-compete obligations in the licensing context consisting of restrictions to the use of their own technologies, are taken much more firmly and discerning care, between vertical and horizontal agreements, in the new TTBER. The restriction of the licensee's ability to exploit his own technology in an agreement between competing undertakings is considered hardcore restraint.[197] As well as any restriction of the ability of any of the parties to the agreement to carry out research and development (R&D) is prohibited, unless such latter restriction is indispensable to prevent the disclosure of the licensed know-how to third parties.[198] Nevertheless, when the agreement is between non-competitors, any obligation limiting the licensee's ability to exploit his own technology or limiting the ability of any of the parties to the agreement to carry out R&D, are considered restrictions excluded from the scope of the block exemption, rather than hardcore restraints. These latter require individual assessment, since it cannot be said beforehand if such restraints do not fulfill the conditions of Art.81 (3) or have negative effects on competition.[199] Nevertheless, the rest of the agreement may benefit from the block exemption.

[195] See Guidelines, para.196.
[196] See Guidelines, para.197.
[197] See Article 4(1)(d) of the TTBER; Guidelines, para.95.
[198] See Article 4(1)(d) of the TTBER; Guidelines, para.94.
[199] See Article 5(2) of the TTBER; Guidelines, para.114.

In the U.S. antitrust system, unlike the TTBER and Guidelines, there is no division made between restrictions dealing with third party competing technologies or one's own technologies. In addition to such difference, these non-compete obligations in the U.S. IP Guidelines are called "ties outs" or "exclusive dealing". This latter is defined in the U.S. IP Guidelines as a second form of exclusivity that arises when a license prevents or restrains the licensee from licensing, selling, distributing, or using competing technologies. Such restraints may foreclose access in an anticompetitive way, but they may also have procompetitive effects[200]. Therefore nowadays, to be able to determine the effects on competition, the U.S. Guidelines state that exclusive dealing arrangements will be evaluated by the enforcement agencies under the rule of reason.[201] Such analysis is supported by recent Supreme Court judgments and some commentators,[202] in contrast to the inflexibility of the traditional position of the courts towards exclusive dealing provisions.[203]

7.7 Grant-Backs

A grant-back is an agreement under which a licensor of intellectual property gets extended the right to use the licensee's improvements to the licensed technology.[204] There exist diverse kinds of grant-backs: the licensee can be obliged to grant back to a non-exclusive or exclusive license or to assign the rights in the improvement to the licensor.[205]

[200] See U.S. IP Guidelines, § 4.1.2 and § 5.4.
[201] See U.S. IP Guidelines, § 5.4; citing *Tampa Electric Co. v. Nashville Coal Co*., 365 U.S. 320 (1961); *Beltrone Electronics Corp*., 100 F.T.C. 68 (1982)
[202] See, *Continental TV v GTE Sylvannia*, 433 U.S. 36, 57et seq. (1977); and *State Oil v. Khan*, 522 U.S. 3, 15 (1997).
[203] See, among others, *United Shoe Machinery Corp. v United States*, 258 U.S. 451, 462 (1922).
[204] See U.S. IP Guidelines, § 5.6.
[205] Ørstavik, Inger B., "Technology Transfer Agreements: Grant-Backs and No-Challenge Clauses in the New EC Technology Transfer Regulation", IIC – International Review of Intellectual Property and Competition Law, 2005; Vol.36, Issue 1, p.92 et seq.

The new TTBER does no longer differentiate between reciprocal and non-reciprocal grant-backs. Therefore, the block exemption covers all non-exclusive grant backs for severable improvements[206] below the market share thresholds. However, in addition to the block exemption of the non-exclusive grant backs for several improvements, the Commission takes now the position that exclusive or non-exclusive grant backs with obligations to assign non-severable improvements, are not restrictive of competition within the meaning of Article 81(1), since non-severable improvements cannot be exploited by the licensee without the licensor's permission.[207]

Nevertheless, the obligation on the licensee to give exclusive grant backs to the licensor of several improvements and new applications of the licensed technology, is excluded from coverage of the TTBER without being designated as hardcore. It is a substantive change compared to Regulation 240/96, where these obligations were black listed. The exclusive grant backs are not block exempted because they are likely to reduce the licensee's incentive to innovate since they hinder the licensee in exploiting his improvements, for example, including by way of licensing to third parties. Therefore, they must be assessed on a case-by-case basis under Article 81(3).[208]

Today in the U.S. antitrust system the pro-competitive effects of grant backs, especially when they are non-exclusive, are normally recognized and analyzed by the antitrust enforcement agencies under the rule of reason. Like most courts have always done,[209] although exclusive grant back provision were previously found illegal per se, and therefore were included in the "Nine No-No's".[210]

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[206] See Guidelines, para.109. An improvement is several if it can be exploited without infringing upon the licensed technology.
[207] See Guidelines, para.109.
[208] See Article 5(1)(a) and 5(1)(b) of the TTBER; Guidelines, para.109
[209] U.S. IP Guidelines, § 5.6; *Santa Fe-Pomeroy, Inc. v. P&Z Co.*, 569 F.2d 1084 (9th Cir. 1978).
[210] See *supra* note 143.

Anti-competitive effects of grant backs will be evaluated in light of the overall structured of the licensing agreement and conditions in the relevant market.[211] In fact, the U.S. courts generally approve exclusive grant backs that do not hinder the inventing licensee from using the patented improvement itself.[212] Grant backs may have pro-competitive effects, by promoting innovation and subsequently licensing of the results of the innovation. This could be generally the case of non-exclusive grant backs that allow the licensee to freely license improvements in technology to others.[213] Thus, they are only illegal in relation with other practices, as the courts have set in several judgments.[214] However, grant backs may adversely affect competition if they constitute obligations on the licensee to grant exclusive license or to assign the rights of the improvement back. They will substantially reduce the licensee's incentives to engage in R&D, and thereby limit rivalry in innovation markets.

7.8 Tying

Tying obligations in the licensing context arise where, as a condition for the right to use ones technology, the licensor requires the licensee to accept a licence for a second technology or to purchase products either from the licensor itself or from third parties.[215]

Tying obligations are block exempted up to the respective market share thresholds of 20% in agreements between competitors and 30% in agreements between non-competitors.[216] By block-exempting tying provisions up to the market-share ceiling, the Commission takes advantage of the leeway given by the European Court of Justice (ECJ) in its

[211] Rill J., Schechter M & Wood D., Howrey Simon Arnold & White, *supra* note 2, p.87.
[212] *Santa Fe-Pomeroy, Inc. v. P&Z Co.*, 569 F.2d 1084 (9th Cir. 1978¸Hovenkamp et Al, § 25.3
[213] See U.S. IP Guidelines, § 5.6..
[214] *United States v. E.I. Du Pont de Nemours & Co.*, 118 F. Supp. 41, 224 (D. Del. 1953), 351 U.S. 377 (1956); *Binks Mfg. Co. v. Ransburg Electro-Coating Corp.*, 281 F.2d 252, 259 (4th Cir. 1960).
[215] De Schrivjver, Steven & Marquis, Mel, *supra* note 83, p.175.
[216] See Guidelines, para.192.

Windsurfing judgment,[217] where the Court only dealt with the question of Art.81 (1) and did not enter the discussion concerning the applicability of Art.81 (3) and possible efficiencies resulting from tying. The thresholds set above can apply to any relevant technology or product market affected by the agreement, including the market for the tied product.

Above the market share thresholds, it is necessary to balance the anti-competitive and pro-competitive effects of tying.[218]. The main restrictive effect of tying is the possible foreclosure of competing suppliers for the tied product, which means that the licensor must have significant market power and the tying obligation must cover a significant proportion of the tied market. Tying can raise barriers to entry and thus protect the licensor's market power, and the new entrants would have to access simultaneously to both markets, for the tying product and the tied product, in order to compete effectively on either of those markets. However, tying can often provide pro-competitive effects and efficiency gains. Thus, those tying agreements do not necessarily restrict competition or at least they may be covered by Art.81 (3). This is possible for instance, if the tied product is necessary for a technically satisfactory exploitation of the licensed technology or the tie ensures that production under the license conforms to quality standards respected by the licensor and other licensees.

In the U.S. antitrust system tying arrangements are not presumed to be illegal. They may result to have anticompetitive effects, but such agreements can also result in significant efficiencies and procompetitive benefits. Therefore, it is established in the U.S. IP Guidelines that the antitrust enforcement agencies, in their exercise of their prosecutorial discretion, will challenge a tying arrangement if: (1) the seller has market power in the tying product[219], (2) the agreement has an adverse effect on competition in the

[217] ECJ, Case 193/83, *Windsurfing International Inc. v. EC Commission*, (1986) ECR 611.
[218] See Guidelines, para.192.
[219] One of the main controversies in the context of tying is the question whether the mere fact that IP law protected the tying product confers its owner market power.

relevant market for the tied product, and (3) efficiency justifications for the arrangement do not outweigh the anticompetitive effects.[220]

It is worth mentioning that the US the per se rule against tying has been formally applied by the courts. However, it has always been interpreted in a form that shares some characteristics with the rule of reason analysis.[221] Consequently, in order to establish a violation under the per se rule, courts request a showing of market power and are willing to consider justifications in order to defend a tying arrangement.[222]

[220] See U.S. IP Guidelines, §5.3.
[221] *United States v. Paramount Pictures,* 334 U.S. 131, 156 et seq. (1948); *Northern Pacific Railway Co. v United States,* 356 U.S. 1 (1958).
[222] *Eastman Kodak Co. v. Images technical Services, inc.*, 504 U.S. 451, 462 (1992).

8 COMPARATIVE SUMMARY

Throughout the development of the present thesis the complex relation in the EU and the US between competition and IPR policy; and the fundamental legal aspects of the EC and US antitrust systems concerning intellectual property, have been deeply and detailed analyzed. The accomplishment of new similarities between the two systems, linking both regulations in their approach to technology licensing agreements, has been a great progress towards the convergence across both jurisdictions. Even though, there are still substantial differences remaining that should be counteracted in the coming future. To some extent, these lasting disparities of both systems reflect the distinct guiding principles in EU and U.S. competition law. While the EU competition law is driven by the belief in the importance of fairness and the development of an integrated European market, the U.S. antitrust law on the contrary is motivated with the importance of efficiency and free trade policy (“laissez-faire”).

Firstly, it would be necessary to summarize the similarities found along this work between the TTBER and Guidelines, and the U.S. IP Guidelines; so further on I could concentrate on the differences remaining. The main important convergence between these two main regimes is that the general framework of the competitive analysis of licensing agreements is now economics-based. Both systems also assert that generally technology licensing is procompetitive; distinguish licensing transactions in their treatment depending on whether they happen to be between competitors or non-competitors; create safe harbors for licensing agreements; describe the approach that enforcement actors use to evaluate licensing arrangements, which involves weighting the procompetitive benefits and the anticompetitive effects; identify as hardcore restrictions or per se unlawful naked pricing, market division and output restraints in licenses among horizontal competitors; stress that the licensing parties are responsible to assess the legality of the contractual agreements; and lastly, recognize that exclusive licenses in many circumstances promote the adoption of new technologies.

Secondly, it would be indispensable to recapitulate the still remaining differences between both legal systems. A principle difference is that the Guidelines in the U.S. are non-binding and the block exemption in Europe, on the contrary, is legally binding.[223] Also, in the US IP Guidelines the IPR are treated like any other kind of property and the same general antitrust principles are applicable to them. This approach is in contrast with the TTBER and Guidelines, where the IPR are considered less absolute and differ from "normal" property rights: often limited in duration and scope (patents, copyright), not protected against parallel creation by others (copyright, know-how) or lose their value once they become public (know-how).[224]

The U.S. antitrust policy and the EC competition law both recognize the existence of the monopoly granted by IPR law. However, in the U.S. system the owner of the IPR will not be required to create competition in its own technology and in general, he should have the right to fully exploit the IPR by being free to impose the necessary restrictions in a licensing agreement that will allow him to do what he could have done in its own to achieve the full benefit of the IPR. Quite the opposite, the TTBER and corresponding Guidelines, state that an IP owner should normally be expected to create competition in his own technology. The fact that the IPR monopoly is recognized does not imply that the exercise or exploitation of that monopoly may not be scrutinized under the competition rules. The EC competition rules do not just accept any restrictions on pricing, output, territories or direct consumers that would help the licensor to realize the maximum profit from its monopoly.

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[223] Feil, Markus, *supra* note 38, p.62.
[224] Peeperkorn, Luc, "IP Licences and Competition Rules: Striking the Right Balance", Kluwer Law International, 2003, Vol.26, Issue 4, p. 528.

After the recognition of the fact that in the U.S. IP Guidelines the IPR owner will not be required to create competition in his own technology, it could be concluded that the licensor in the U.S. antitrust system has almost an absolute freedom when deciding what to carry out with his IPR. Nevertheless, the antitrust system limits this freedom of the licensor in order to safeguard competition in two specific situations. To begin with, competition policy may interfere when restrictions in the licensing arrangement affect non-patented products or processes. Secondly and as a key principle used mainly to snag those relatively rare licensing agreements that are anticompetitive, antitrust laws may intervene as well, when certain practices in the licensing agreement may harm competition between undertakings that would have been actual or potential competitors in the absence of such arrangement.[225] This is a worry that is reflected along the U.S. IP Guidelines and which denotes that the U.S. IP Guidelines emphasize principally on inter-technology competition.

Generally the U.S. IP Guidelines examine whether the nature of the contractual relationship is vertical or horizontal. If an agreement is vertical, when the licensor and licensee are not actual or potential competitors, the approach of the U.S. IP Guidelines towards restrictions that concern the exploitation of the IPR itself is quite lenient with the objective of not deterring efficient innovation efforts, except for price fixing. In these circumstances, restraints regarding territory, output, field of use and even pricing under certain conditions, are rightful ways that enable the ability of the licensor to try to maximize his income and profits by more fully exploiting its IPR. On the contrary if an arrangement is horizontal, when the licensor and licensees or licensees would have been actual or potential competitors in a relevant market in the absence of the license, the antitrust enforcement Agencies, without presuming beforehand that the agreement is anticompetitive, will focus in assessing the competitive harm that may arise.

[225] Commission Evaluation Report, p.14-15.

On the contrary, the TTBER and Guidelines make a clear distinction between licensing agreements between competitors versus non-competitors and draw policy conclusions from this distinction. The purpose is to achieve the respect for the free movement and competition principles of the Treaty. They expressly note about the potential harm to intra-technology and intra-brand competition, as well as to inter-technology and inter-brand competition. This higher attention to intra-brand restrictions imposes a significant burden on the contracting parties, although these restrictions are a useful and sometimes an essential complement to inter brand competition. It shall also be recognized that restraints almost never affect intra-brand competition only. For this reason, the EU approach towards restrictions of the exploitation of the IPR itself, either contained in agreements between competitors or non-competitors, is much stricter than the U.S. one, since this latter only gives importance to horizontal agreements.

The US antitrust policy will use the following counterfactual when assessing any anticompetitive effect in the licensing agreements. Firstly, agencies will evaluate if the restraint is facially anti-competitive, this is to say, if it is a restriction that normally demands per se treatment. Secondly, they will weigh up if .the licensor and its licensees collectively account for no more than twenty percent of each relevant market significantly affected by the restriction. The U.S. safety zone applies market shares thresholds only for all licensing agreements between competitors.

In the EC TTBER and Guidelines the counterfactual applied to find out if the practices of an agreement could be exempted from antitrust liability under article 81 EC Treaty, demand two requirements. Firstly, they entail that hardcore restrictions set for both types of contractual relationships, competing and non-competing undertakings, are not met. Secondly, once no hardcore restraints are found, the next step is to approve that arrangements are below certain market share thresholds.[226] Even though the EU system

[226] Bär-Bouvssière, Bertold & Gorrie, Alastair, "The new EU competition rules on technology transfer agreements", Intellectual Property, The European Antitrust Review

has a safe harbor alike the U.S. policy, the former sets different limits for agreements between competitors (combined market shares 20%) and non-competitors (individual market share 30%). This shows once more the stricter approach to the exploitation of IPR contained in licensing agreements between non-competitors in the EU and the lenient approximation of the US.

In the US antitrust system, provided that the restraint does not require per se treatment but is above the safety zone of 20%, the agreement will be evaluated under the rule of reason. The U.S. IP Guidelines' appraisal under the rule of reason implies that it will initially be established whether the restraint has, or is likely to have, an anticompetitive effect. However, the US IP Guidelines imposes a lower burden on the parties to justify the efficiency claim of a licensing restriction of the arrangement that has anticompetitive effects. It will be the considered whether the restraint is reasonably necessary to achieve pro-competitive efficiencies that compensate those anticompetitive effects. In making this assessment, however, it is important to outstand that the Agencies will not engage in a search for a theoretically least restrictive alternative that is not realistic in the practical prospective business situation faced by the parties. Only if there are practical and significantly less restrictive alternatives to achieve similar efficiencies, the Agencies will not give weight to the parties. However, if the restraint is reasonably necessary, the Agencies will balance the pro-competitive gains and the anti-competitive effects to conclude the possible net effect on competition in each relevant market.

In the same line, the EC Guidelines give a much more detailed guidance on how to assess arrangements that fall outside the scope of the block exemption. If the agreements have not met any hardcore restriction, but exceed the market share threshold, the arrangement is not presumed in principle to be anticompetitive. Thus, the arrangement will be evaluated

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2005. Global Competition Review, p.4. Source: http://globalcompetitionreview.com/ear/ip.cfm (last visited 20 May 2005) under the rule of reason. However, the EC regulation puts a greater burden on parties to assess for themselves the impact of their agreements, and whether the exemption can be taken advantage of. Nevertheless, the Commission would accept particular restrains that in certain cases might not be caught by article 81 EC Treaty, when the restrain is objectively necessary for the existence of an agreement of that type or nature. Once more, the European approach differs from the US system where the restriction must be reasonable necessary to be accepted. According to the Commission, the exclusion should be made based on objective factors external to the parties themselves. The question is whether given the nature of the agreement and the characteristics of the market a less restrictive agreement would not have been concluded by undertakings in a similar setting, not if the parties in their particular situation would not have accepted to conclude a less restrictive agreement. For instance, territorial restraints in agreements between non-competitors may fall outside Article 81(1) for certain duration if the restraints are objectively necessary for a licensee to penetrate a new market. Claims that in the absence of a restriction the supplier would have resorted to vertical integration are not sufficient.

8.1 Concluding remarks

The first purpose of my thesis was to find a good balance between the legitimate exercise of IPR and the safeguard of competition law, without the fear of taking away what each one is providing; unfortunately I have to state that I have not arrived to an explicit solution. At the highest level of analysis, competition law and IP are complementary because they both aim at promoting consumer welfare by encouraging technical progress. Nevertheless, both have conflicting aims in order to achieve the ultimate benefit of consumers, and also, the duty to define the extension of intervention of each one is per se difficult.

It is here that noticeable disparities exist between the EU and U.S. approach. In general, EC competition law has placed more limits on the exploitation of

IPR than US competition policy. Particularly, I consider that it must be argued that the task to strike the right balance between IP and competition law in the EU, compared to the U.S., is even harder.

In the EU the granting of IPR is still largely done nationally, even tough this is slowly changing as EC legislation is giving rise to new or harmonized IPR throughout the EU,[227] always aiming towards the market integration. On one hand, in the EC Treaty the IPR laws have a special protection, the Community must respect the nationals systems of property ownership.[228] Moreover, the Treaty provides a specific exception to the free movement provisions if they conflict with IPR.[229] On the other hand, the ECJ stressed the need to protect within the Community the fundamental principles of free movement and competition. Therefore, the Court in *Consten & Grundig*[230] developed a distinction between the existence of national IPR, which cannot be affected by the EC Treaty rules on free movement and competition and its exercise, which could conflict with the provisions of the EC Treaty and consequently, of free movement and competition law. The Court and the Commission have always narrowly defined the "specific subject matter"[231] of the IPR for assessment purposes. It is clear that the possession of an IPR gives the owner the right to license and demand royalties. However, the Court and the Commission have always considered that the conditions of the license may fall under Articles 81 and 82.[232]

Therefore, I believe that this desire of finding an ideal balance between IP licenses and competition rules is quite unfeasible to achieve. Nevertheless

[227] Commission Evaluation Report, p.12.
[228] In Article 295 (ex Article 222) of the EC Treaty it is stated that "this Treaty shall in no way prejudice the rules in the Member States governing the system of property ownership"
[229] Also, Article 30 (ex Article 36) of the EC Treaty provides a specific exception of the free movement where it conflicts with IPRs and says: "prohibitions or restrictions on imports, exports or goods in transit are justified on grounds of (…) protection of industrial and commercial property"
[230] ECJ, Joined Case 56 & 58/64, *Établissements Consten S.à.R.L. and Grundig-Verkaufs-GmbH v Commission*, (1966) ECR 429.
[231] For the purpose of Community law, the specific subject matter of a patent has been defined by the ECJ in the Case 15/74, *Centrafarm BV et Adriaan de Peijper v Sterling Drug Inc*., (1974) E.C.R. 1147.
[232] Peeperkorn, Luc, *supra* note 224, p.531.

and according to Feil, despite these difficulties I would like to give credit to the good intentions of the EU and U.S. legal authorities to try to find solutions to this problem, since other ways out might not offer better options. For this reason, I conclude that this longstanding debate will unluckily still continue in economic and legal circles.

The second purpose of this report was to analyze if in reality the EU approach remains stricter than the US one, or, to the contrary, whether the US policy is not as lenient in practice as it looks. I reached the following conclusions.

It is clear after what I have exposed above that even if the EU and U.S. antitrust systems recognize the complementary role of competition and IP law, both polices are still guided by different purposes, which obviously reflect the divergence remaining in their particular legal instruments that today regulate technology licensing. The TTBER and corresponding Guidelines have brought the EC technology regime closer to the legal perspective in the U.S. with the rejection of the old formalistic and legalistic approach and the establishment of the new economics-based one. This applies as well to the concrete treatment of specific licensing clauses.

Nonetheless, after the comparison of both systems regarding licensing agreements, I must conclude that the TTBER and corresponding Guidelines still maintain a stricter EU approach.[233] The main reasons for this divergence could be summed up in threefold. Firstly, the TTBER and the Guidelines still reflect the higher importance that EC competition policy attaches to intra-brand and intra-technology competition in general. Secondly, they give a superior attention to territorial restrictions in particular, because of the additional market integration objective that EC competition has. Thirdly, sales restrictions may be used to prevent arbitrage

[233] Tom, Willard K. &. Newberg, Joshua A, "Antitrust and Intellecutal Property: From Separate Spheres to Unified Field", 66 Antitrust Law Journal 167, 1997, p.1-48.

and support price discrimination between different markets. This will lead in general to a loss of consumer welfare.[234]

In line with the first important difference, I believe that the Commission should have adopted a more relaxed competition policy for licensing arrangements that may have an effect on intra-technology competition. It would have been an important advantage for the EU if the competition authorities would have refrained from interfering, since in general, these kinds of agreements are either neutral or efficiency enhancing. Nonetheless, if the actual position of the Commission regarding intra-brand restrictions is still considered stricter than in the U.S., compared to the old attitude in the old TTBE, the Commission has given a step further and is now more lenient.

Also, there is a last point to stand out, and is the fact that the TTBER and Guidelines when referring to licenses among non-competitors, seem to reflect the block exemption and guidelines for vertical agreements. The fact that they are harmonized it is positive, however, the pro-competitive effects that innovation creates are not similar to many vertical arrangements. The only way the actual regime recognizes this issue is by exempting some restrictions for the first two years of the licensing agreement. Nevertheless, I think the exemption should be longer and expand the safety zone should be expanded for licensing agreements between non-competitors.

In accordance with the second main divergence, I am aware that the interplay between IP and EC competition law is most complex in the area of territorial restrictions, because there is a fundamental concern that territorial restrictions may impede EU market integration. However, the new legal system could have taken a different view, presuming that technology licensing in most situations, even if territorially restricted, promotes rather than lessens competition. If the less restrictive licenses are permitted, more technologies will be licensed and complementary investments will occur, since this would imply a higher profit for the contractual parties.

[234] Peeperkorn, Luc, *supra* note 224, p.539.

In reference this time to the hardcore restraints list established in the new EU regime, the Guidelines state that “in the context of individual assessment hardcore restrictions of competition will only in exceptional circumstances fulfil the four conditions required for the exemption from art.81(1)”[235] From my point of view, this provision is a bit too harsh. I think the Commission could have taken a more flexible attitude when hardcore restrictions are proved to bring about clear profits. Provided that such restrictions are promoting innovation, benefiting consumers and not harming competition in an extreme level, they could be individually exempted in particular transactions.

There are also some critics regarding the difficulties evaluating the market shares of the contractual parties. I agree that the calculation of the market shares by the parties is quite complicated, since the technological arena is quite fluctuant. However, I believe that the use of a market share threshold is the most appropriate way to devise a safe harbour for licensing agreements in a block exemption. Moreover, some sceptics say that now all practices of agreements that exceed the market share thresholds will be under suspicion, due to the elimination of the list of permitted licensing practices. However I am not of the same opinion. Above the thresholds a rule of reason analysis will apply, thus there is no beforehand presumption of illegality. Furthermore, the EC Guidelines now provide an extraordinarily detailed and analytical method of assessment of licensing agreements that are not covered by the block exemption.[236] Such method will inform and help businessmen, practitioners, the Commission, national enforcement authorities and courts, providing examples and analysis in a much more detailed way than the U.S. IP Guidelines.

In conclusion of this thesis, I believe that the step taken by the Commission towards modernization has been extremely encouraging and the fact that authorities are trying to adjust the legal system to the new times must be

[235] See Guidelines, para.73.
[236] Beneyto Pérez, J.M. & Maillo González, J., *Tratado de Derecho de la Competencia*, Unión Europea y España. Compilación de normas de Derecho español y comunitario de defensa de la competencia, Bosch, S.A., Primera edición: enero 2005, Tomo IV, p.2657.

positively taken into account. The new TTBER must have raised fear among undertakings that innovation will be stifled because licensing could become difficult, expensive and cumbersome and thus the regulation would put European companies in a disadvantage.[237] However, my opinion is contrary to these statements. Only the practical experience and time with the TTBER and Guidelines, will tell if the new licensing regime in the EU will accomplish its goals of preventing threats to competition and promoting innovation. It is too early to judge and predict how this new EU legal system concerning technology licensing will develop and how the European Courts will apply it. Hopefully in a few years, we would be able to look back and then again analyze the applicability of such regime and attain a more practical comparison with the U.S. IP Guidelines. Until that moment is reached, we must just have to wait.

[237] "New Focus: licensing under threat in Europe", Managing Intellectual Property, London, December, 2003, p. 1. Source: http://proquest.umi.com/pqdlink?did=521317511&Fmt=7&clientId=53681&RQT=309&VName=PQD (last visited 20 May 2004)

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