

TECHNOLOGY TRANSFER BLOCK EXEMPTION REGULATION (240/96) AND GUIDELINES IN TERMS OF HARD CORE AND EXCLUDED RESTRICTIONS

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ABSTRACT

Elements of intellectual property rights are used by several legal systems within their competition policies. In particular, they are regulated by competition law. License agreements, in which competition law and intellectual property law are applied together, have served to distribute technology by allowing intellectual property rights to be used by others. The framework for intellectual property rights licensing was arranged by the “Technology Transfer Block Exemption Regulation (240/96)” (TTBER) and also Guidelines regarding technology transfer agreements.

In this regard, an important issue should be analyzed; “how agreements between competitors and those between non-competitors are dealt with under the TTBER and Guidelines in terms of hard core and excluded restrictions?”

In this study, I would like to focus on the aforementioned question under TTBER and concerned Guidelines.

Keywords: *competition law, license agreement, regulation*

KARA LİSTE (HARD CORE) VE YASAK KISITLAMALAR (EXCLUDED RESTRICTION) AÇISINDAN TEKNOLOJİ TRANSFERİ HAKKINDAKİ GRUP MUAFİYETİ TÜZÜĞÜ (240/96) VE REHBER İLKELER

ÖZET

Fikri hakların unsurları, birçok hukuk sistemlerinde rekabet politikaları belirlenirken temel alınmıştır. Bu unsurlar, özellikle rekabet hukukunca düzenlenmektedir. Hem fikri haklar hukuku hem de rekabet hukukunun uygulandığı lisans anlaşmaları ise, fikri hakların başkaları tarafından kullanımına izin vererek teknolojinin yayılmasına hizmet eder. Lisans sözleşmelerinin çerçevesini belirleyen en önemli düzenlemeler, “Teknoloji Transferi Sözleşmeleri Hakkındaki Grup Muafiyeti Tüzüğü” (TTBER) ile teknoloji transfer sözleşmelerine ilişkin Rehber İlkelerdir.

Bu kapsamda, önemli bir hususun analiz edilmesi gerekir; “TTBER ve ilgili Rehber İlkeler uyarınca kara liste (hard core) ve yasak kısıtlamalar (excluded restriction) açısından rakipler ve rakip olmayanlar arasında nasıl anlaşmalar yapılır?”

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Bu çalışmada, TTBER ve ilgili Rehber İlkeler kapsamında yukarıda belirtilen soru cevaplanmaya çalışılmaktadır.

Anahtar Kelimeler: rekabet hukuku, lisans sözleşmesi, tüzük

I- INTRODUCTION

Thanks to improvements focused on information and innovation in several sectors, development of technology has encouraged countries to prepare legislations in line with those developments influenced by their political and economical structures. License agreements, in which competition law and intellectual property law are applied together, have served to distribute technology by allowing intellectual property rights to be used by others, not only by their owners.

Several legal systems use elements of intellectual property rights (IPR) within their competition policies. In order to prevent misuse, they are regulated by competition law despite the prior existence of legislation concerning the exercise of those rights in intellectual property law¹.

The previous framework for IPR licensing was arranged by the Technology Transfer Block Exemption Regulation (240/96)². Regulation 772/2004 (TTBER), entered into force on 1 May 2004, is the third set of legislation regarding the application of Art. 81(3) of the Treaty to vertical agreements in terms of technology transfer from one party to another. Moreover, Guidelines on the application of Art. 81 of the EC Treaty to technology transfer agreements was published to assist the practice³.

In this study, firstly, hardcore restrictions and excluded restrictions in terms of competitors and non-competitors under TTBER and Guidelines will be explained separately. Afterwards, those restrictions will be compared with regard to the provisions they have arranged.

¹ Anderman, D.S., *EC Competition Law and Intellectual Property Rights*, (Oxford: Clarendon Press, 1998), p. 5

² Anderman S., 'EC Competition Law and Intellectual Property Rights In The New Economy', in *The Antitrust Bulletin*, pp.285-308, 2002, p. 305

³ Furse M., *Competition Law of The EC and UK*, 4th ed., (New York: Oxford University Press, 2004), p. 195

II- HARDCORE RESTRICTIONS

Obligations on hardcore restrictions are arranged in Article 4 of the TTBER. The standard formulation provides prevention on restriction of the ability of a party to determine its selling price, limitation of output under certain conditions and allocations of markets and customers⁴. “The hardcore restrictions have been drafted on the supposition that they are ‘almost always anti-competitive’”⁵.

If a technology transfer agreement includes a hardcore restriction, this means that the agreement concerned falls outside the scope of the block exemption as a whole. Taking into account the aims of the TTBER, hardcore restrictions and the rest of the agreement cannot be considered separately. Moreover, Article 4 determines hardcore restrictions for agreements in terms of competitors and non competitors separately⁶.

A- RESTRICTIONS ON AGREEMENTS BETWEEN COMPETITORS

The Regulation sets out hardcore restrictions between competitors under four main groups; price fixing, reciprocal output limitations, allocation of markets and restrictions on the ability of the licensee to carry out research and development and exploit its own technology⁷. The TTBER distinguishes between reciprocal agreements and non-reciprocal agreements in terms of hardcore restrictions for licensing between competitors. Those restrictions are more severe for reciprocal agreements than non-reciprocal agreements⁸.

According to Article 4(1)(a) of the Regulation, it is stated that Article 2 shall not apply to agreements which contain “the restriction of a party’s ability to determine its prices when selling products to third parties.”⁹ Price

⁴ Ibid, p. 197

⁵ Anderman S. and Schmidt H., ‘*EC Competition Policy and IPRs*’, The Interface Between Intellectual Property Rights and Competition Policy, ed. Steven D. Anderman, (Cambridge: Cambridge University Press, 2007) p. 90

⁶ Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements (2004/C 101/02), Office Journal of the European Union, 27.04.2004, paragraph 75-76.

⁷ Supra, fn. 5, p. 90

⁸ Supra, fn. 6, paragraph 78

⁹ Block exemptions are determined in many fields. For instance; not only in technology transfer agreements, but also in motor vehicle distribution and servicing agreements arranged in Regulation 1475/95. This Regulation states precise positive conditions and a list of circumstances fulfilled or practices which makes the regulation inapplicable. It does not contain a certain black list that removes agreement outside of the scope of block exemptions, but some

fixing can be implemented directly such as an agreement including either an exact price or a price list determining maximum rebates. In addition, it can be arranged indirectly, for instance with a clause such as ‘a decrease on product price under a certain level is to cause an increase on the royalty rate’. Even though an agreement contains a provision on the licensee to pay an exact minimum royalty, this does not mean price fixing which causes failing of the agreement is outside the scope of block exemption¹⁰.

Furthermore, it is clarified that the running payments of royalties are based on all product sales irrespective of whether the licensed technology is used or not. These kinds of provisions bring about severe restrictions in competition, since they increase the cost for the licensee in terms of using its own technology. On the other hand, it is extremely difficult or almost impossible to calculate the royalty payable by the licensee due to insufficient trace of licensor’s technology on the final product. Moreover, coordination of prices on a product market can be provided by cross licensing between competitors who run royalties on the licensed products. However, the Commission is to merely treat cross licensing with reciprocal running royalties for price fixing, in case of lack of pro-competitive aims in an agreement which leads to the establishment of sham licensing¹¹.

In article 4(1)(b), restrictions regarding reciprocal output of the parties are set out. This article does not apply to output limitations on the licensee in a non reciprocal agreement or output limitation on one of the licensees in a reciprocal agreement.

It is stated that “one-way restrictions are less likely to result in lower output and there is less risk of the licence being a sham: a cartel taking the form of licences to each others technology”¹².

The third hardcore restrictions are territorial and customer sales restrictions, with a list of exemptions arranged in Article 4(1)(c). It is hardcore

clauses and positive conditions can be assessed to exclude agreements from the exemption. Ritter L., Braun W.D. and Rowlinson F., *European Competition Law: A practitioner’s Guide*, 2nd ed., (The Hague: Kluwer Law International, 2000), p. 287-290

¹⁰ Supra, fn.6

¹¹ Kjoelbye L. and Peeperkorn L., ‘The New Technology Transfer Block Exemption Regulation and Guidelines’, in *European Competition Law Annual 2005: The Interaction Between Competition Law and Intellectual Property Law*, ed. Ehlermann C.D. and Atanasiu I., (North America: Hart Publishing, 2007), p. 177

¹² Korah V., *Intellectual Property Rights and the EC Competition Rules*, (North America: Hart Publishing, 2006), p. 58

to allocate markets and customers in terms of licensing between competitors. The exceptions limit hardcore restrictions to exclusivity, territorial and customer sales restrictions between the parties in terms of reciprocal agreements and also active and passive sales restrictions between licensees. In view of exclusivity, there is a distinction between reciprocal and non reciprocal agreements. In a reciprocal agreement, competitors should not restrict each other concerning the place to produce or the place and person to sell. As to non-reciprocal agreements, exclusivity can be agreed by the licensor and the licensee and this agreement is covered by a block exemption as well as active and passive sales restrictions provided to protect the exclusive territory or customer groups reserved for the licensor and the licensee or both of them¹³.

Block exemption is applied to reciprocal and non-reciprocal agreements including technical field of use restrictions. The licensee can be limited only in the use of licensed technology, not in the use of its own technology. According to Article 4(1)(d), licensee and licensor cannot be restricted in the use of its own technology in a reciprocal agreement, whereas it can be restricted in terms of licensor in a nonreciprocal agreement in accordance with Article 4(1)(c)(ii). Moreover, sole licensing is not a hardcore restriction according to Article 4(1)(c)(iii) which does not contain any distinctions between reciprocal and non-reciprocal agreements. There is another exception to the hardcore restriction concerning active and passive sales. Active sales restrictions aim to protect the exclusive territory and customer group allocated by the licensor to another licensee in a non-reciprocal agreement, and also the protected licensee should not be a competitor undertaking of the licensor at the time of the conclusion of its own licence agreement¹⁴.

Captive use restrictions which are block exempted up to the maximum limits of market shares are set out in Article 4(1)(c)(vi). The captive use restriction permits the licensee to limit sales of the licensed product only for the repair or production of its own products and excludes the sale of a licensed product with a view to incorporate it into other producers' products¹⁵.

There is a specific exception to the hardcore list that allows the licensee to produce the contract product for and sell the contract product to a specific customer. Namely, it is a kind of exception to create an alternative source of supply for a particular customer¹⁶.

¹³ Supra, fn.11, p. 178-179

¹⁴ Supra, fn. 11, p. 180

¹⁵ Supra, fn. 12, p. 108

¹⁶ Supra, fn. 6, paragraph 93

The hardcore restriction regarding research and development of the parties is set out in Article 4(1)(d). The parties must be free to carry out their own research and development excluding the prevention of the disclosure of the licensed know-how to third parties.

B- RESTRICTIONS ON AGREEMENTS BETWEEN NON-COMPETITORS

The hardcore restrictions concerning agreements between non-competitors are more varied. Article 4(2) of the Regulation arranges hardcore restrictions including price fixing. Moreover, they extend to territorial restrictions and to active and passive sales' restrictions to end users and unauthorized distributors by a licensee¹⁷. The parties must be free to determine the prices of their own products produced with the licensed technology or another technology. In view of agreements between non-competitors, there are exceptions for price fixing such as imposing a maximum sale price or recommending a sale price, which are not hardcore restrictions¹⁸.

Hardcore restrictions on the licensee's passive sales of the contract products are set out in Article 4(2)(b). According to the Guidelines, the passive sales restrictions may emanate from direct obligations on the licensee. For instance, obligation not to sell to definite customers or forward orders from these customers to other licensees. Also, passive sales restrictions may emanate from indirect measures such as limiting sales. Limitation of output on a licensee cannot be considered as an indirect measure as such, but it can be when it is combined with an obligation to sell a minimum amount in the own territory of the licensee. Moreover, to distinguish royalties based on the destination of the products is another indirect way. It is stated that only passive sales restrictions on licensee are hardcore, whereas active sales restrictions on licensee are block exempted, except selective distribution and Article 4(2)(c). Also, all sales restrictions on the licensor are block exempted¹⁹.

A list of exceptions are declared in Article 4(2)(b) such as passive sale restrictions on licensees "into an exclusive territory or to an exclusive customer group reserved for the licensor."(Article 4(2)(b)(i)). The importance of protection regarding passive sales for licensees is accepted by the Commission with statements such as; "(I)t is unlikely that licensees would not

¹⁷ Supra, fn. 5, p. 91

¹⁸ Supra, fn. 11, p. 177

¹⁹ Ibid, p. 181-182

enter into the licence without protection for a certain period of time against passive (and active) sales into the exclusive territory of a licensee by other licensees”²⁰.

According to Article 4(2)(b)(ii), passive sales restrictions into an exclusive territory or customer group allocated by the licensor to another licensee are block exempted for the first two years. This period starts from the date on which the protected licensee first sells the products containing the licensed technology into his exclusive territory or his customer group²¹. It is considered that a two year period is sufficient for licensees to adapt the production process and challenge on equal terms with other licensees²².

Block exemption applies to agreements in which the licensee is required to produce products containing the licensed technology merely for captive use (Article 4(2)(b)(iii)) or to provide an alternative source of supply for a particular customer (Article 4(2)(b)(iv)).

Article 4(2)(b)(v) brings under the block exemption the obligation on the licensee not to sell to end users and thus to limit the sales activities of the licensee to the wholesale level of trade. Also, Article 4(2)(b)(vi) provides for the licensor to arrange a selective distribution system by forbidden members to sell to unauthorized distributors²³.

III- EXCLUDED RESTRICTIONS

There are four main groups of excluded restrictions designed by Article 5, which are not block exempted. Once an agreement includes any excluded restrictions, this does not prevent the block exemption being applied to the rest of the agreement on the contrary of the hardcore restrictions. This means the block exemption is applied only to the individual restriction which is involved in individual assessment²⁴.

Article 5(1)(a) and 5(1)(b) deal with exclusive grant backs and assignments to the licensor of the licensee’s own severable improvements, and new applications of the licensed technology. An improvement exploited without infringing the licensed technology is severable. In Article 5(1)(c),

²⁰ Supra, fn. 5, p. 91

²¹ Supra, fn. 6, paragraph 101

²² Supra, fn. 5, p. 91

²³ Supra, fn.11, p. 182

²⁴ Supra, fn.6, paragraph 107

non-challenge clauses are set out. The licensees are in the best position to determine validity of the intellectual property rights. Therefore, the block exemptions do not apply to obligations on the licensee not to challenge the validity of intellectual property rights. This is important to avoid distorted competition and to protect intellectual property rights. However, an obligation on the licensee regarding not to challenge the licensed know-how supports dissemination of new technology. Moreover, if there is a challenge of the licensed technology, the licensor may terminate the license agreement and this means that the licensee is in the same position as third parties²⁵.

Article 5(2) excludes from the scope of the block exemption, in the case of a vertical licensing relationship, obligations limiting the ability of the licensee to exploit his own technology or of the parties to the agreement to carry out research and development, if they do not indispensable to prevent the disclosure of licensed know-how to third parties²⁶.

IV- ASSESSMENT OF RESTRICTIONS BETWEEN COMPETITORS AND RESTRICTIONS BETWEEN NON-COMPETITORS

The hardcore restriction list determined in Article 4 of the TTBER has a few differences from the list in the 1996 which includes only seven black-listed restrictions. Currently, the hardcore restrictions are limited to price fixing, output limitation and market allocation, and do not extend to territorial and sale restrictions. These restrictions are invoked if they are so likely to promote anticompetitive harm that identified economic analysis of effects is involved²⁷.

As regards price fixing, licensor and licensee must be free to arrange the price of their own products between competitors and non-competitors. However there is an exception regarding non-competitors in terms of setting a maximum sale price and recommending a sale price between non-competitors. In a license agreement between non-competitors, a maximum or recommended price is not a hardcore restriction, if a recommended price or a maximum price does not amount to a fixed or minimum sale price as a result of pressure from the parties²⁸.

²⁵ Supra, fn. 11, p. 184-185

²⁶ Supra, fn. 5, p. 92

²⁷ Supra, fn. 5, p. 94-95

²⁸ Supra, fn. 11, p. 177.

Furthermore, limitation of output in an agreement between non-competitors is not a hardcore restriction, but it is set out in the hardcore list for agreements between competitors²⁹.

Another important difference between agreements between competitors and agreements between non-competitors is related to active sales and passive sales arrangements. For instance, Article 4(1)(c)(v), excludes the restriction from the hardcore provision with an exception. Active sales restrictions aim to protect the exclusive territory and customer group allocated by the licensor to another licensee in a non-reciprocal agreement provided the later was not a competing undertaking of the licensor at the time of the conclusion of its own licence agreement³⁰. “By allowing the licensor to grant a licensee, who was not already on the market, protection against active sales by licensees which are competitors of the licensor and which for that reason are already established on the market, such restrictions are likely to induce the licensee to exploit the licensed technology more efficiently”³¹.

However, in Article 4(2)(b)(ii) in terms of non-competitors, passive sales restrictions into an exclusive territory or customer group allocated by the licensor to another licensee are block exempted for the first two years. It is considered that a two year period is sufficient for licensees to get used to production process and challenge on equal terms with other licensees³².

“Article 4(2)(b) does not cover sales restrictions on the licensor. All sales restrictions on the licensor are block exempted up to the market share threshold of 30 %. The same applies to all restrictions on active sales by the licensee.” However, in Article 4(1)(c), there is no distinction between licensee and licensor for the allocation of markets or customers. Although “active and/or passive sales” is not explicitly expressed in Article 4(2)(b) (I), this is clarified in the Guideline as; “Restrictions on active and passive sales by licensees into an exclusive territory or to an exclusive customer group reserved for the licensor do not constitute hardcore restrictions of competition (cf. Article 4(2)(b)(i))”

On the other hand, hard core restrictions in Article 4(1)(c)(vi) and Article 4(2)(b)(iii) set out similar arrangements in terms of competitors and

²⁹ Ibid, p. 178.

³⁰ Ibid, p. 180

³¹ Supra, fn. 6, paragraph 89

³² Supra, fn. 5, p. 91

non-competitors as; “...producing the contract products only for its own use provided that the licensee is not restricted in selling the contract products actively and passively as spare parts for its own products”.

Also, Article 4(1)(c)(vii) for competitors and Article 4(2)(b)(iv) for noncompetitors contain a further exemption, namely producing a contract products only for a particular customer with a view to providing an alternative source of supply for that customer. The only difference concerning wording is “in a non-reciprocal agreement” stated in Article 4(1)(c)(vii) in terms of competing undertakings.

In view of restrictions on the use of own technology or to carry out research and development, which is set out in Article 4(2)(d), this only applies to agreements between competitors. However, the same restriction in terms of non-competitors is mentioned as an excluded restriction in Article 5. Therefore, once an agreement between non-competing undertakings has a provision regarding research and development, the block exemptions cannot apply to the rest of the agreement, unlikely hardcore restrictions³³.

V- CONCLUSION

Block exemptions have arisen for agreements in particular sectors. Once those agreements fulfill the conditions for the block exemptions, they are considered to be exempted from the competition rules. Currently, there are block exemptions in several sectors such as vertical agreements, motor vehicle distribution and technology transfer agreements³⁴.

It is accepted that block exemptions have an essential role in the enforcement of competition rules. Although a number of agreements, including provisions, may be anti-competitive, they are commercially necessary. Therefore, in different types of agreements, block exemption has been provided by the Member States. However, even if those agreements are exempted in some member states, they may infringe competition rules in other member states³⁵. As a result, harmonization of these rules has become important to the advantage of common single market and of technological development, thus the European Commission tries to continue to support its

³³ Supra, fn. 11, p. 182-183

³⁴ Holmes M. and Lesley D., A Partical Guide to National Competition Rules Across Europe, in International Competition Law Series, Volume 13, (Netherlands: Kluwer Law International, 2004), p. 7

³⁵ Ibid, p. 8

block exemption system, while individual exemptions are tried to be abolished at the European level.

Consequently, thanks to the modernization reform, a careful and more enlightened distinction has been defined between agreements between competitors and agreements between non-competitors³⁶. This distinction influences certain types such as technology transfer agreements as a whole. In particular, hardcore restrictions and excluded restrictions, which are important for the exercise of block exemption, cover varied distinctions in agreements in terms of competitors and noncompetitors. Therefore, it is necessary to determine differences and similarities explicitly in order to apply the competition rules in respect of block exemptions successfully.

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³⁶ Supra, fn. 5, p. 92-93

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