LICENSING EXECUTIVES SOCIETY
INTERNATIONAL

Advancing The Business of Intellectual Property Globally

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LICENSING EXECUTIVES SOCIETY INTERNATIONAL

RESPONSE OF THE LESI EUROPEAN COMMITTEE TO THE COMMISSION'S QUESTIONNAIRE FOR STAKEHOLDERS IN ITS REVIEW OF THE CURRENT REGIME FOR THE ASSESSMENT OF TECHNOLOGY TRANSFER AGREEMENTS

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This document presents the response of the Licensing Executives Society International ("LESI"), represented by its European Committee, to the European Commission's ("Commission") Questionnaire for stakeholders with experience of the current regime for the assessment of technology transfer agreements (the "Questionnaire"). This response has the support of, and includes contributions from, many of LES' national Member Societies, including LES Benelux, LES France, LES Germany, LES Britain & Ireland, and LES Spain.

1. ***Is your company primarily a licensor or licensee of technology? In which sector(s) or broad product groups?***

   LESI is an association of professionals with an interest in the transfer of technology or licensing of intellectual property rights, from technical know-how and patented inventions to software, copyright and trademarks. Traditionally business-oriented, LESI counts among its 11,500+ members management representatives from companies located all over the globe, ranging from large multinationals to small start-ups. LESI's diverse membership also includes scientists, engineers, academicians, governmental officials, lawyers, patent and trademark attorneys, and consultants.

2. ***Do you, overall, consider that the Block Exemption Regulation and the Guidelines have proven to be a well-functioning system for assessing technology transfer agreements?***

   See the response to Question 3 below.

3. ***Can you give an indication of the impact (positive and negative) of the current competition rules on the business of your company? What would be the impact on your business if there were no Block Exemption Regulation and Guidelines?***

   Impact of the Current Rules on LESI Members

   The main issue raised by our members in relation to the current Transfer of Technology Block Exemption Regulation ("TTBER")[1] is the lack of legal certainty. Our members find it difficult to perform a market effects analysis or individual assessment in relation to their technology transfer agreements. Three specific factors that undermine legal certainty are the following:

   - It is no longer possible to notify technology transfer agreements with the Commission to obtain regulatory approval;

[1] Commission Regulation (EC) 772/2004 of April 27, 2004 on the application of Article 81(3) of the EC Treaty to categories of technology transfer agreements, OJ 2004 L123/11.

- It is difficult to calculate parties' respective market shares, at any time, particularly given the dangers of passing market share information to competitors, market shares will change over time, and because of the problems of defining the market;[2] and

- It can be difficult to determine whether or not parties to the agreement are competitors.

The result of this legal uncertainty has been that many of our members still rely on the provisions of the old Technology Transfer Block Exemption for guidance. That is to say, they include in their agreements the provisions formerly known as "white" clauses and avoid the provisions formerly known as "grey" or "black" clauses. The fact that, to our knowledge, the current TTBER has not yet been the subject of any litigation before the courts in Europe, seems to confirm our experience that the instrument is not generally considered to be workable and is thus – unfortunately – largely not relied on by the industry.

Our members realise that the market effects analysis has been the basis of all the current versions of the European Block Exemptions, and that it is to some extent inspired by the US approach to IP licensing. However, we consider there to be considerable differences between technology transfer agreements and the types of agreements covered by other Block Exemptions. Further, our members consider that the European technology transfer regime is, in a number of respects, considerably stricter for the industry than its US counterpart. Each of these points is discussed further below.

a) Technology transfer agreements versus other types of agreements

We consider that technology transfer agreements differ from other types of agreements in at least two important respects. First, technology transfer agreements are generally accepted to be inherently pro-competitive, unless they contain particularly restrictive clauses. The dissemination of intellectual property and know-how through technology transfer agreements almost always benefits competition, which is as a rule not the case for horizontal or vertical restraints. Second, it is much more difficult to predict whether the parties will be competitors or not and what their respective market shares will be if the technology is new and the market as yet non-existent.[3] And yet, the distinction between competitors and non-competitors and the parties' respective market shares are the cornerstones of the current TTBER. These factors make the TTBER more difficult to apply in practice than the other Block Exemptions.

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2 *See* further the response to Question 11 below.

3 Assessment of market share can be particularly difficult in the case of new technologies which are so different from what was previously used as to form a new market of their own, of which they hold 100%.

b) European technology transfer regime versus US technology transfer regime

While the Commission originally intended the current TTBER to be fully in line with the corresponding US instrument, it appears from statements made by officials of the US Department of Justice in 2004 that the European technology transfer regime was expected at first to be considerably more restrictive than its US counterpart. We refer in this respect to the remarks made by Makan Delrahim, Deputy Assistant Attorney General of the Antitrust Division of the U.S. Department of Justice, at the American Bar Association in April 2004, and at the George Mason Law Review Symposium in October 2004 (available at: http://www.justice.gov/atr/public/speeches/205712.htm). [4]

For example, the US competition authorities are more tolerant than their European colleagues of certain vertical restraints, such as territorial restrictions. The US authorities consider that restricted licences can increase an IP owner's profits, thereby fostering further innovation and creating new competition. Conversely, the European regime is, at least on paper, wary of territorial licensing restrictions since they may interfere with the internal market objective.

Further, the US competition authorities are more tolerant with respect to maximum resale price maintenance provisions when there is a licensing relationship between the parties, even if the parties are competitors in the adjacent manufacturing market. As Mr. Delrahim states, the TTBER's "competitor" and "non-competitor" dichotomy appears to subject firms to harsher rules if they are classified as competitors without taking into account the vertical aspects of their licensing agreements.

These discrepancies between the two regimes make it more difficult for companies operating in Europe to compete with those operating outside Europe.

In summary, we consider that technology transfer agreements should be treated more leniently than other types of agreements covered by Block Exemptions. Further, we consider that the European technology transfer regime, while inspired by the US system, is considerably more restrictive and thereby creates a competitive disadvantage for European companies. We ask the Commission to keep this in mind as they review the wording of the

[4] In particular, Mr Delrahim's analysis of the differences between the respective "but for" analyses of the US and EU highlights the problems with the basic characterisation of technology transfer agreements described in (a) above. Also, as Mr Delrahim states, "*the US Guidelines focus more on the nature of the license terms and whether the relationship between the parties is vertical or horizontal*". This analysis, which relates to behaviour, combined with the "but for" analysis, provide greater legal certainty.

TTBER and Guidelines on the application of Article 101 TFEU to Technology Transfer Agreements (the "Guidelines").[5]

Impact of Removing the TTBER and Guidelines

Since parties can no longer notify contracts for clearance by the European Commission, removing the TTBER and Guidelines would leave a vacuum in which individuals drafting technology licenses would have no legal certainty.

4. ***Please report any problems raised by the application of the Block Exemption Regulation and/or the Guidelines. Please indicate also the sector/broad product group(s) in which such problems were encountered and the type of solution found, if any, to address the problems and results obtained.***

Settlement Agreements

Paragraphs 204 *et seq*. of the Guidelines provide some guidance on how intellectual property litigators should apply the competition rules to settlement agreements. In essence, the Guidelines say that clauses that simply say each party will desist from asserting their patents against one another are pro-competitive and therefore valid, but that other restrictions such as market division *etc*. remain subject to the competition rules. However, it would be helpful if the Guidelines could provide more certainty as to what clauses in settlement agreements are permissible, including by setting out some specific examples.

Hardcore Restrictions

The separate lists of hardcore restrictions for competitors and non-competitors in Article 4 TTBER can be difficult to apply due to the problems sometimes involved in determining whether or not undertakings compete for the purposes of Article 1 TTBER (see response to Question 5 below).

5. ***Do you have any suggestions as to how one could clarify either the concepts or terminology used in the two instruments?***

Definition of "Competing Undertakings"

To determine which list of hard core restrictions apply, it is first necessary to decide if the licence is between competitors. This is not always easy using the definition in Article 1 TTBER. According to that definition, "competing undertakings" include:

[5] Commission Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements, OJ 2001 C101/2.

(j)(ii)…undertakings which…would, on realistic grounds, undertake the necessary additional investments or other necessary switching costs so that they could timely enter, without infringing each others' intellectual property rights, the(se) relevant product and geographic market(s) in response to a small and permanent increase in relative prices (potential competitors on the product market)…

In practice it is often hard to determine whether an undertaking that is not currently a competitor might "on realistic grounds" "timely enter" the relevant product market to constitute a competitor.

LESI would like to see the test simplified. For example, the definition of "competing undertakings" could be limited to undertakings that currently compete; undertakings that do not currently compete could be treated as non-competitors. At the very least, LESI submits that the term "timely" should be made more specific. For example, the Commission could adopt the approach taken in the R&D BER,[6] which substitutes the term "timely" with "*within no more than 3 years*" (R&D BER, Art. 1 (t)).

6. ***According to your experience, do you consider that some of the provisions in the current Block Exemption Regulation and/or parts of the text of the Guidelines have become unsatisfactory or need to be updated due to developments (in particular developments after 2004 when the current system was put in place) that have taken place at the national and European level either generally or in a particular industry? Please provide reasons for your response.***

Settlement Agreements in the Pharmaceutical Sector

In the pharmaceutical sector, a concern has arisen with respect to the desirability of settlement agreements in the context of patent litigation. The Commission has conducted an inquiry into certain practices in this sector and has issued various communications that have created a climate of suspicion. This has made it increasingly difficult to settle intellectual property disputes concerning drugs and generic versions of those drugs. By increasing the cost of litigation, either by making the litigation last longer than necessary or by making it more complex, it may even have impeded the entry of generics because parties feel they have to wait for the outcome of the invalidity actions.

Notwithstanding the above, the current Guidelines favour settlements in intellectual property disputes. As such, there does not appear to be any obvious reason why a licence between a

[6] Commission Regulation (EU) 1217.2010 of December 14, 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to certain categories of research and development agreements, OJ 2010 L335/36.

pharmaceutical company and a generic manufacturer concluded in the context of a settlement agreement should be viewed any less favourably than licences concluded in settlements in other industry sectors. However, to the extent that the Commission's inquiry has proven that there are particular sensitivities regarding settlements agreements in the pharmaceutical sector, it would be helpful if the Commission would include explicit guidance in the Guidelines.

7. ***Do you believe that there are any specific competition "issues" related to technology transfer agreements not currently addressed by the current Block Exemption Regulation or Guidelines and that should be considered in the review? For example should the scope of the Block Exemption Regulation and/or the Guidelines cover other types of production related agreements such as agreements, where trade-marks are licensed for display on consumer goods but there is no licensed technology? In addition, are there new contractual arrangements or clauses in technology transfer agreements which could have an impact on competition and which are not explicitly dealt with in the Block Exemption Regulation and/or the Guidelines? Please provide reasons for your response.***

Royalty obligations

The scope of the technology transferred to the licensee and the corresponding royalties payable to the licensor in return constitute the backbone of all technology licensing negotiations. In order to apply Article 101 TFEU to such agreements, it is therefore crucial that licensing professionals understand the rules on these key issues. To this end, LESI requests that the Commission spell out its approach more explicitly, preferably in the TTBER but, if not there, in the Guidelines.

At present, paragraph 156 of the Guidelines holds that the parties to a licence agreement are normally free to determine the royalty payable by the licensee and its mode of payment without being caught by Article 101(1). Two specific examples are given where the extension of the obligation to pay royalties beyond the strict perimeter of the licensed technology is considered "as a general rule" or "normally" to be legitimate, *i.e.*

(i) Where the licensed technology relates to an input which is incorporated into a final product where royalties are calculated on the basis of the price of the final product, "provided that it incorporates the licensed technology";[7]

(ii) Where the licensed intellectual property rights have expired but the parties agree to extend the royalty obligations beyond the period of validity of these rights. [8]

[7] Guidelines, par. 156 *in fine*.
[8] Guidelines, par. 159

First, LESI would like the Commission to be more specific, for example by providing concrete examples in accordance with its practice under paragraph 73 of the Guidelines, on licence deals that would not be covered by the caveats "as a general rule" or "normally" that qualify its acceptance under the EU competition rules of these types of royalty obligations.

Second, LESI would also appreciate further guidance on how the Commission views certain royalty structures that have been held to constitute, under certain circumstances, patent misuse with antitrust implications under US law. For example, without being exhaustive:

(i) **Royalties payable on the sales of a particular product irrespective of whether or not the licensed technology has been effectively used, and where the royalty remunerates the privilege of having access to the licensed technology.** Paragraphs 81 and 160 of the Guidelines provide guidance on the Commission's practice with respect to "all product sales" royalties, but do not explain the underlying rationale. In particular, LESI questions why "all product sales" royalties in agreements between competitors are hardcore restrictions listed in Article 4(1)a of the TTBER, whereas for non-competitors, such arrangements are only problematic if they can be shown to restrict competition. In LESI's view "all product sales" royalties should always be treated as they are currently treated when the parties are not competitors, irrespective of the relationship between the parties to the licence agreement. The focus should be on the freedom of the parties to apply the royalty scheme that they consider most suitable to their respective business interests (cf. Paragraph 156 of the Guidelines). But they should be avoided when such a royalty mechanism precludes the licensee's own technologies or third parties' technologies from accessing the market.

(ii) **Royalties payable on the sales of a particular product in which the patented invention is not "incorporated".** Despite the caveat formulated by the Commission under paragraph 156 of the Guidelines, a particular royalty scheme is common in industries with a relatively long product development cycle, such as the pharmaceutical and the biotechnological industries. It is known as "reach-through royalties" and applies royalties on goods that do not contain the licensed technology, but were obtained via, or tested with, the subject of the licence agreement (*e.g.* research tools that can be used to identify, design, or study potential commercial products, including as the case may be antibodies, cell lines, screening processes, transgenic animal models, and DNA molecules). LESI requests the Commission to sets out its position with respect to these particular types of royalty structuring where the royalty is not triggered by the incorporation of the licensed technology into the product, but merely by the fact that the licensed technology was used to obtain or test the product.

(iii) **Royalties payable on the global sales of a particular product, whether or not a patent exists either in the country of manufacture and the country of sale.** Royalty calculation on the basis of worldwide sales is often used as a convenient administrative tool to compound royalty payments, and should not *per se* be considered to be a patent misuse or antitrust violation. LESI therefore requests the Commission to extend its reasoning under paragraph 159 of the Guidelines to "worldwide royalties" where the parties agree to extend royalty obligations beyond the geographical reach of the licensed IP rights. Caveats should be made only when there is neither a patent in the country of manufacture nor in most countries of sale.

(iv) **Royalties payable on mixed technology packages, comprising both patented matter and confidential know-how.** While the legitimacy of the principle of applying a unique royalty rate on such hybrid licences is uncontested, competition concerns may arise when the royalty rate is not reduced as either the patent rights expire or are voided, or as the confidential status of the licensed know-how is eroded. US case law states that a licence agreement that does not provide for decreasing licence fees on the expiry or annulment of essential patents within the licensed package will constitute an attempt to: (i) collect royalties beyond the life of a patent (*e.g.* US Supreme Court cases in *American Security vs. Shatterproof* and *Pitney Bowes vs. Mestre*); and (ii) discourage licensees from contesting the validity of the patent and deprive them of any resulting royalty savings (cf. *Span-Deck vs. Fab-Con*). LESI would like to hear from the Commission whether it considers that this reasoning extends to hybrid license deals in the European Union. That is, are such licences that do not provide for invariable royalty rates considered to restrict competition under Article 101 TFEU? Or, will such obligations not be considered to have an appreciable anti-competitive effects while there is actual or potential competition on the market (cf. paragraph 159 of the Guidelines) and the royalties are not disproportionate compared to the value of the licensed technology (cf. Paragraph 158 of the Guidelines)?

(v) **The relationship between multi-tier royalties and the doctrine of exhaustion.** A multi-tier licensing agreement is a contract in which the licensor reserves its patent rights and thus, its royalty rights, with respect to downstream sales or applications resulting from the licensed technology. Reach-through royalties are an attractive means for the patentee to optimize the financial return from the patent to the various marketing stages of the corresponding product, for example by levying a relatively low royalty rate on the sale of the patented baseline product, while extracting a superior royalty on the application of the same product by the end-user in a high-value environment. Multi-tiered licensing transactions may also be used in industry sectors with long product development cycles like the pharmaceutical and biotechnological industries, where early stage inventions that need further development and tooling up,

are licensed under generally low royalty fees, with a possible increase of such royalty fees when the development cycle gets close to real commercial applications. The intention of such transactions is not to duplicate royalty payments, but to diversify them or to defer them to a much more profitable stage, e.g. consumption instead of production. Such licensing transactions could be at odds with the ECJ's doctrine of exhaustion, under which the patentee can no longer rely on his patent once he has been rewarded for the specific subject matter of his patent. Although LESI recognizes that the Guidelines do not prejudice any developments in the case law of the European Court of Justice, LESI would appreciate feedback from the Commission concerning the admissibility of such multi-tier royalty schemes under Article 101 TFEU.

Sanctions

Article 4 of the TTBER stipulates that the block exemption shall not apply to agreements that contain certain hardcore restrictions. Consequently, these agreements will need to be individually assessed under Articles 101(1) and 101(3) TFEU and, if found to restrict competition, will be void under Article 101(2): "Any agreements or decisions prohibited pursuant to this Article shall be automatically void".

LESI considers that voiding entire licence agreements – rather than merely the offending clause as for excluded restrictions under Article 5 TTBER – is disproportionate. While annulling the entire agreement will effectively eliminate any competition restrictions, it will also eliminate any pro-competitive effects of the agreement. For example, once a patent licence is declared void the licensee will have to stop using the licensed technology or risk liability for patent infringement. This creates a strong disincentive for licensees to challenge the legality of certain hardcore restrictions. In addition, parties to the void agreement will no longer enjoy their accessory rights under the licence, *e.g.* grant-back rights for improvements or most-favoured licensee conditions, which may have had pro-competitive effects on the transfer of technology and innovation.

LESI would therefore recommend that hardcore restrictions should be treated in the same way as excluded restrictions under Article 5 TTBER. At the very least, LESI submits that this should certainly be the case for the hardcore restrictions in agreements non-competitors listed in Article 4(2) TTBER.

8. ***Have you been involved in litigation and/or competition investigations concerning the Block Exemption Regulation and/or the Guidelines? Or are you aware of national cases and/or arbitration awards that could be relevant for the Commission's review. Please specify.***

An enquiry among our members did not reveal any reported cases where the application of the TTBER has been disputed before national courts or arbitration tribunals. We understand that the Commission is also not aware of any such cases.

The absence of any dispute could, on the one hand, indicate that current TTBER and Guidelines are functioning effectively. On the other hand, it could equally be the case that the thresholds and other criteria are so difficult to apply that the TTBER is often not relied on by litigators and companies as a tool for the enforcement of European competition law in the framework of technology transfer agreements.

Since technology transfer agreements very often contain arbitration clauses that require the application of non-EU law, the Commission should be aware of the fact that determining whether or not the TTBER is applicable becomes even more difficult before a foreign court or arbitration panel, *a fortiori* where these judges and arbitrators are not familiar with these rules. In these circumstances, proving market shares and demonstrating whether parties are competitors or non-competitors is very often only possible by means of (expensive) testimonials, market reports, or other kinds of expert evidence. As a result, parties are very often deterred from relying on the TTBER to raise competition arguments at all.

For both of these reasons the complexity of the current regime – in particular the use of market share thresholds and distinctions between competitors and non-competitors – appears to prevent the goals of the TTBER from being realized.

9. ***Do you consider that there is a need to keep a Block Exemption Regulation in this field or would it be enough to merely give guidance (including relevant safe-harbours) in the Guidelines?***

The TTBER offers undertakings involved in technology transfer at least some degree of legal certainty. While the Guidelines provide useful additional guidance on the terms and issues raised by the TTBER, they are not legally binding and thus provide no legal certainty. A regime based solely on such soft guidance would make it increasingly difficult for lawyers to advise on the legality and enforceability of licensing restrictions. Advice would moreover likely become more expensive since, in the absence of a block exemption, all agreements would require a full competition analysis under Article 101 TFEU.

In sum, LESI believes that eliminating the TTBER in favour of providing soft guidance only via the Guidelines would be a retrograde step. While guidelines are helpful they are no substitute for clear and binding legal rules.

10. ***Do you have any particular comments on the list of hardcore restrictions in Article 4 and/or the list of excluded restrictions in Article 5 of the Block Exemption Regulation? In particular, should the lists include also other type of restrictions or should, on the contrary, certain restrictions be removed from them? We would welcome comments as to whether you consider the balance right as regards the Commission's policy toward territorial restrictions, field of use restrictions and possibilities of exclusive and non-exclusive grant-backs.***

Hardcore Restrictions and Non-Competitors

In addition to the difficulties in applying market share thresholds described in response to Question 3 above, LESI questions whether the market share thresholds should be retained for agreements between non-competitors. As the Commission itself recognizes in paragraph 17 of the Guidelines, the vast majority of licence agreements are pro-competitive. LESI would therefore suggest that – provided they do not contain any hardcore restrictions - agreements between non-competitors should automatically benefit from the block exemption, irrespective of the market shares of the parties involved. This would give non-competitors greater legal certainty and encourage technology transfer transactions in vertical relationships. LESI considers that a loosening of the regulatory framework for technology transfer transactions between non-competitors will contribute to a wider dissemination of technology and thus strengthen Europe's position in the global innovation market, in accordance with the Lisbon strategy defined by the European Council.

Pricing Restrictions

LESI supports retention of the prohibition on price fixing. While we note that the 2010 Vertical Guidelines[9] do permit resale price maintenance for a short period in certain limited cases, this is likely to be more appropriate for retail of consumer goods than for technology licensing.

Field of Use and Customer Restrictions

Article 2.2(b) first bans the restriction of the territory into which, or of the customers to whom, the licensee may passively sell the contract products. However, it then goes on to permit:

[9] Commission Guidelines on Vertical Restraints, OJ 2010 C 130/1.

(i) the restriction of passive sales into ..... an exclusive customer group reserved for the licensor.....

and

(iv) the obligation to produce the contract products only for a particular customer, where the licence was granted in order to create an alternative source of supply for that customer."

LESI requests the Commission to provide more examples of permissible customer restrictions, on the basis of relevant experience.

Improvements

LESI believes that the current clauses on non-severable improvements and "no challenge clauses" work adequately, although no specific cases are reported on this issue. However, LESI suggests that the TTBER explicitly permits licensees to assign, at his own choice, severable improvements back to the licensor for a reasonable fee.

11. Have you encountered practical difficulties in calculating the relevant market shares for the purpose of applying the Block Exemption Regulation (c.f. Article 3(3))? If so, how could this situation be improved?

It is never easy to define market shares, particularly for new products. For example, even if a new product clearly has zero market share on the date that the licence is signed, it may achieve substantial market shares within a relatively short period such that it no longer falls within the TTBER's "safe harbour". It is also possible that after many years of expensive development the licensed product is very different and addresses a totally different market from the one for which it was original envisaged, and in some cases may have created a new market with no competitors for which it holds 100%.[10]

For example, parties' whose market shares rise above the applicable thresholds over time face the risk that their licensing agreements may no longer comply with the TTBER regime, notwithstanding that they were fully compliant at the time of contracting. As a result, market shares and agreements may need to be kept under constant review. This creates a substantial burden for the parties and deprives them of legal certainty.

[10] Such "repurposing" is common in the pharmaceutical industry, *e.g.*, both Viagra and Campath were repurposed and the licensed products were also extremely successful.

Indeed, this could be one reason why licensing has declined so substantially in the pharmaceutical industry in recent years. According to members in that field, pharmaceutical companies are increasingly opting to purchase research-based companies rather than license their IP. While we have no proof that this is directly connected to competition law concerns, the possibility cannot be excluded.

12. The Commission has recently commissioned a study on competition law and patent law, available at the webpage of this consultation: http://ec.europa.eu/competition/consultations/2012_technology_transfer/index_en.html.

Do you have any comments on this study? We would particularly welcome comments on the specific issues of cross-licensing, patent pools and grant-backs respectively, which are addressed in the study.

Having analyzed the study recently commissioned by the Commission on competition law and patent law (the "Study"), LESI considers the Study takes too hostile a view of patents. Although patents are intended to stimulate technological development by encouraging the disclosure of inventions that otherwise could have remained secret,[11] the Study appears to start from the assumption that patent law constitutes an obstacle to fair competition.

With regard to the specific issues and conclusions discussed in the Study, we would make the following comments:

Cross Licensing

LESI does not agree with the Study's conclusion that a lenient approach to cross-licensing agreements would not be justified. Cross-licensing agreements mean that two companies holding legal monopolies (according to their duly granted patent rights) decide to share their privileges with one another. Given the counterfactual – *i.e.*, that each party maintains their legal monopoly over their respective inventions – it is difficult to see, *a priori*, how the sharing of their legal monopoly with one another could be seen to create competition concerns in the EU.

[11] Patent law should not be viewed solely from the perspective of the privilege granted to the patentee; by creating incentives for research and innovation, it also encourages technological advancement. Furthermore, it is also important to bear in mind that patent protection entails some trade-offs, including the obligation to disclose and/or the obligation to exploit the innovation.

LESI also disagrees with the view expressed in the Study that cross-licensing and research joint ventures are conceptually similar and require a similar legal approach. It is important to remember that patent protection involves certain trade-offs, including obligations on patentees to disclose their inventions, obligations on patent owners to exploit the relevant inventions, and a limitation on the period for which a monopoly right is granted. By contrast, the products of research joint ventures are not, in principle, subject to these kinds of obligations and may be kept secret and confidential by the parties for as long as the parties agree. For these reasons, the two situations differ substantially in terms of their potential to give rise to anticompetitive effects. In LESI's opinion, it is therefore inappropriate that the same legal approach be applied to both situations.

Patent Pools

LESI agrees with the Report's proposal to extend the safe harbor for patent pools to include non-essential IP rights. Furthermore, the criteria set forth in the Study seem very reasonable in spite of the fact that, as the Study itself mentions, it would be desirable to proceed with a more comprehensive analysis in order to establish the most appropriate guidelines to analyze whether or not said pools stimulate competition. Nevertheless, in our opinion the Guidelines must be only a guide rather than a set of requirements to be met by any hypothetical pool.

Regarding patent pools for *ex ante* cross-licensing, in our view the most important issues in ensuring that pools are pro-competitive are: (i) non-discriminatory membership policies, based on objective requirements; and (ii) clear and compulsory, pre-established rules on calculating fair, reasonable and non-discriminatory royalties with which all pool members agree to comply.

Grant-Back Clauses

LESI agrees that grant-back clauses relating to non-severable innovations are, generally speaking, efficiency-enhancing. We therefore agree that in these cases grant-back clauses must be handled with leniency. That said, in our opinion grant-back clauses concerning severable innovations should also be treated that way; at least in those sectors and/or markets in which innovation and high-technology are essential. Note that if grant-back clauses are not permitted in these sectors/markets for severable innovations, such that potential licensors cannot benefit from further advances built on severable inventions developed by the licensee, potential licensors would be more reluctant to license their technology in the first place.

13. Any other observations or suggestions for improvement of competition policy in this area?

In general, LESI would like to see current regime simplified and clarified in order to make it more user-friendly for all involved in the technology licensing industry.

Brussels, 3 February 2012
Bruno Vandermeulen
For the LESI European Committee