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The EC Technology Transfer Regulation—
A Practitioner’s Perspective

I. Introduction

On January 31, 1996, the European Commission (the “Commission”) adopted a regulation on the application of article 85(3) of the EC Treaty to certain categories of technology transfer agreements (the “Regulation”). The Regulation combines in a single instrument on the one hand regulation 2349/84, exempting certain patent licensing agreements (the “Patent Regulation”), and on the other hand...
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regulation 556/89, exempting certain know-how licensing agreements (the "Know-How Regulation"). By combining these two legal instruments, the Commission intends to simplify the way in which technology transfers are treated under the EC competition rules. Such a simplification should contribute to the objectives of the Regulation, i.e., the encouragement of the dissemination of technological knowledge in the European Community (the Community) and the promotion of the manufacture of technically more sophisticated products.

The Regulation entered into force on April 1, 1996. It affects the transfer of technology in the industry as a whole. It may, however, be of particular importance in sectors where intellectual property, best protected by patents or undisclosed by know-how, is fundamental, such as electronics, chemicals and pharmaceuticals.

This article first describes briefly the legal background and the drafting history of the Regulation. Subsequently, it will discuss the Regulation’s most relevant provisions. After having reviewed three proposed changes of policy towards technology transfer agreements which, in the end, the Commission has not adopted, the article will discuss to what extent the scope of the Regulation has become broader.

II. The EC Technology Transfer Regulation

A. The Background of the Regulation: The EC Competition Rules

Article 85(1) of the EC Treaty prohibits agreements between economic operators that restrict competition within the Community. The consequences of an infringement of article 85(1) may be serious. Pursuant to article 85(2), those elements of an agreement that infringe article 85(1) are invalid. Furthermore, the Commission may impose fines. In addition, companies infringing article 85(1) may be condemned to pay damages before the civil courts of the Member States.

After due notification by one of the parties pursuant to article 85(3), the Commission may exempt an agreement from the prohibition of article 85(1) if—in

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3. See Commission Regulation 240/96, Recital 3, supra note 1. The notion of "products" in the Regulation includes goods and services. See supra note 1, Commission Regulation 240/96, art. 10(8), the definition of "licensed products."

4. Whether these elements can be excised and the rest of the agreement is enforceable is a question of the law which governs the agreement in question. See, e.g., Case 56/65, La Technique Minière v. Maschinenbau ULM, 1966 E.C.R. 235.

5. Fines may vary from ECU 1,000 (appr. US$ 1,300) to ECU 1,000,000 (appr. US$ 1,300,000) or up to 10 percent of the most recent total turnover of the undertakings concerned. The highest fine imposed on a single undertaking amounts to ECU 75 million (ca. US$ 100 million) (see Commission Decision Tetra Pak II, confirmed in case C-338/94P, Tetra Pak v. Comm'n, 1996 E.C.R. (forthcoming)).
short—the advantages of the agreement outweigh its disadvantages. The Commission tends to apply article 85(1) broadly and to examine subsequently whether an exemption is available. As a consequence, notably vertical agreements more strictly are treated under EC competition law than in most other competition laws. However, the Commission lacks the resources to deal with notifications seeking individual exemptions from the prohibition of article 85(1): it grants only a few individual exemptions per year. The Commission sends many more administrative letters informing the parties that there is no reason for it to take further action and that it is closing the file. Although these letters are not binding on national courts, the European Court of Justice has held that national courts should take into account any view expressed by the Commission in such letters.

In order to overcome the problem of a lack of the Commission's resources, the Council of the European Union has empowered the Commission to adopt regulations exempting certain groups of agreements (so-called group exemptions). The Commission has used its powers to adopt group exemptions not only in respect of technology transfer agreements, but also, e.g., of exclusive distribution agreements, exclusive purchasing agreements, specialization agreements, research and development agreements, and franchise agreements.

In the past, technology transfer agreements have given rise to a number of cases under article 85. A landmark case of the European Court of Justice on exclusive licensing agreements is *Maize Seed* of 1982. The Court held that a license whereby the licensor merely undertakes not to grant other licenses in respect of the same territory and not to compete himself with the licensee of that

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6. Pursuant to Commission Regulation 290/96, art. 85(3), supra note 1, agreements may be exempted if they:
   —contribute to improving the production or distribution of goods or to promoting technical or economic progress,
   —allow customers a fair share of the resulting benefit,
   —do not impose on the undertakings concerned restrictions which are not indispensable to the attainment of the above-mentioned objectives, and,
   —do not afford these undertakings the possibility of eliminating competition of a substantial part of the Community in respect of the products in question.


territory (so-called open exclusive licenses) may not in itself be incompatible with article 85(1) where the license is concerned with the introduction and protection of a new technology in the licensed territory. Otherwise, technology transfer agreements providing for exclusive manufacturing and sale will normally fall under article 85(1) (so-called closed exclusive licenses). The Commission has interpreted this case law rather narrowly; in its view most exclusive licenses are anticompetitive.

Other provisions in technology transfer agreements, such as tying obligations, post-termination restraints, no-challenge clauses, and pricing obligations on the licensee, may also fall within the scope of article 85(1). These provisions were dealt with by the Patent and Know-How Regulations in the past, and are now dealt with by the Regulation.

Article 86 of the EC Treaty prohibits any unilateral abuse by one or more economic operators of a dominant position within the Community. There is no possibility to claim an exemption from this provision similar to article 85(3). The Commission may impose fines on parties that infringe article 86.

Article 86 may apply to the acquisition by a dominant position of an exclusive patent license. For instance, in its Tetra Pak decision, the Commission held that exclusivity of a patent license obtained by a dominant undertaking was abusive, notwithstanding the fact that the license complied with the Patent Regulation. In the view of the Commission, exclusivity not only strengthened the market position of the dominant company, but also prevented or delayed the entry into the market of a competing technology. In its judgment on this decision, the Court of First Instance confirmed that article 86 may apply to license agreements even if they are covered by a group exemption.

12. See supra note 11, at § 58.
14. Art. 1 of Regulation 240/96 exempts all exclusive licenses from the prohibition of Article 85(1), including "open exclusive licenses," which in the European Court's view fall outside the scope of Article 85(1). This provision, thus, implies that all such licenses infringe Article 85(1), despite the fact that Recital (10), reiterating the Maize Seed judgment of the European Court of Justice, states otherwise.
20. See supra note 5.
B. THE DRAFTING HISTORY OF THE REGULATION

The Patent Regulation, dating from 1984, exempted certain patent licensing agreements, while the Know-How Regulation, adopted in 1989, applied to know-how licensing agreements. Mixed patent and know-how agreements could be exempted by the Know-How Regulation if they were not covered by the Patent Regulation. The Patent Regulation was due to expire at the end of 1994. On this occasion the Commission proposed to replace with one single instrument both the Patent Regulation and the Know-How Regulation, which would only expire on December 31, 1999.

On June 30, 1994, the Commission published a preliminary draft of this single instrument, i.e., a group exemption for technology transfer agreements covering patent, know-how, and mixed licensing agreements. At a hearing on January 31, 1995, interested parties were invited by the Commission to submit their comments on the draft. The draft was severely criticized by industry as well as in legal literature. A major point of controversy was the Commission’s proposal to introduce market share thresholds for the application of the Regulation. This criticism gave the Commission cause to review its draft. A revised draft, including an adapted market share test, was circulated for informal consultation in September 1995.

Subsequently, a fierce battle arose within the Commission between the Directorate-General for Competition (DG IV), which was in favor of market share thresholds in the Regulation, and the Directorate-General for Industry (DG III), which fought against the inclusion of these thresholds. In December 1995, another revised draft was circulated informally. Apparently, DG III had won the battle, since this draft no longer contained market share thresholds for the application of the Regulation. On January 31, 1996, the draft was officially adopted.

C. THE REGULATION

1. Combining Two Group Exemptions in a Single Instrument

In the past, industry complained about the different treatment of patent, know-how, and mixed agreements under the Patent and Know-How Regulations. This

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23. See supra note 2.
27. See supra note 1.
different treatment was considered to be unnecessarily complicated and unfair. For instance, the Know-How Regulation used to be more liberal than the Patent Regulation since it had a longer white list of permitted clauses in licensing agreements and a shorter black list of forbidden clauses. There was no justification for this more advantageous treatment of technology transfer agreements falling within the scope of the Know-How Regulation.\(^{28}\)

The advantageous treatment of licensing agreements in the Know-How Regulation was also peculiar in view of the fact that at the time the Commission adopted the Patent Regulation it still had a rather negative view on know-how licenses. Indeed, in the preamble of one of the drafts for the Patent Regulation in 1983 the Commission stated:

Yet know-how does not have the same legal standing as a patent. Patent protection is justified because of the patent’s limited life and the fact that the state of the art is advanced for the public benefit by disclosures made in the patent application. This is not the case with know-how that is kept secret.\(^{29}\)

Only later the Commission seems to have recognized the importance of know-how licensing.\(^{30}\)

Under the Regulation, technology transfer agreements are in general treated equally. In particular in respect of mixed agreements, the Regulation simplifies the system which existed previously. Both the Patent Regulation and Know-How Regulation applied to mixed agreements, but these agreements only fell within the scope of the Know-How Regulation if they were not exempted by the Patent Regulation.\(^{31}\) Since the Know-How Regulation was more liberal than the Patent Regulation, it was often more advantageous to bring a mixed agreement under the Know-How Regulation than under the Patent Regulation. In practice, mixed agreements were often negotiated to satisfy the more advantageous Know-How Regulation. Under the Regulation, industry will no longer have to weigh the advantages and disadvantages of bringing a mixed agreement under one group exemption or the other. This can be seen as an improvement.\(^{32}\)

The structure of the Regulation is very similar to that of its predecessors. It first exempts restrictions that mostly relate to territorial protection granted to the licensee (4.2).\(^{33}\) It then mentions white-listed clauses in licensing agreements that normally do not restrict competition but are exempted in case they do (4.3).\(^{34}\) The


\(^{29}\) Recital (7) of an unpublished draft of 1983.

\(^{30}\) See Norman Rosen, New EEC Regulation Licensing, in Fordham Corporate Law Institute, 10-1, 10-4.


\(^{32}\) See Van den Bergh, Modern Industrial Organization versus Old-fashioned European Competition Law, European Competition Law Review, 75 (1996). “Distorted business decisions may follow if the form of the transaction is chosen because of the more lenient treatment of a less efficient alternative.” Id. at 80.

\(^{33}\) See supra note 1, Commission Regulation 240/96, art. 1.

\(^{34}\) See supra note 1, Commission Regulation 240/96, art. 2.
black list of the Regulation contains clauses that are forbidden (4.4). Restrictive clauses that are neither white-listed nor black-listed are unofficially called grey-clauses. Agreements containing such clauses may be exempted through the "opposition procedure" (4.5). The Regulation contains some provisions on its duration and the continued applicability of its predecessors (4.6).

2. Restrictions Exempted by the Regulation

a. An Overview

The Regulation exempts a number of restrictions in technology transfer agreements, but the duration of the exemption depends on whether it concerns a pure patent licensing agreement, a pure know-how licensing agreement, or a mixed licensing agreement.

b. Restrictions on the Licensor

The licensor may agree not to license anyone else in the licensee's territory and not to exploit the technology there himself:

- in case of a pure patent licensing agreement, to the extent that and for as long as the licensed product is protected by parallel patents of the licensee;
- in case of a pure know-how licensing agreement, for a period of 10 years commencing with the first putting on the market within the Community by one of the licensees.
• in case of a mixed licensing agreement, for 10 years commencing with the first putting on the market in the Community by a licensee or, if longer, the period available to pure patent licenses, but only in Member States in which the licensed technology is protected by necessary patents. 44

"Necessary patents" are "patents [the licensing of which] is necessary for the putting into effect of the licensed technology in so far as, [in their] absence[,] the realization of the licensed technology would not be possible or would [only] be possible to a lesser extent or in more difficult or costly conditions." 45

c. Restrictions on the Licensee

The licensee may agree:

• (i) not to manufacture or use the licensed products or use the licensed process in the territories of other licensees within the Community; (ii) not to exploit 46 the licensed technology in the territory of the licensor within the Community; and (iii) not to market actively the products in the territories of other licensees in the Community:

• in case of a pure patent licensing agreement, to the extent that and for as long as the licensed product is protected by parallel patents; 47

• in case of a pure know-how licensing agreement, for a period of 10 years commencing with the first putting on the market within the Community by one of the licensees; 48

• in case of a mixed licensing agreement, for 10 years commencing with the first putting on the market in the Community by a licensee or, if longer, the period available to pure patent licenses, but only in Member States in which the licensed technology is protected by necessary patents. 49

• not to market even passively the products in the territories of other licensees during a period of 5 years from the moment any licensee has first put the licensed product on the market in the Community, irrespective of whether inserted in a pure patent licensing agreement, a pure know-how licensing agreement, or a mixed licensing agreement; 50

• (i) to use only the licensor’s trademark or get-up, provided the licensee may identify himself as the manufacturer; and (ii) to limit production and sales of the products to what the licensee requires as input for his own products (provided that the licensee may freely determine the relevant quantity of these products):

44. See supra note 1, Commission Regulation 240/96, arts. 1(1)(1), 1(1)(2), 1(4).
45. See supra note 1, Commission Regulation, 240/96, art. 10(5).
46. See supra note 32.
50. See supra note 1, Commission Regulation 240/96, arts. 1(1)(6), 1(2), 1(3), 1(4).
• in case of a pure patent licensing agreement, to the extent that and for as long as the licensed product is protected by parallel patents;\(^5\)
• in case of a pure know-how licensing agreement, during the lifetime of the license for as long as the know-how remains secret and substantial;\(^5\)
• in case of a mixed licensing agreement, for the longer period available to pure patent or know-how licenses.\(^5\)

With respect to all the above-mentioned restrictions the Commission Regulation permits restrictions of the same kind but of a more limited scope.\(^5\)


In respect of the duration of territorial protection exempted by the Regulation, a difference between patent and know-how licensing agreements will thus remain. In case of pure patent agreements territorial protection (except against passive sales) may be granted to the extent that and for as long as parallel patents exist in the territories of respectively the licensor, the licensee, and other licensees.\(^5\)

However, for pure know-how licensing agreements this period is fixed to ten years from the date when the licensed product is first put on the market in the Community by a licensee.\(^5\)

The Commission takes the view that it is appropriate to limit protection in case of know-how agreements since the point at which the know-how ceases to be secret can be difficult to determine.\(^5\) Longer periods of territorial protection for know-how agreements may be allowed by individual exemptions pursuant to article 85(3) if the protection is necessary to protect expensive and risky investment or where the parties are not competitors at the date of the grant of the license.\(^5\)

The different treatment of patent and know-how licensing agreements under the Regulation is in particular relevant for mixed licensing agreements. Through a mixed agreement, a licensee may be protected from active sales in its territory for either ten years from the date that the licensed product is put on the market by one of the licensees in the Community or, if longer, for the duration of licensed necessary patents in that territory. As said, a patent is necessary if in its absence

\(^5\) See supra note 1, Commission Regulation 240/96, arts. 1(1)(7), 1(2). See supra note 42 for the definition of parallel patents.
\(^5\) See supra note 1, Commission Regulation 240/96, arts. 1(1)(7), 1(3).
\(^5\) The Commission Regulation does not give an explicit rule on the duration of exemption of this provision in mixed agreements. See supra note 1, Commission Regulation 240/96, arts. 1(1)(7), 1(4).
\(^5\) See supra note 1, Commission Regulation 240/96, art. 1(5).
\(^5\) See supra note 1, Commission Regulation 240/96, art. 1(2).
\(^5\) See supra note 1, Commission Regulation 240/96, art. 1(3).
\(^5\) See supra note 1, Commission Regulation 240/96, Recital 13.
\(^5\) See supra note 1, Commission Regulation 240/96, Recitals 12-14.
the realization of the licensed technology would not be possible or would only be possible to a lesser extent or in more difficult or costly conditions. This notion of "necessary patents" is vague. Parties may believe that licensed patents fulfill the requirements of necessity, but courts (and, in the end, the Court of Justice) may have another view. Using "necessary patents" as a notion to calculate the duration of territorial protection permissible in mixed agreements thus considerably reduces the level of legal certainty regarding territorial restrictions in mixed agreements.

e. "Harmonisation" of the Trigger Date of Territorial Protection

The period of territorial protection granted by the Regulation will be measured from the date when the licensed product is first put on the market in the Community by one of the licensees. The Regulation differs in this respect from both the Patent Regulation and the Know-How Commission Regulation.

In the Patent Regulation, as well as in the first draft of the Regulation, the relevant date started from the moment that the product was first put on the market by one of the licensees or the licensor. It was argued that most technology transfer agreements would not fall under the Regulation, since they are usually concluded after the licensor starts marketing the licensed products and potential licensees are attracted by the commercial success of innovations. Moreover, the trigger date of the Patent Regulation would fail to protect small and medium-sized licensors that could not produce the licensed products themselves on a small scale without the time limits starting to run. The Commission has apparently listened to this criticism, since the Regulation no longer refers to the putting on the market by the licensor.

Under the Know-How Regulation, the duration of territorial protection given to a license was measured from the moment of the first license in the territory of the licensee. This provision has been criticized as well. If the first licensee in a certain territory did not adequately exploit its license and this license was subsequently terminated, a later licensee may have needed to be protected for the full period, but the permissible period would already have started to run from the moment of the first license.

The trigger date chosen by the Regulation (the moment of the first putting on the market of a licensed product by any licensee in the Community) may begin

59. See supra note 1.
60. The licensor or licensee may challenge the qualification in a mixed agreement of "necessary" patents to remove territorial protection of the other. The licensor may stipulate that if the licensee does so, he will terminate the agreement. See supra note 1, Commission Regulation 240/96, art. 2(1)(16).
61. See supra note 1, Commission Regulation 240/96, art. 1(2)-(4).
62. See supra note 2.
63. See Art and Van Liedekerke, Developments in EC Competition Law in 1994, an Overview, 32 COMMON MARKET LAW REVIEW 935 (1995).
64. See Korah, supra note 28, at 169.
even earlier than that of the first licensee in a given territory under the Know-
How Regulation in so far as a licensee for another territory has already put the
contract product on the market whether or not he was successful.

Nevertheless, the fact that the Regulation provides for a single rule for establish-
ing the trigger date of territorial protection in the pure patent agreements, pure
know-how agreements, and mixed agreements can be considered as a welcome
"harmonization."

3. A Longer White List

The white list of the Regulation sets forth obligations that do not normally
restrict competition, but are exempted just in case they do. Additionally, clauses
with a more limited scope than white-listed clauses are exempted. The white
list is not limitative, in so far as other obligations may also fall outside the scope
of article 85(1). Such obligations are, however, not exempted by the white list
in case they are restrictive of competition. Agreements containing such restrictive
obligations may be notified under the opposition procedure. The white list is
equally applicable to pure patent agreements, pure know-how agreements and
mixed agreements. It permits the following restrictions:

- an obligation on the licensee not to divulge know-how disclosed by the
  licensor (even after the agreement has expired);
- an obligation on the licensee to cease using the licensed technology after
  the termination of the agreement in so far as and as long as the know-how
  is still secret or the patents are still in force (a "post-term use" ban);
- an obligation on the licensee to make severable improvements available to
  the licensee on a nonexclusive basis (a nonexclusive "grant-back" clause).
  The licensor may be obliged to grant an exclusive license of his own improve-
  ments to the licensee;
- an obligation on the licensee to restrict his exploitation of the licensed tech-
  nology to one or more technical fields of application (or to one or more
  product markets) (a "field of use" clause);
- the right of the licensor to exercise the rights conferred by a patent to oppose
  the exploitation of the technology by the licensee outside [its] territory;

65. See supra note 1, Commission Regulation 240/96, art. 2(1), (2).
66. See supra note 1, Commission Regulation 240/96, art. 2(3).
67. See supra note 1, Commission Regulation 240/96, Recital (18).
68. See supra note 1, Commission Regulation 240/96, Recital (25). For a discussion of the
opposition procedure see infra section C.5.
69. See supra note 1, Commission Regulation 240/96, art. 2(1)(1).
70. See supra note 1, Commission Regulation 240/96, art. 2(1)(3).
71. See supra note 1, Commission Regulation 240/96, art. 2(1)(4).
72. See supra note 1, Commission Regulation 240/96, art. 2(1)(8).
73. See supra note 1, Commission Regulation 240/96, art. 2(1)(14). For a discussion about the
relation between this provision and the free movement of goods under Articles 30 and 36, see Reindl,
supra note 1, § 3.1.
the right of the licensor to "terminate the agreement if the licensee contests the [secrecy] of the . . . know-how or challenges the validity of the licensed patent within the [Community];"  

74 a right of the licensor to terminate a patent licensing agreement "if the licensee raises the claim that [the] patent is not necessary;"  

75 "an obligation on the licensee to use his best endeavor to [exploit] the licensed technology;"  

76 "a right of the licensor to terminate the exclusivity granted to the licensee and to stop [communicating] improvements to him when the licensee enters into competition with the licensor and to require the licensee to prove that the licensed know-how is not being used for the production of [goods] other than those licensed."  

77 The white list of the Regulation is longer than, in particular, the white list of the Patent Regulation.  

78 It copies, also in respect of patent licenses, the following provisions which—in the past—were only available under the Know-How Regulation:

• the obligation on the licensee to continue paying royalties after the know-how becomes publicly known or after the patents prematurely lose their validity other than by the action of the licensor;  

79 the obligation on the licensee to restrict exploitation of the licensed technology to one or more product markets (and not only to specific technical fields like under the Patent Commission Regulation);  

80 the obligation on the licensee not to use technology to construct facilities for third parties; and  

81 the obligation on the licensee to limit production of the licensed product to the quantity required for the manufacture of the licensee’s products.  

82 A number of (other) "new" white clauses were already mentioned in a hidden way in the Patent and Know-How Commission Regulations. For instance, the "best endeavors" clause was already mentioned as an exception to a black
clause in the Patent and Know-How Regulations. As such, these clauses might arguably not have been white but grey, and might, thus, have prompted notification under the opposition procedure. Now, under the Commission Regulation these clauses are white-listed.

4. A Shorter Black List

The black list contains provisions that will prevent the application of the Commission Regulation to technology licensing agreements. Such restrictions cannot be exempted through the opposition procedure and can be declared exempted only by an individual exemption pursuant to article 85(3). However, the Commission tends to treat black-listed clauses as per se violations without any economic analysis. Thus, even when the Commission acts on an individual exemption basis, a black-listed provision is likely to be rejected. The black list of the Regulation, which is limitative, prohibits the following provisions:

- restrictions regarding the determination of prices, components of prices, or discounts for the licensed product;
- an obligation where one party is restricted from competing within the Community with the other party in respect of research and development, production, use, or distribution of competing products (a "non-competition" clause);
- obligations on the licensor or the licensee making parallel imports in the Member States impossible or difficult;
- restrictions agreed upon by parties, which were competitors for the contract product before the license was granted, to allocate customers within the same technological field of use or the same product market (a "customer allocation" clause);
- restrictions regarding the quantities to be manufactured or sold (unless specifically permitted by other provisions of the Regulation);
- an obligation on the licensee to assign in whole or in part to the licensor rights to improvements to or new applications of the licensed technology; and
- an obligation on the licensor which results in territorial protection of the licensee during a longer period than permitted under the Regulation.

The black list of the Regulation is considerably shorter than those of its predecessors. The following obligations on the licensee are no longer black-listed:

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84. See Commission Regulation 2349/84, art. 3(3), and Commission Regulation 559/89, art. 3(9).
85. See KORAH, supra note 28, at 163.
86. See supra note 1, Commission Regulation 240/96, Recital (19).
87. See supra note 1, Commission Regulation 240/96, art. 3(1).
88. See supra note 1, Commission Regulation 240/96, art. 3(2).
89. See supra note 1, Commission Regulation 240/96, art. 3(3).
90. See supra note 1, Commission Regulation 240/96, art. 3(4).
91. See supra note 1, Commission Regulation 240/96, art. 3(5).
92. See supra note 1, Commission Regulation 240/96, art. 3(6).
93. See supra note 1, Commission Regulation 240/96, art. 3(7).
• an obligation not to contest the secrecy of the licensed know-how or to challenge the validity of licensed patents within the Community (a "no-challenge" clause); 94
• a tying clause which is not necessary for a technically proper exploitation of the licensed technology or to ensure that the product meets accepted minimum specifications; 95
• an obligation not to continue to use the licensed know-how after the termination of the agreement where the know-how has meanwhile become publicly known other than by action of the licensee; 96
• an obligation to pay royalties on goods or services which are not entirely or partially produced by means of the licensed technology or for the use of know-how which has become publicly known by the action of the licensor; 97
• an obligation to accept automatic prolongation of the initial duration of the licensing agreement by the inclusion in it of any new improvements communicated by the licensor; 98
• an obligation to grant the licensor the exclusive right for improvements to or new application of the licensed technology which would prevent the licensee during the currency of the licensing agreement and/or thereafter from using his own improvements in so far as these are severable from the licensor's own know-how or from licensing them to third parties, where such licensing would not disclose the licensor's know-how that is still secret (an "exclusive grant-back clause"); 99 and
• customer allocation restrictions where the parties were not competitors before the license was granted. 100

By shortening the black list for technology transfer agreements, the Commission has taken a more liberal position towards these agreements. Although this change of policy should be welcomed, shortening the black list does not remove
legal uncertainty. Clauses that used to be black are now mostly grey, since they are not exempted or white-listed. Thus, the Regulation does not apply to technology transfer agreements including these clauses, unless the parties have made use of the opposition procedure.

5. **Opposition Procedure**

Licensing agreements containing restrictions of competition that are not expressly permitted by the Regulation, but do not come within the black list of the Regulation either, are still exempted when they are notified to the Commission and the latter does not oppose such exemption within four months. The Regulation mentions certain tying clauses and no-challenge clauses as examples of such grey clauses.

The opposition procedure has been copied almost literally from the Patent and Know-How Regulations. The main difference is the shorter time limit within which the Commission may oppose a clause in the agreement, i.e., four months. This period is considerably shorter than the six-month period under the Patent and Know-How Regulations. For industry, this shorter time limit can be seen as an improvement since companies will sooner have legal certainty on the validity of their licensing agreement.

6. **Duration, Grandfather Clause**

The Regulation will apply from April 1, 1996, until March 31, 2006. It "grandfathers" licensing agreements that existed prior to the entry into force of the Regulation and which benefitted from exemption under the Patent and Know-How Regulations: these Regulations (and not the Regulation) will continue to apply to those agreements until March 31, 2006. Since the Regulation has a longer white list and a shorter black list, existing agreements exempted by the Patent and Know-How Regulations are also generally exempted by the Regulation. Only existing agreements exempted pursuant to the opposition procedures of those regulations, therefore, seem to benefit from the "grandfather clause."

Agreements that contain provisions which are not exempted by the Regulation but are notified before the entry into force of the Regulation may benefit from

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101. *See supra* note 1, Commission Regulation 240/96, art. 4. If the Commission opposes exemption, and the notification is not withdrawn, the notification will be examined pursuant to Commission Regulation 17. The agreement in question will then be considered for exemption by a formal individual decision or, in practice, for an informal comfort letter.

102. *See supra* note 1, Commission Regulation 240/96, art. 4(2).

103. Opposition procedures can also be found in other group exemptions. *See, e.g., supra* note 10, Commission Regulations 417/85 (specialization agreements), 418/85 (research and development agreements), and 4087/88 (franchise agreements).

104. The period, however, is one month longer than the European Commission had suggested at the hearing of interested parties on Jan. 31, 1995.

105. *See supra* note 1, Commission Regulation 240/96, art. 13.

106. *See supra* note 1, Commission Regulation 240/96, art. 11(3).
the opposition procedure of the Regulation, as long as they do not contain black clauses.  

D. CHANGES WHICH WERE PROPOSED BUT HAVE NOT BEEN ADOPTED

This chapter discusses three changes that were proposed during the drafting of the Regulation, but which, in the end, were not adopted. Two changes were proposed by the Commission: (1) the introduction of a market share test denying the application of the Regulation (5.1);  

108 See supra note 21.

109 Industry proposed that vertical agreements would be treated more friendly than horizontal agreements (5.3).

2. No Market Shares Test

The Commission expressed its worries about market shares in the context of licensing agreements for the first time in the Tetra Pak I decision. It held that the acquisition by a dominant undertaking of an exclusive license amounted to an abuse of a dominant position within the meaning of article 86.  

110 Apparently, this decision has been the occasion for the Commission to decide that market share thresholds should be included in group exemptions dealing with licensing agreements.

The European Court of Justice has given some guidelines on the relation between market shares and a dominant position. Indeed, it has held that very large shares are in themselves, and save in exceptional circumstances, evidence of a dominant position. In the Court’s view that is the situation where there is a market share of fifty percent. This market share percentage is considerably higher than the forty percent market share threshold suggested by the Commission in its proposals for the Regulation.

In its first draft of the Regulation, the Commission proposed that territorial protection would not be exempted, if (i) the licensee’s market share would—during the exploitation of the license—have grown to more than forty percent; or if (ii) licensor and licensee, being competitors, would have operated on an oligopolistic market. An oligopolistic market was defined as a market where the parties and one other undertaking hold a market share of more than fifty percent or if the parties and no more than three other undertakings together hold

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107. See supra note 1, Commission Regulation 240/96, art. 4(4).
108. See supra note 21.
109. See supra note 21.
110. See supra note 21, Commission Decision, Tetra Pak I (BTG License).
111. See supra note 21, Commission Decision Tetra Pak I (BTG License), at ¶¶ 27, 28.
113. See supra note 24, art. 1 of the first draft.
a market share of more than two thirds, and in either case the licensee had a market share of at least ten percent.\textsuperscript{114}

After lobbying from industry to remove these rather complicated and strict market share criteria, a revised draft of the Regulation relaxed the thresholds. First, the oligopolistic market share criterion was deleted completely. Secondly, the remaining threshold was only relevant in so far as the contracting parties were competitors. Thirdly, it was only measured at the moment the licensing agreement was negotiated: the Regulation would, thus, not stop to apply if during the currency of the licensing agreement the thresholds were exceeded.

This relaxed market share threshold was not acceptable to industry either. The market share thresholds were criticized both by industry and in academic writing for the following reasons.\textsuperscript{115}

First, the introduction of market share criteria would have led to more uncertainty as to whether or not a technology transfer agreement is exempted by the Regulation. Indeed, in order to examine whether the market share criteria are fulfilled, it is necessary to define the relevant product and geographic market and to evaluate the agreement in the context of its factual, legal, and economic environments. Since the Commission has a wide discretion in defining relevant markets, the introduction of the market share criteria leads automatically to discretion of the Commission in deciding whether an agreement falls under the Commission Regulation. The legal uncertainty created by the introduction of market share thresholds would have been contrary to the very objective of a group exemption: giving legal certainty to agreements that violate article 85(1) but have advantages that outweigh their disadvantages.

Second, parties that notify their agreement in order to obtain an individual decision pursuant to article 85(3) will most likely receive a comfort letter that lacks the legal certainty of a formal exemption decision. Since parties that would not have complied with the market share thresholds would have had to notify their agreements in order to obtain an exemption, more parties to licensing agreements would have had to be contented with an informal comfort letter instead of a formal exemption.

This criticism seems to have convinced the Commission in the end, since it abandoned the maximum market share threshold for its application. However, the Commission may still withdraw the benefit of the Regulation if the effect of an agreement is to prevent the licensed products from being exposed to effective competition "which may in particular occur where the licensee’s market share exceeds forty percent."\textsuperscript{116} This market share criterion is the leftover of the failed attempt of the Commission to introduce maximum market shares above which the Regulation could not apply.

\textsuperscript{114} \textit{See supra} note 4, art. 1(5) of the first draft.

\textsuperscript{115} \textit{See} the publications mentioned in note 25.

\textsuperscript{116} \textit{See supra} note 1, Commission Regulation 240/96, art. 7(1).
In particular, the Commission invites companies with a market share of more than forty percent to notify their agreement even if the agreement falls within the scope of the Regulation.\textsuperscript{117} Since the mere fact that the licensee's market share exceeds forty percent will not automatically lead to the conclusion that the application of the Regulation is not justified, it is hoped that the Commission will keep its promise to merely pay special attention to cases where the licensee is dominant and not withdraw the benefit of the Regulation.\textsuperscript{118} Otherwise, dominant licensees would, in practice, be forced to engage in costly and cumbersome notifications, notwithstanding the fact that their license fulfills the conditions of the Regulation. This would be at odds with the fact that having market power as such is not contrary to articles 85 and 86. The fact that in the past the Commission has rarely withdrawn or threatened the withdrawal of a group exemption may have been assuring.\textsuperscript{119}

2. **Opposition Procedure versus Severability**

In general, the use of the opposition procedure has not been widespread in the past. Therefore, the Commission proposed in its first draft the complete abolition of the opposition procedure.\textsuperscript{120} Instead, it proposed a so-called severance clause.\textsuperscript{121} Grey clauses would not prevent the application of the Regulation to a licensing agreement that otherwise fulfills the conditions of the Regulation. Such grey clauses would, however, have been invalid, unless exempted by means of an individual decision.\textsuperscript{122} Following protest, the Commission has nevertheless elected the opposition procedure in the Regulation. This is welcome for two reasons.

First, the opposition procedure may create more legal certainty than a severance clause. Indeed, notifying parties have certainty about the validity of their agreement within a relative short period of time. Such certainty would not exist under a severance clause: it is often far from clear whether a clause in a technology transfer agreement infringes article 85(1). Therefore, it would have been far from clear whether a clause would have been tenable. Second, under the Regulation, the opposition procedure will probably be used more frequently than in the past. Given that the black list has been shortened considerably compared to the Patent and Know-How Regulations, grey clauses which in the past were black and could, thus, not be exempted under the opposition procedure, might now well be. The reduction of the black list may thus stimulate industry to use the opposition procedure.

\textsuperscript{117} See supra note 1, Commission Regulation 240/96, Recital (27).
\textsuperscript{118} See supra note 1, Commission Regulation 240/96, Recital (26).
\textsuperscript{120} See supra note 24, art. 4 of the first draft of the Commission Regulation.
\textsuperscript{121} Id.
\textsuperscript{122} Id.
The severance clause would not have avoided the following important legal question that block exemptions have evoked. Indeed, it has never been clarified in the case law of the European Court of Justice whether the Commission has the competence to include opposition procedures in group exemptions, bypassing in particular the safeguards for third parties in regular individual exemption procedures. By the same token, it is questionable whether the severability test would have been compatible with the EC Treaty.

However, the severance clause would have resolved one important problem of group exemptions. The Commission continues to take the view that the inclusion of an "exemptible" grey clause in a licensing agreement automatically prevents the application of the Regulation to the whole of the agreement. The effects of this principle are particularly grave in technology transfer agreements where exclusivity is of great importance. Licensees may be inclined to undertake the investment required to manufacture, use and put a new product on the market, only if they are given an exclusive territory. The severance clause would have guaranteed that exclusivity in line with the Regulation would remain exempted, notwithstanding the inclusion of a grey clause.

During the hearing of January 31, 1995, industry proposed that the opposition procedure and the severance clause become complementary options. Their coexistence would have enabled parties to a technology transfer agreement containing grey clauses to choose between the legal certainty of the opposition procedure on the one hand, or the application of the severance clause to only the grey clauses on the other. The Commission rejected this proposal. It probably was concerned that in practice the opposition procedure would not be used, and many parties would take the risk of including objectionable restrictions in their agreements, a risk that would be minimal because of the severability clause.

It is submitted that the Commission's "all or nothing" approach to agreements including grey clauses and those that have not been exempted under the opposition procedure may have disproportional consequences. This may lead national courts to take a different approach. National courts have the power to determine whether an agreement falls within a group exemption. Accordingly, they should also have the power to excise only grey clauses in order to bring the licensing


124. Admittedly, the Commission is in this respect slightly less strict in the Regulation (and its predecessors) than in other group exemptions. The group exemptions for exclusive distribution and purchasing agreements, for instance, explicitly state that the inclusion of any restriction which is not dealt with in the group exemption results in the nonapplicability of the group exemption. The Commission Regulation, however, still applies where an agreement contains clauses with a more limited scope than those mentioned in its exempted list or white list. See supra, section C.3.


agreement within the scope of a group exemption. In the absence of a severance clause in the Regulation, national courts may thus refuse to rule that the presence of a grey clause results in the entire agreement being deemed not to qualify for the group exemption under those national laws if parties did not make use of the opposition procedure (for instance, because they thought that the clause in question did not restrict competition or was included in the "white list").

3. Vertical Licensing Agreements

The Commission treats a licensing agreement as horizontal once both licensor and licensee are selling competing products. Thus, the Patent and Know-How Regulations did not distinguish, in principle, between horizontal and vertical restraints, albeit that certain horizontal licensing agreements were excluded from the scope of the two regulations. This situation has been criticized, since in a lot of cases the licensee would not have had access to the licensed technology without the license. These cases, which the Commission considers horizontal, are in reality vertical. Applying the stricter rules for horizontal licenses to such agreements would therefore seem to be inappropriate. The Regulation does not reflect criticism of the strict attitude towards vertical licensing agreements. Indeed, like its predecessors, the Regulation generally does not distinguish between horizontal and vertical restraints.

Because of its dubious basic assumptions, the Commission prohibits certain clauses like, notably, the noncompetition clause in a manner that would be appropriate where the parties were horizontal competitors. A noncompetition clause in a horizontal agreement could constitute a cartel behind the facade of a technology license. The Commission is right in preventing such cartels. However, in

127. Parties could include a clause to that extent in their licensing agreement.

128. Admittedly, the Court of Justice has held that an agreement containing a black clause as a whole falls outside the scope of a group exemption. See Case C-234/89, Delimitis v. Henninger Byaugh, [1991] E.C.R. I 935, [1992] 5 CMLR 210. However, the question is open whether this case law also applies to agreements, including grey clauses that have not been exempted through the opposition procedure. Moreover, as stated above (see supra note 4), applicable national law decides on the consequences of infringements of art. 85(1). submitted that, therefore, national courts applying national law may—notwithstanding the Delimitis judgment—excise grey (and even black) clauses from an agreement that falls outside a group exemption and may thus convert such agreement into agreements covered by a group exemption.

129. A license is horizontal if the licensor and licensees are actual or potential competitors. A license has a vertical character if it affects activities that are in a complementary relationship. An arrangement is vertical if, for instance, the licensor's primary line of business is in research and development, and the licensee being a manufacturer buys the right to use the technology developed by the licensor. An arrangement is also vertical if the licensor is a component manufacturer and licenses technology to the licensee who combines the component with other components.


131. Like its predecessors, the Regulation excludes some horizontal agreements from its scope. See supra note 1, Commission Regulation 240/96, art. 5(1) and (2).

132. See Venit, supra note 19, at 530.
vertical relationships a licensor can have a legitimate interest in imposing on its licensee a noncompetition clause. This may, for instance, be the case if the clause is necessary to ensure the maximum exploitation of the licensor's technology or to prevent the licensee from making the licensed know-how available to the licensor's competitors. Indeed, group exemptions for vertical agreements, such as exclusive distribution and purchasing agreements, provide for a noncompetition clause that a producer may impose on its distributor.\footnote{133 See supra note 1, Commission Regulation 1983/83, art. 2(2)(a), and supra note 10, Commission Regulation 1984/83, art. 2(2).}

Admittedly, three "white-listed" clauses moderate the black-listed noncompetition clause (for both horizontal and vertical agreements). First, the white list of the Commission Regulation allows the licensor to (i) terminate exclusivity granted to a licensee; and (ii) cease communicating improvements in case the licensee engages in competing activities. He may also require the licensee to prove that the licensed know-how is not used for competing products.\footnote{134 See supra note 1, Commission Regulation 240/96, art. 2(1)(18).} Second, the licensee may further be obliged to use his best endeavors to exploit the licensed technology.\footnote{135 See supra note 1, Commission Regulation 240/96, art. 2(1)(17).} Third, white-listed minimum royalty, minimum quality, and minimum process obligations on the licensee may weaken the licensee's inclination to start producing competing products.\footnote{136 See supra note 1, Commission Regulation 240/96, art. 2(1)(g).}

These three white-listed restrictions may significantly limit the competitive activities of the licensee. Nevertheless, they prevent the licensor from terminating the licensing agreement and, thus, granting a fully exclusive license to another licensee should the first licensee start to use or develop rival technology.

The market share test that the Commission proposed in later drafts of the Regulation would have introduced a different treatment of horizontal and vertical agreements. Horizontal agreements exceeding a forty percent market share would have fallen outside the scope of the Commission Regulation, while the market share test would not have applied to vertical agreements. This would, however, not have led to a more flexible treatment of vertical agreements, but to a stricter approach towards horizontal agreements.

At one point, the Regulation now distinguishes between horizontal and vertical agreements. Indeed, unlike the Patent and Know-How Regulations, the Regulation black-lists customers' allocation only in so far as the contracting parties are competitors for the contract products at the time they concluded the licensing agreement.\footnote{137 See supra note 1, Commission Regulation 240/96, art. 3(4). It is not clear whether this provision only applies to actual competitors or also to potential competitors.} Vertical customer allocation is from now on grey listed and may thus be exempted pursuant to the opposition procedure. Especially in vertical relationships, there may be legitimate reason to protect a licensee from competition in respect of certain groups of customers. Indeed, it may be the best way
to ensure that customers are adequately supplied by a licensee that is willing to make the necessary investments since he is sufficiently protected against competition in respect of certain groups of customers. The more flexible position of the Commission towards customer allocation is to be welcomed.

However, the Commission can be criticized for being inconsistent by distinguishing between horizontal and vertical agreements in respect of customer allocation but not with regard to other clauses in licensing agreements, notably with respect to noncompetition clauses.

E. A BROADER SCOPE OF THE COMMISSION REGULATION

This chapter discusses two extensions of the scope of the group exemption dealing with technology transfer agreements. First, an amendment, dating from 1993, in respect of joint ventures between competitors will be discussed in section E.1. Subsequently, it will be submitted that more intellectual property rights may now benefit from the group exemption (section E.2).

1. Joint Ventures Between Competitors

The Commission Regulation excludes various agreements like patent or know-how pools, licenses between competitors in a joint venture or between one of them and the joint venture, reciprocal licenses with territorial limitations, and agreements entered into solely for the purpose of sale from its application. The Commission argues that such agreements pose problems that cannot be dealt with in the Regulation. Therefore, the opposition procedure is not applicable. However, these agreements are not per se "bad": after notification they may be exemptible on an individual basis pursuant to article 85(3).

Not all licensing agreements between a joint venture and its competing parents are excluded. Such agreements are covered by the Regulation (i.e., their clauses can then be exempted, white-listed, or grey-listed) if certain market share thresholds are respected. In respect of the licensed products, the parents of the joint venture may—together—not have a market share of more than twenty percent in case of a license to a production joint venture, or a market share of more than ten percent if the license also covers distribution. The Regulation copies in this respect almost literally an amendment of the Patent and Know-How Regulations dating from 1993.

Contrary to the proposed market share test for the application of the Regulation discussed above, the inclusion of a market share test for joint ventures did not

138. See supra note 2, Commission Regulation 151/93.
139. See supra note 1, Commission Regulation 240/96, art. 5(1).
140. See supra note 1, Commission Regulation 240/96, Recital (9).
141. See supra note 1, Commission Regulation 240/96, art. 5(2)(1).
142. See supra note 2, Commission Regulation 151/93.
143. See supra, section C.3.
become the target of criticism. This may be explained by the fact that the market share test for joint ventures between competitors was a relaxation of the Commission’s previous policy, while the proposed market share test for the application of the Regulation was just the opposite.

It is thought that the percentage of joint venture agreements that actually have benefited from the 1993 amendment is rather small. Indeed, the market share requirement will be a problem in many cases, especially if the parties have developed a new product or process. In such a situation, the joint venture partners are likely to have a temporary lead over their competitors, during which their market shares are likely to exceed the above-mentioned thresholds.\textsuperscript{144}

Joint ventures dealt with in the Regulation must be distinguished from those covered by Regulation 418/85 which exempt certain joint research and development agreements. Regulation 418/85 relates to the licensing of products or processes where research and development are carried out jointly. This joint research and development may be followed by joint exploitation within the limits of Regulation 418/85. After the 1993 amendment, Regulation 418/85 contains a twenty percent and ten percent market share test, which is similar to that of the Regulation. From this point of view there seems to be no advantage to bring a license to a joint venture under Regulation 418/85 or the Regulation. In any event, Regulation 418/85 prevails over the Regulation.\textsuperscript{145}

2. \textit{Other Intellectual Property Rights: Software Licenses}

The Regulation applies to more intellectual property rights and software licenses than its predecessors.

First, the Regulation exempts provisions relating to intellectual property rights other than patents (trademarks, design rights, and copyright, especially software protection)\textsuperscript{146} in so far as these provisions are "ancillary." Such provisions should contain "no obligations restrictive of competition other than those also attached to the licensed know-how or patents and exempted under this Regulation."\textsuperscript{147}

The Know-How Regulation contained similar rules on other intellectual property rights than patents. However, under this regulation, such other intellectual property rights had to be ancillary within the meaning of providing "assistance in achieving the object of the licensed technology."\textsuperscript{148} In the context of this regulation, it has been rightly argued that the notion of "ancillary" is impossible to apply objectively. For instance, where both a trademark and a know-how


\textsuperscript{145} See supra note 1, Commission Regulation 418/85, Recital (14).

\textsuperscript{146} See supra note 1, Commission Regulation 240/96, Recital (6).

\textsuperscript{147} See supra note 1, Commission Regulation 240/96, arts. 1(1), 5(1)(4), 10(15).

\textsuperscript{148} See supra note 1, Commission Regulation 556/89, art. 5(1)(4).
license are essential, it is impossible to say whether or not a trademark license is ancillary and, therefore, falls within the scope of a group exemption.\textsuperscript{149}

The new definition of "ancillary" in the Regulation should be easier to apply. Moreover, more licenses of other intellectual property rights (including software licensing agreements based on copyright) may now be covered by the Regulation as soon as they are accompanied by patents or know-how within the meaning of the Regulation. Indeed, the question whether or not these licenses are of assistance in achieving the object of the licensed technology should no longer play a role.\textsuperscript{150}

Second, the Regulation extends the definition of patents considerably. As a result the Regulation, unlike the Patent Regulation, now applies to topographies of semiconductor products, plant breeders' certificates, and supplementary protection certificates for medicinal products.\textsuperscript{151}

From now on, more agreements may thus benefit from a group exemption. This is welcome because it is hard to understand why licensing agreements that have a similar object and effect as patent and know-how licenses would be excluded from the Regulation.

III. Conclusion

The Commission succeeded only partly in simplifying the way in which technology is transferred in the Community. First, pure patent licenses and know-how licenses continue to be treated differently under the Regulation in respect of the duration of territorial protection granted to a licensee. Second, the Regulation introduces a vague concept of "necessary patents"\textsuperscript{152} to calculate the duration of mixed licensing agreements. The rules on the duration of territorial protection, therefore, remain rather complicated.

With one exception, the Regulation continues to treat vertical licenses as strict as horizontal licenses, although this equal treatment has been rightly criticized in the past. Further, it is considered unfair that agreements with a grey clause fall completely outside the scope of the Regulation unless they are exempted through the opposition procedure. This problem has become more relevant under the Regulation than before, since there are now more grey clauses than before.

Some simplifications may be welcome. Notably, the black list and white list are now equally applicable to all technology transfer agreements. The fact that

\textsuperscript{149} See Korah, supra note 28, at 76. See, e.g., Commission Decision Moosehead/Whitbread, 1990 O.J. (L 100) 32, where a trademark was considered crucial to the transaction and so did not qualify under the Know-How Regulation as ancillary to that of know-how.

\textsuperscript{150} Recital (6), Commission Regulation 240/96, still seems to refer also to the old definition of "ancillary." The explicit and unconditional definition of "ancillary" in art. 10(15) of the Commission Regulation should, however, in our view, override the "old" definition in its recitals. See also Kerse, supra note 1, at 335.

\textsuperscript{151} See supra note 1, Commission Regulation 240/96, art. 8(1)(c) and (g).

\textsuperscript{152} See text at supra note 50.
the Regulation does not contain a market share threshold for its application is also a welcome development. Such a threshold would have gone against the very objective of a group exemption, which is creating legal certainty. Moreover, there is no empirical evidence that economic welfare is served by stricter treatment of licensing agreements.

It is appreciated that, in view of the longer white list and the shorter black list, licensing agreements are treated more liberally than in the past. The fact that the Regulation now applies to other intellectual property rights is also considered positive.

On an international level, competition rules dealing with technology transfer in the European Community, United States, Japan appear fairly similar in substance, though procedures differ markedly. The difference in respect of procedures may correspond to different legal traditions. There is no compelling need to harmonize these procedures at an international level, as there is no evidence that procedural differences hamper or render too costly the conclusion of international licensing agreements.

