



Intellectual Property and Competition Law

Prof. Dr. Josef Drexl
Managing Director
Marshallplatz 1
D-80539 Munich
Tel.: +49-89-24246-434
Fax: +49-89-24246-507
josef.drexl@ip.mpg.de

Comments of the Max Planck Institute for Intellectual Property, Competition and Tax Law on the Draft Commission Block Exemption Regulation on Re- search and Development Agreements and the Draft Guidelines on Horizontal Cooperation Agreements¹

The Max Planck Institute for Intellectual Property, Competition and Tax Law is a research institute within the Max Planck Society for the Advancement of Arts and Science. The Max Planck Institute undertakes research on fundamental questions of law in these areas. The Institute regularly advises governmental bodies and other organisations at the national and international level. It takes an international approach and places emphasis on the comparative analysis of law as well as economic and technological aspects of the legal development. The Institute hereby provides its comments on the Draft Commission Regulation on the application of Art. 101(3) of the Treaty on the Functioning of the European Union to categories of research and development agreements and the Draft Guidelines on horizontal cooperation agreements.

- (1) Given the particular expertise of the Institute both on intellectual property law and competition law, the comments focus on the Draft Research and Development (R&D) Block Exemption Regulation and Chapter 7 of the

¹ The Authors of the Comments are Professor Dr. Josef Drexl, Alfred Früh, Mark-Oliver Mackenrodt, Peter Picht and Boris Pulyer; Professor Dr. Hanns Ullrich. These comments are also supported by Professor Reto M. Hilty.



Draft Horizontal Guidelines dealing with standardisation agreements. The Institute does not comment on the Draft Block Exemption Regulation on Specialisation Agreements.

- (2) The Institute is in support of the general approach of the Commission to revise the existing system. In particular, the Institute welcomes the clearer distinction between competition in the product market, the market for technology and finally competition for innovation. Yet, the following comments will concentrate on points where the Institute thinks that the current text may be improved. It is also held that clearer rules on how to deal with competition problems related to technological standards would be highly desirable. In this regard, the Institute is of the opinion that Chapter 7 of the Draft Horizontal Guidelines does not adequately respond to the challenges presented by technological standards.

1. The Draft R&D Regulation

1.1. Scope of Application

- (3) The Draft R&D Regulation does not contain any specific provision on its scope of application. The scope of application of the Regulation is defined by the scope of the exemption provided for by Art. 2. Accordingly, the Regulation would apply to agreements that include an obligation of the parties to pursue joint R&D of contract products or contract processes and/or joint exploitation of the results of R&D of contract products or contract processes.
- (4) With the exception of Art. 2(2) relating to the assignment and licensing of IP rights, the Draft R&D Regulation is not quite clear on the scope of applica-



tion of the Regulation in cases in which clauses are included that do not relate to joint R&D and joint exploitation of joint R&D results.

- (5) In particular, a cooperation agreement may combine different stages of cooperation, for example R&D as well as the production and the commercialisation of its results. For such cases, the Draft Horizontal Guidelines replace the former “centre of gravity” test by a “most upstream indispensable building block” test in order to define which parts of the Guidelines are applicable to such an integrated agreement. In its last sentence, para. 13 of the Draft Horizontal Guidelines stipulates that the most upstream indispensable building block is also relevant for defining the applicable “safe harbours” for the entire integrated agreement. As the term “safe harbour” usually refers to the market share thresholds of Block Exemption Regulations, it is unclear whether this new test only applies to the safe harbours that can be found in the Guidelines or whether it should also be used to define the scope of the exemption of the R&D Regulation with regard to the entire integrated cooperation. The latter interpretation might be supported by the German version, which explicitly uses the term “*Freistellungen*” (exemptions) as a translation for “safe harbours”, while other language versions seem to avoid the term “exemption” in favour of the “safe harbour” formulation. As a consequence, the block exemption would not be available, if the parties “engaged in joint production in any event”, making joint production the “most upstream indispensable building block” (cf. para. 14 of the Draft Horizontal Guidelines), but yet would envisage joint R&D for later improvement of the product. In such a case, the agreement could not be exempted under the Regulation, although the wording of Art. 2(1) of the Draft Regulation would be fulfilled. Rather, the case would only be assessed under the chapter on production agreements of the Guidelines without, according to para. 13 of the Draft Horizontal Guidelines, giving any consideration to the chapter on R&D agreements.



- (6) The Institute is of the view that the new “most upstream indispensable building block” test would not be appropriate to define the scope of application of the R&D Regulation.² Block Exemption Regulations provide for discrete exemptions from the general prohibition of Art. 101(1) TFEU and each of them exempts an integrated agreement if it falls into its respective scope of application.
- (7) Conversely, if an agreement fulfils both the requirement of an R&D agreement and of a specialisation agreement and the production specialisation has not been agreed upon without joint R&D – hence, with the R&D component as the most upstream indispensable building block – the Institute does not see why the R&D Regulation should exclude the application of the Specialisation Block Exemption Regulation, with its lower market share threshold of 20%, if the production specialisation is the “centre of gravity”.
- (8) Since the scope of application of the two block exemption regulations and their relationship to each other have often been considered as some of the most complicated issues in this field of law,³ the Institute is of the view that it would be beneficial to give some general guidance on this issue. It is questionable, for instance, whether the R&D Regulation and its advantageous market share thresholds should be applicable if an integrated agreement mainly includes product specialisation provisions while covering R&D is-

² Beyond that it is doubtful whether the new “most upstream indispensable building block” test will provide a clearer explanation of how to apply the Draft Horizontal Guidelines to integrated agreements. The determination whether the different parts of an agreement are up or downstream to each other might cause problems in cases where it is not possible to reveal a clear chain of causation. The joint development of standards might be an example for that. If the parties are not sure whether the development of a standard will be possible with the available technologies, they might agree on joint R&D activities in case those become necessary. In this instance the “standardisation block” seems indispensable for the joint R&D work. Conversely, it might equally be that the standardisation efforts will become impossible without further research.

³ WINFRIED VEELKEN, in: ULRICH IMMENGA & ERNST-JOACHIM MESTMÄCKER (eds), “Wettbewerbsrecht”, 4th edn 2007, Einl GVO, at para. 85 with further references.



sues only marginally. Based on the “centre of gravity” test of the current Horizontal Guidelines, it is argued that the R&D Regulation should only apply if the focal point of the cooperation lies on the joint R&D activity.⁴ By replacing the “centre of gravity test” with the “most upstream indispensable building block” test in the Draft Guidelines, this reasoning could no longer be applied.

1.2. *Exemption for the Assignment or the Licensing of IP Rights*

- (9) Article 2(2) of the Draft R&D Block Exemption Regulation expressly extends the exemption to the assignment or licensing of intellectual property rights between the parties of an R&D agreement, provided that those provisions do not constitute the primary object of such agreements, but are directly related to and necessary for their implementation. We welcome this clarification which is consistent with previous notices of the European Commission.⁵ As R&D activity is usually based on existing technologies and as the contribution of such technology to a joint undertaking constitutes an integral element of R&D agreements, it is reasonable to exempt such provisions under the conditions of the Draft R&D Regulation.
- (10) We do, however, recommend giving guidance for the interpretation of the wording “directly related and necessary”. On the one hand, it might be that this wording is referring to the same principles that apply for the assessment of ancillary restraints according to Art. 101(1) TFEU. On the other hand, this provision might constitute a precision of the indispensability criterion of Art. 101(3) TFEU.⁶ The former interpretation is comparatively strict and

⁴ ANDREAS FUCHS, in: Ulrich IMMENGA & ERNST-JOACHIM MESTMÄCKER (eds), “Wettbewerbsrecht”, 4th edn 2007, FuE-GVO, at para. 17; for a different opinion *see*, however, VEELKEN, *supra* note 3, Einl GVO, at para. 97.

⁵ *See* Commission Notice – Guidelines on the application of Art. 81 of the Treaty to technology transfer agreements, [2004] OJ EC No. C 101, at 2, para. 60.

⁶ *See* FUCHS, *supra* note 4, FuE-GVO, at para. 45 *et seq.* (for the current R&D Regulation).



would only be fulfilled if it can be concluded that without the transfer of intellectual property rights the R&D agreement would be difficult or impossible to implement.⁷ Regarding the latter interpretation, it would be sufficient if such a transfer made it possible to perform the R&D activity more efficiently than would likely have been the case in its absence.⁸ Given that R&D activity is an open process, it could be justified to transfer intellectual property rights to a larger extent than initially seems necessary in order to implement the R&D agreement at the point of its conclusion. Hence, we would recommend clarifying that the provision “directly related and necessary” should be interpreted in the above-mentioned latter sense.⁹

- (11) Furthermore, it is doubtful whether the exemption should only be applicable if the intellectual property rights are assigned or licensed between the parties themselves. Although the definition of a “party” as set out in Art. 1 No. 2 of the Draft R&D Regulation also covers connected undertakings, the assignment or licensing of rights to a joint venture undertaking of the two parties would not be exempted as long as there is no situation of control over this entity as described in Art. 1 No. 3 of the Draft R&D Regulation. Such a situation will typically not exist, especially if every party holds equitable shares in the joint venture company. In contrast, in its Technology Transfer Guidelines, the European Commission assumes that the current R&D Block Exemption Regulation should cover such transfers to jointly held entities.¹⁰ As there is no reason to depart from the model of the Technology Transfer

⁷ Commission Notice – Guidelines on the application of Article 81(3) of the Treaty, [2004] OJ EC No. C 101, at 97, paras 29–32.

⁸ Commission Notice – Guidelines on the application of Article 81(3) of the Treaty, [2004] OJ EC No. C 101, at 97, paras 73 *et seq.*

⁹ Another argument in favour of this interpretation can be drawn from the structure of Art. 101 TFEU. The ancillary restraints test is meant to exclude single clauses from the prohibition of Art. 101(1) TFEU right upfront, while Art. 2(2) Draft R&D Regulation reacts to the requirements of Art. 101(3) TFEU.

¹⁰ Commission Notice – Guidelines on the application of Article 81 of the Treaty to technology transfer agreements, 2004 OJ EC No. C 101, at 2, para. 60



Regulation, we recommend amending the wording of Art. 2(2) of the Draft R&D Block Exemption Regulation to cover the transfer of intellectual property rights to jointly held R&D entities.

- (12) In amending Art. 1(2) of the current R&D Block Exemption Regulation, the Commission proposes deletion of other ancillary agreements in Art. 2(2) of the Draft R&D Regulation. The Institute is of the view that this will not constrain the exemption of R&D agreements. Ancillary agreements are necessary for the successful execution of R&D activities and the protection of the developed results. Hence, they are part and parcel of R&D agreements and will also be covered by the Draft R&D Block Exemption Regulation as long as they do not contain hardcore restrictions and as long as they meet the indispensability criterion of Art. 101(3) TFEU. Since the interpretation of the term “directly related and necessary” is unclear,¹¹ we welcome this decision.

1.3. Conditions for Exemption

- (13) Article 3(2) of the Draft R&D Regulation stipulates a duty for the parties to disclose existing and pending intellectual property rights that are relevant for the exploitation of the results by the other party prior to commencing the R&D cooperation. This duty to disclose is to be welcomed as it helps to minimize the risk of a hold-up situation that may arise out of the non-disclosure of relevant IP rights.
- (14) Although Art. 3(3) of the Draft R&D Regulation is identical to Art. 3(2) of the current Regulation, the Institute recommends deleting its second sentence. This provision would allow for excluding exploitation by research institutes, academic bodies, or undertakings which supply R&D as a commer-

¹¹ See *supra* para. 10.



cial service without normally being active in the exploitation of the results as long as they retain the right to use the results for further research. This provision collides with the concept of “exploitation of the results” as defined in Art. 1 No. 8 of the Draft. “Exploitation” does not only refer to the production but also to the assignment and licensing of the results. Income generated by the exploitation of IP rights nowadays constitutes an important source of the financing of research institutes and universities. In particular, the acquisition of IP rights and their licensing is the very essence of the business model of undertakings that specialize “upstream” in R&D activities. There is no reason why manufacturing parties are protected in their ability to assign and license the IP rights in the results of the IPRs and that “non-working” entities could contractually be precluded from such possibility.

1.4. *Market Definition*

- (15) While the current regulation solely focuses on product markets, the Draft R&D Block Exemption Regulation would now add the concept of technology markets. Furthermore, the Draft Horizontal Guidelines also address “competition in innovation” (R&D efforts).¹² The Institute welcomes these changes. Using these three concepts as analytical tools parallels the situation in the Technology Transfer Block Exemption Regulation and the Technology Transfer Guidelines. As innovative activity constitutes the core element of R&D agreements, it is consistent to extend the application of these concepts to the assessment of such agreements on R&D. Technology-driven businesses increasingly specialise “upstream” by focusing their business activities solely on R&D and the licensing of R&D results to downstream manufacturing undertakings. In these cases, analyzing technology markets makes perfect sense, while an analysis that is limited to product markets

¹² Draft Horizontal Guidelines, paras. 113–116.



would not necessarily mirror the competitive strength such companies may have in developing and licensing new technologies.

- (16) Recitals 14 and 15 of the Draft R&D Regulation only refer to product markets while ignoring technology markets. This does not reflect the clear intention to introduce the technology market concept. These recitals should accordingly be corrected.
- (17) However, Art. 4(2) of the Draft R&D Regulation contains several ambiguities, in particular with regard to the relationship between product markets and technology markets. According to its wording, Art. 4(2) Draft R&D Regulation applies if the combined market share does not exceed 25% in “the relevant market for the products, technologies or processes”.
- (18) This wording makes use of a three-pronged enumeration even though only the two concepts of “product markets” and “technology markets” are meant to be addressed. The term “relevant market of processes” which seems to be introduced in this provision in third place does not carry any additional meaning. An explanation for this unusual wording can be found in the definition of a “contract process” in Art. 1 No. 6 of the Draft R&D Regulation. There, a “contract process” is defined as a “technology or process” arising out of the joint R&D, while Art. 1 No. 5 defines the concept of a “contract product”. It may be concluded that the Commission, in formulating Art. 4(2), tried to transfer this distinction between “contract products” and “contract processes” for the purpose of describing two – and not three – distinct forms of a market. The Institute recommends replacing the concept of “contract process” with “contract technology” throughout the Regulation, including Art. 1 No. 6 in particular, which would help the Commission to clarify in Art. 4(2) that the provision only relates to product and technology markets.

- (19) Apart from possible misunderstandings, it seems to be even erroneous to use the connector “or” in Art. 4(2), which seemingly has simply been copied from Art. 1 No. 6. In its literal understanding, the exemption provided for in Art. 2 would already apply if the market share in *either* the product market *or* the technology market does not exceed the market share threshold of 25%. Such reading, however, would be contrary to the intentions of the Draft Guidelines and the Draft R&D Regulation. If an undertaking is only active in the technology market, and not in the product market, its market share in the product market will be zero and, accordingly, below the threshold. Hence, even a monopolist in the technology market would qualify for the exemption. Therefore, the market share requirements in Art. 4(2) should be read cumulatively. Only an undertaking for which the market shares in both the product market and the technology market does not exceed the market share threshold of 25% will benefit from the exemption. This argument is also supported by Art. 3(1) and (2) of the Technology Transfer Block Exemption Regulation according to which the maximum thresholds in the product market and in the technology market are cumulative prerequisites.¹³ The wording in the two regulations should be similar as they address a similar purpose.
- (20) Article 4(2) Draft R&D Regulation – just like the current Regulation – uses the singular of the term “period” when referring to Art. 4(1). However, Art. 4(1) contains two time periods, namely the time period of the R&D and the subsequent seven years of joint exploitation. In applying Art. 4(2), these two periods have to be added up to a single period. However, on the occasion of the revision of the R&D Regulation, the wording in Art. 4(2) of the Draft should be clarified by using “periods” in the plural.

¹³ Article 3(1) of the Technology Transfer Block Exemption Regulation stipulates: “Where the undertakings party to the agreement are competing undertakings, the exemption provided for in Article 2 shall apply on condition that the combined market share of the parties does not exceed 20% on the affected relevant technology and product market.”



- (21) Accordingly, the Institute proposes to change the wording of Art. 4(2) as follows:

Where two or more of the parties are competing undertakings *in the relevant product or technology market*, the exemption provided for in Article 2 shall apply for the *periods* referred to in paragraph 1 only if, at the time the research and development agreement is entered into, the combined market share of the parties does not exceed 25% on the relevant market for the products *and* on the relevant market for the *technologies* capable of being improved or replaced by the contract product or *contract technology*.¹⁴

- (22) The concept to analyze R&D and innovation activities is in general sometimes referred to as the “innovation market approach”. The new rules wisely refrain from using the term “innovation markets“. This is to be welcomed as this term might encourage the misapplication of concepts to the analysis of R&D activities that are designed and are only fit to be applied to existing product markets and technology markets. In particular, market shares are irrelevant to the R&D analysis. The term “innovation markets” is (only) used in para. 116 of the German version of the Draft Horizontal Guidelines (“*Auswirkungen ... auf Innovationsmärkte*”) and not in the English version (“*impact ... on innovation*”). The German version should be corrected. For the same reasons it is at least linguistically unfortunate that the Draft Horizontal Guidelines discuss the concept of R&D analysis under the heading of “relevant markets” (paras 113–116).
- (23) Article 1 No. 17 of the Draft R&D Regulation defines the “relevant market for the contract products or contract processes“ as the “relevant product and geographic market(s) to which the contract products or contract processes belong“. The term “relevant market for contract products“ is used in Art. 4(3) Draft R&D Regulation and denotes the new market that has been cre-

¹⁴ Emphasis on the recommended changes.



ated by the new product. The definition in Art. 1 No. 17 is limited to pointing out that the relevant market has to be assessed both in terms of the product market and the geographical market and, therefore, only reiterates what is common ground in competition law. Hence, Art. 1 No. 17 could also easily be deleted.

- (24) Parallel to the Draft Specialisation Block Exemption Regulation, the Draft R&D Regulation also takes account of the “potential competitor“. According to Art. 1 No. 16 of the Draft, an undertaking qualifies as a potential competitor if on realistic grounds an undertaking would likely make necessary investments within a time period of three years. Compared to the current regulation, the introduction of the time period is new. It is important to interpret the three-year period as a ceiling, just like the definition points out by using the words “not more than“. In very dynamic markets the three-year period can prove to be too long, when technology life cycles are short and only market entry within a shorter time period effectively curbs market power. In its present wording, Art. 1 No. 16 of the Draft increases the risk of the three years becoming a standard period by including investments that aim to replace current product or technology generations. When life cycles can be much shorter than three years, there may *always* be some undertaking that is willing to invest in a future product generation within three years. If applied wrongfully, the revised definition may therefore unintentionally weaken competition. At first sight, the new three-year period allows for more legal certainty. At the same time, the new definition cannot conceal that the real problems in applying the concept of potential competitors – namely the uncertainties of projecting the future – are far from being alleviated.
- (25) A general uncertainty remains as to what extent basic principles from product market analysis that focus only on price and amount of goods can be applied to technology markets. This becomes manifest in the Draft Horizontal



Guidelines' inconsistency on technology market delineation. According to para. 111 of the Draft Guidelines, basic principles of market delineation – and, more specifically – an SSNIP test are to be applied. In para. 288, however, substitute technologies are defined as technologies which are regarded as interchangeable by reason of the technologies' characteristics and intended use, omitting all reference to economic reasoning and focussing only on functional interchangeability. The disparity between paras. 111 and 288 is without evident cause.

- (26) The threshold of 25% in Art. 4(2) of the Draft R&D Regulation refers to the products and technologies capable of being improved or replaced. It should be noted that this safe harbour provides even less legal certainty than in the case of other block exemption regulations. At the outset of a cooperation to develop a new product, the parties will frequently have problems predicting the exact characteristics of the future product and, accordingly, to determine which current products might be replaced.¹⁵
- (27) The Draft R&D Regulation retains a market share threshold of 25%, which differs from the 20% threshold in the Technology Transfer Block Exemption Regulation. This can be interpreted as an indication that the Commission takes a less skeptical stance towards R&D agreements in order to encourage innovative activities and the creation of new products.
- (28) The proposed rules do not offer much guidance on the calculation of market shares in technology markets as the concepts that are used for defining product markets are not necessarily well-suited for the delineation of technology markets. Concerning the calculation of market shares, Art. 7 of the Draft uses the concepts of “market sales value” and “market sales volumes”

¹⁵ On the problems to assess future developments in innovation-related markets *see* in general JOSEF DREXL, “Real Knowledge is to Know the Extent of One’s Own Ignorance: On the Consumer Harm Approach in IP-Related Competition Cases”, 76 *Antitrust L.J.* 677 (2010).



which are well-suited with regard to product markets but provide only little guidance when it comes to the calculation of market shares in technology markets. The Draft Horizontal Guidelines do not offer much further clarification in this respect. Paragraph 119 of the Draft Horizontal Guidelines – in parallel with para. 23 of the Technology Transfer Guidelines – proposes two methodologies. The first alternative proposes to calculate market shares on the basis of the technology’s share of total licensing income from royalties. The Draft Horizontal Guidelines themselves qualify this method as a “not very practical way to proceed” for lack of information on royalties and on the use of royalty-free cross-licensing. Alternatively, the guidelines recommend calculating market shares in technology markets on the basis of the sales of products incorporating the technology. However, when it comes to R&D agreements, such products that could serve as a proxy for market shares in technology markets typically may not yet be in existence.

1.5. *Exemption of Agreements Between Non-Competing Undertakings*

- (29) It is recommended to clarify that undertakings that only compete in R&D efforts are not to be qualified as competitors in the sense of Art. 4(1) and (2) of the Draft R&D Regulation. Such reading can already be concluded from Art. 1 Nos. 14–16 where the concept of “competitor” is defined solely with regard to product markets and to technology markets. Still, Art. 4(1) should be clarified by referring to the parties as “not competing undertakings *on the relevant product and technology market*”. Article 4(2) should apply to “competing parties *on the relevant product or technology market*”.¹⁶ If “competing undertakings” also meant “competing undertakings in R&D activities”, then the field of application of Art. 4(1) of the Draft R&D Regulation would be narrowed down considerably. It should be recalled, however,

¹⁶ See proposal *supra* at para. 21.



that Art. 4(2) of the Draft R&D Regulation also applies if the parties are potential competitors in the sense of Art. 1 No. 16.

- (30) Considering competitors in R&D efforts as “non-competitors” has the important consequence that, while the concept of competition in innovation is discussed at length in the Draft Horizontal Guidelines, it plays only little to no role in applying the Draft R&D Regulation. This finding is similarly true for the Technology Transfer Block Exemption Regulation and Guidelines. Yet, this consequence has much higher significance in the field of R&D agreements where innovative activity is the main subject of the cooperation.
- (31) In para. 114, the Draft Horizontal Guidelines limit the analysis of R&D activities to scenarios in which the innovation process is structured in a way that competing R&D poles can be identified. This restriction is justified by the limited suitability of this concept in other scenarios. In sum, an R&D analysis is only relevant in the context of the hardcore restraint addressed in Art. 5(a) of the Draft R&D Regulation, a possible withdrawal of the exemption according to Art. 29 of Regulation 1/2003 or outside the scope of the exemption in directly applying Art. 101(3) TFEU. The latter is confirmed by the fact that, within the examples given in the Draft Horizontal Guidelines, an R&D analysis is only mentioned in cases where the joint market share is beyond 25%.
- (32) As the concept of R&D analysis is not applicable in the framework of Art. 4(1) and (2) of the Draft R&B Regulation, even an agreement that eliminates competition between all competing innovation poles is exempt under Art. 4(1), as long as the parties do not already compete in a technology or product market and that there is no hardcore restriction included in the agreement (Art. 5(a) in particular). The only way to control such agreements is to withdraw the exemption in relevant cases according to Art. 29 of Regulation 1/2003. By its reluctance to analyze the innovation activity in such



cases, the Commission obviously aims to encourage the development of new products. This approach can be supported as long as at least some concerns about restrictions of innovation activities are accounted for within Art. 5(a) of the Draft R&D Regulation and within Art. 29 of Regulation 1/2003.

- (33) Although Art. 4(1) of the Draft R&D Regulation also exempts agreements that may harm competition in innovation, the wording of the provision leaves no leeway for an analysis of competing innovation activities. Against this background, para. 120 of the Draft Horizontal Guidelines – if not read very carefully – might induce a misinterpretation of Art. 4(1) of the Draft Regulation. There, it is explained that if new products are to be developed, given the lack of existing market shares, only an analysis of the effects on competition in innovation “is possible”. Then para. 120 goes on to point out that in such cases agreements are exempt irrespective of market share. It should be clarified in para. 120, that such agreements that only have an effect on competition in innovation are exempted in application of Art. 4(1) of the Regulation.
- (34) In Art. 5(a) of the Draft R&D Regulation, some uncertainty arises from the use of the term “field” and its relationship to the concept of relevant markets. The Draft Horizontal Guidelines (para. 19) seem to suggest that in the area of R&D analysis “field” is used instead of “markets”. However, there is no definition of the term “field”, although provisions on hardcore restrictions should live up to high standards of legal certainty. The provision allows parties to exclude independent research or research with third parties in related fields until the completion of the cooperation. This corresponds to the general contractual duty of the parties to pursue the joint R&D at their best. In asking whether specific research activity falls within an unconnected field of research, it is essential to assess whether the research will or will not negatively affect the implementation and completion of the R&D agreement.



- (35) In two generations of block exemption regulations, no withdrawal of an exemption has ever been reported. A withdrawal requires that the competition agency has indeed gained knowledge of the potentially anticompetitive agreement. After the entry into force of Regulation 1/2003, however, it has become even less likely that agencies are informed about R&D agreements. Therefore, the question arises whether the possibility of a withdrawal of an exemption constitutes a sufficient safeguard to capture cases where there is a potentially negative effect on competition in innovation. Hence, it should be clearly set out in Recital 19 to the Draft R&D Regulation that the withdrawal of the exemption may also be especially warranted in a case of restrictions of competition in innovation.

1.6. *Hardcore and Excluded Restrictions*

- (36) Apart from Art. 5(a) of the Draft R&D Regulation,¹⁷ the list of hardcore regulations in Art. 5 does not require any comments.
- (37) The Commission proposes to transfer the prohibition on non-challenge clauses, according to which a party may not challenge the validity of the IP rights of the other party after the completion of the R&D from the list of hardcore restrictions to the one with excluded restrictions (Art. 6(a) of the Draft). This is in line with the regulation in Art. 5(1)(c) and 2 of the Technology Transfer Block Exemption Regulation.
- (38) The same holds true for a clause that prevents the parties from licensing to third parties the right to manufacture the contract products or to apply the contract processes unless the exploitation by at least one of the parties of the results of the joint R&D is provided for and takes place in the internal mar-

¹⁷ See *supra* para. 34.



ket (Art. 6(b) of the Draft). In contrast to Art. 5(h) of the current Regulation, Art. 6(b) of the Draft adds the formula “in the internal market”. It is not quite clear what the Commission tries to achieve by adding this limitation.

2. **Standardisation Agreements (Chapter 7 of the Draft Horizontal Guidelines)**

2.1. *The Need for Guidelines on Standardisation Agreements*

(39) Standardisation agreements are – especially in the high-technology sector – of significant relevance to the market and they imply complex legal questions. The Institute therefore appreciates that the Commission intends to provide guidance on this area of law.

(40) Chapter 7 of the Draft Horizontal Guidelines is very much inspired by the problems related to technological standards in markets, especially information technology markets, which are characterised by network effects and where access to the market depends on access to the technological standard (*see* especially para. 275). However, standardisation agreements are defined in the broadest sense (para. 252). Not all technological and quality requirements foreclose market access to those competitors that do not have a right to use the standard. In fact, they rarely do. It is therefore recommended that the Commission at least draws a clearer line between problematic and unproblematic standards. One possibility would be to define the scope of application of Chapter 7 more narrowly by limiting it to technological standards that are essential for entering the market.

(41) However, the Institute recommends to be even more cautious and to exclude the chapter on standardisation completely from the Horizontal Guidelines. In Chapter 7 the Commission tries to capture competition problems as a poten-



tially anticompetitive restraint among competitors while problems related to the setting of technical standards are often of a vertical or unilateral nature. In a scenario in which manufacturing entities establish a standard-setting organisation (SSO), a patent hold-up is less likely to arise. In principle, all participants should have a common interest in having access to the technology of another member of the SSO at lowest costs if that technology is chosen and not theirs. Since nobody knows in advance which technology will become the standard, everybody should be willing to inform the others on the patent policies and should be ready to license at FRAND terms. Patent hold-up cases are more likely to arise with the advent of upstream specialisation of undertakings as purely technology-producing firms that only engage in R&D and earn their income through licensing their IP rights.¹⁸ For such firms, which are not interested in having access to the technology of others, there is a stronger incentive to conceal their IP strategies and to challenge the producing members of the SSO with excessive royalty fees.¹⁹ The scenario of patent hold-up, therefore, predominantly has to be considered as a problem of an abuse of market dominance in the sense of Art. 102 TFEU. This is not to say that Art. 101 TFEU does not enter into the picture in standardisation cases. Indeed, Art. 101 TFEU has a scope of application to standardisation agreements. However, by using Art. 101 TFEU for responding to an essentially unilateral conduct,²⁰ the Commission risks creating an unjustified expectation that cases of a patent hold-up can be effectively prevented by stipulating strict contract rules for the standardisation agreement.²¹ The

¹⁸ Such cases may also arise in cases of a technology transfer, i.e. when technologies held by a manufacturing firm are transferred to another product market. For instance, a camera manufacturer holding patents in optical technology is not less likely than a non-vertically integrated R&D firm to attempt a patent hold-up with regard to the adoption of a standard for the optical technology used in mobile phones.

¹⁹ The Commission has well understood and explained the different incentives of upstream R&D firms, downstream manufacturing firms and integrated firms in the Draft Horizontal Guidelines, paras 271–274.

²⁰ See Draft Horizontal Guidelines, para. 284, where Art. 102 TFEU is mentioned and para. 285 with regard to the pricing issue.

²¹ See Draft Horizontal Guidelines, paras 276–280.



Commission thereby holds the members of the SSO responsible, although at least the producing members are among the potential victims of the patent hold-up. It is therefore recommended that the Commission reconsider its policy on standard setting and then proposes specific “Standardisation Guidelines”. Those guidelines should comprise the most important aspects of the legal treatment of standardisation issues under Arts. 101 *and* 102 TFEU.

- (42) The most important reason for this comprehensive approach is provided by the fact that, among the different forms of conduct that give rise to competition concerns in standardisation cases, some need to be assessed mainly under Art. 101 TFEU whereas others need to be assessed under Art. 102 TFEU. These groups of situations are, however, closely interconnected, such as the identification of anticompetitive conduct, the design and legal nature of IPR policies of SSOs aiming at preventing such conduct, the determination of adequate (FRAND) licensing conditions, and finally the problem of patent hold-ups. By trying to address only one aspect of this complex mosaic without sketching the “whole picture”, the current Draft Horizontal Guidelines create a very fragmentary outline of the Commission’s position and risk to provoke contradictions between different guidelines or statements dealing with different standardisation aspects. This may lead to uncertainty and the Guidelines may also intervene too much as far as standardisation agreements are concerned, while not responding sufficiently to unilateral conduct of technology controlling individual undertakings.
- (43) Moreover, it has to be noted that in practice competition law concerns relating to standardisation appear in many circumstances and not only when competition agencies or the courts deal with standardisation agreements. For instance, courts have to apply competition law in an increasing number of cases on the infringement of IP rights. If a patent holder sues another party

for having infringed the patent, the alleged infringer may try to rely on Art. 102 TFEU with the argument that the patent controls access to a standardised technology and that there was a competition law obligation to license at reasonable royalty rates.²² In this context many questions arise as to what the defendant is required to do in order to get the license before he is allowed to use the technology even without authorisation by the patent holder. These are additional issues not yet clarified by European practice, but which could and should be addressed in “Standardisation Guidelines”.

- (44) Future “Standardisation Guidelines” require an intensive discussion of all the issues involved. Therefore, these comments do not intend to engage in a detailed analysis of Chapter 7 of the Draft Horizontal Guidelines. Rather, the Institute wants to address a few aspects that “Standardisation Guidelines” ought to cover and how they should be covered. This selection of crucial issues, which have already been summarised to some extent in the preceding paragraphs, may at the same time underline the necessity to draft specific “Standardisation Guidelines” instead of integrating fragments of the matter in the Proposed Horizontal Guidelines. It also shows that some of the issues to be mentioned require an approach that is different from the one taken by the Proposed Horizontal Guidelines.

2.2. *Defining the Relevant Standardisation Context*

- (45) The Draft Horizontal Guidelines try to define their scope of application by defining the term “standardisation agreement” (paras 252 et seq.). It seems

²² See, in particular, the German case-law on this matter: *Standard Tight-Head Drum (Standard-Spundfass)*, Federal Supreme Court (Bundesgerichtshof) of 13 July 2004, Case KZR 40/02, 36 IIC 741 (2005) (English translation; original to be found in (2004) *Gewerblicher Rechtsschutz und Urheberrecht* 965); *Orange Book Standard*, Federal Supreme Court (Bundesgerichtshof) of May 6, 2009, Case KZR 39/06, 41 IIC 369 (2010) (English translation; original to be found in (2009) *Gewerblicher Rechtsschutz und Urheberrecht* 694). See also HANNS ULLRICH, “Patents and Standards – A Comment on the German Federal Supreme Court Decision *Orange Book Standard*”, 41 IIC 337 (2010).

however necessary for future “Standardisation Guidelines” to further specify their scope of application by differentiating between several main types of standardisation.

- (46) There are standards that merely define the present state of technological development for certain products or processes;²³ the technologies which are integrated in those standards are usually widely used and publicly accessible. On the other hand, there are SSOs that do not intend to create open standards which may freely be used by the public; such organisations frequently include only a few undertakings in form of a “club” with the aim of conducting R&D.²⁴ These two forms of standardisation cannot be equated with the type of standardisation that causes – at present – by far the most competitive concerns, namely “innovative standardisation”, which is mainly a feature of the high-technology sectors and typically aims at securing the compatibility of new technologies and products. It is this latter form of standardisation which “Standardisation Guidelines” should expressly focus upon.

2.3. *Providing an Overview of Possibly Anticompetitive Behaviour*

- (47) The Draft Horizontal Guidelines mention a wide range of possibly anticompetitive conduct within the standard-setting context, *inter alia* collective restriction of access to an SSO, refusal of access to a standard that has been

²³ Examples of this type of standardisation are the “DIN” standards set by the “German Institute for Standardization”.

²⁴ Cf. MARK A. LEMLEY, “Intellectual Property Rights and Standard-Setting Organizations”, 90 Cal. L. Rev. 1889 (2002); HARTWIG GRAF VON WESTERHOLT, “Die Entwicklung eines de facto-Standards einer Kommunikationsinfrastruktur zur elektronischen KFZ-Steuerung – das Projekt ‘Flexray’”, in: FRITZ NICKLISCH (ed.), “Forschungs- und Entwicklungsverträge in Wissenschaft und Technik” 129 (2002); ALEXANDER GERYBADZE, “Innovationspartnerschaften und Standardisierungsgemeinschaften: Verteilung und Zuteilung der Rechte und neue Organisationsformen”, in: WOLFGANG HOFFMANN-RIEM (ed.) “Geistiges Eigentum und Innovation” 165 (2008); HANNS ULLRICH, “Patente und technische Normen: Konflikte und Komplementarität in patent- und wettbewerbsrechtlicher Sicht”, in: MATTHIAS LEISTNER (ed.), “Europäische Perspektiven des Geistigen Eigentums” 14, 17–20 (2010).



set, the collusive reduction or elimination of price competition in the markets concerned, especially by collectively determining licensing conditions, the capture of control over the standard-setting process by one or some of its participants, the foreclosure of technologies other than the standardised technology, especially by declaring the standard binding and obligatory, the inclusion in a standard of substitute technologies, the unjustified choosing of one technology over other technologies, or the holding up of the members of an SSO by individual firms owning patents on the standard and charging excessive royalties.

- (48) Future “Standardisation Guidelines” should address, amongst others, the aforementioned types of behaviour, but they ought to lay them out more clearly, more completely and in a better-structured analytical way.
- (49) Two main aspects that should be subject to modification shall be mentioned here: Firstly, by looking at the SSO itself and the collective of its members, it is necessary to clearly differentiate between possible competitive harms on a horizontal and on a vertical level. On a horizontal level, standardisation may harm innovation, in particular by excluding superior technology. An assessment of this type of competitive harm needs to take into consideration whether and how competition law and competition policy can contribute to a standardisation regime that chooses the “best” technology for a given purpose. In the vertical dimension, competition may be harmed if undertakings active on the downstream manufacturing level are not granted access to the standardised technology.²⁵
- (50) Secondly, as to unilateral conduct of a SSO participant, the Guidelines need to additionally address situations where an IPR owner discloses relevant IP

²⁵ “Vertical cases” are of course most likely to arise where the downstream level is not (sufficiently) represented in the standardisation process.



and promises to license it on FRAND terms but, once the standard is set and lock-in effects have occurred, does not honour his FRAND promise and imposes excessive licensing conditions.²⁶

1.4. Delineating the Main Areas of Application for Articles 101 and 102 TFEU Respectively

- (51) It may, with respect to standardisation cases, not be feasible to define areas of exclusive application of Art. 101 TFEU *or* Art. 102 TFEU; some cases may have to be assessed under both of the provisions. It seems nevertheless possible and recommendable to identify (parts of) cases that are to be analysed first and foremost under Art. 101 or Art. 102 TFEU.
- (52) We do not, at this stage, attempt to assign all forms of possibly anticompetitive behaviour in the standard-setting context to Art. 101 or 102 TFEU. It must be pointed out, however, that abusive unilateral conduct, especially patent hold-up including charging excessive royalties is mainly an area of application for Art. 102 TFEU.²⁷ Even if such hold-ups may be facilitated by the inadequate IPR policies of SSOs, they are, in essence, not due to such rules or to collective behaviour of SSO participants, but are due to the intentional acting of the patent holder. This assignation of the core responsibility should not be blurred by discussing single-firm hold-up mainly under Art. 101 TFEU, all the more because even well-drafted SSO policies will often not be able to effectively restrain a purposeful IP holder from his course of action.
- (53) Contrary to these findings, the Draft Horizontal Guidelines may be read in the sense that anticompetitive hold-up cases are to be dealt with mainly un-

²⁶ See e.g. *Broadcom v. Qualcomm*, 501 F.3d 297, 304 *et seq.* (3d Cir. 2007).

²⁷ Cf. Commission Decision of 9 December 2009, Case COMP/38.636 – *Rambus*.

der Art. 101 TFEU, that such conduct is to be seen mainly as the result of inadequate SSO policies and that sanctioning the SSO itself or the collective of its members is necessary to remedy those cases.

1.5. *Taking Third Parties into Account*

- (54) Anticompetitive conduct may also arise from undertakings that hold essential IP rights controlling the standard, although they were not involved in the standard-setting process. At the same time the question is also whether competition law should also provide access to the standard to persons who are not members of the SSO.
- (55) As regards third-party IP rightholders, it is crucial to create an environment for SSOs that builds trust in the behaviour of other members and creates incentives for R&D firms in particular to become a member of the pertinent SSO. If the later IP rightholder has still not become a member of the SSO, the question will be for the Commission whether the licensing practice can be controlled under Art. 102(a) TFEU. As for third-party users the main question is whether and how they can invoke violations of SSO policies and defend themselves against patent infringement suits.²⁸ The Draft Horizontal Guidelines do not provide any discussion of third-party issues but future “Standardisation Guidelines” would need to address them.

1.6. *Leaving More Room for Flexibility*

- (56) According to the Draft Horizontal Guidelines, the IPR policies of SSOs “should” contain an obligation on the disclosure of IP rights²⁹ (para. 281) and a FRAND commitment (paras 282 *et seq.*) in order to escape Art. 101(1)

²⁸ See *supra* at para. 43 (with references to German case-law).

²⁹ This obligation should at least be extended to pending applications of IP rights.

TFEU. *Additional* rules providing for an *ex ante* disclosure of licensing terms do not lead to a restriction of competition within Art. 101(1) TFEU. We propose that future “Standardisation Guidelines” adopt rules that allow more flexibility for designing SSO policies. More flexibility would be required for a variety of reasons. For instance, SSOs act in very different markets and under very different conditions. A “one-size-fits-all” approach risks preventing SSOs from drafting rules that are appropriate to their particular situation.³⁰

- (57) The Commission perceives several instruments such as *ex ante* disclosure of IP policies, FRAND commitments and *ex ante* disclosure of licensing terms as important tools for preventing restraints of competition in standardisation agreements. In this regard the Commission would be well advised to clarify the functions of these different tools within the framework of the standardisation process and the relationship of these tools to each other. The Commission should not require cumulative use of such tools where this is not mandated by the need to protect competition.
- (58) The Proposed Horizontal Guidelines themselves show that FRAND commitments are severely weakened by – and heavily criticised³¹ because of – the difficulty of determining the meaning of “FRAND”: standardised technologies may not have been licensed before and (at least) if an “anticommons” situation exists,³² expert opinions on the commercial value of the licenses will not be of much help. The methods of determining “FRAND”

³⁰ In fact, several alternative policy-mechanisms are currently applied by SSOs and supported by – different parts of – the doctrine, *e.g.* *ex ante* disclosure of licensing terms, *ex ante* determination of licensing terms by the SSO or *ex ante* auctions.

³¹ *Cf. e.g.* ALAN DEVLIN, “Standard-Setting and the Failure of Price Competition”, 65 N.Y.U. Ann. Surv. Am. L. 217, 235 *et seq.* (235). For a possible “cannibalisation” of disclosure rules by FRAND commitments *see, e.g.*, HUIWEN HE, “A self-defeating framework: how far could ITU patent policy go?”, 31 EIPR 343 (2009).

³² *Cf.* MICHAEL A. HELLER, “The Tragedy of the Anticommons: Property in the Transition from Marx to Markets”, 111 Harv. L. Rev. 621 (1998).



which are proposed by the Commission may therefore prove to be fruitless. These difficulties also call for a more detailed analysis of how disclosure and FRAND rules should be drafted adequately in case they are used as part of an SSO policy.

- (59) For those and other reasons, SSO policies that envisage mechanisms other than a disclosure/FRAND combination should at least fall outside the scope of Art. 101(1) TFEU if they offer the same degree of probable effectiveness as the disclosure/FRAND combination. Future “Standardisation Guidelines” would have to give some additional guidance on how such policies could be conceived.

1.7. Addressing the Role of the IPR Policies of SSOs

- (60) Well-drafted SSO policies may help to prevent collusive behaviour among the SSO members and patent hold-ups. But it is controversial how far their binding force can reach and in which way they interact with the mechanisms of contract law, patent law and competition law. The Proposed Horizontal Guidelines do not examine these issues but future Standardisation Guidelines must thoroughly look into them.
- (61) One aspect that would have to be addressed is the question whether SSO policies create claims for standard users or obligations for IP holders who do not participate in the standard setting. Furthermore, even if the original IP rightholder took part in the standardisation procedure, he may have passed the IP right on to a new holder. With regard to those situations it should be analysed whether and how the new IP rightholder is bound to the SSO’s policies. And last but not least, it has to be asked which role the IPR policies of SSOs play for an assessment under Art. 102 TFEU, especially given the



Commission's position that a patent hold-up violation of Art. 102 TFEU does not require the violation of an SSO's rule.³³

- (62) When defining its position, the Commission should give due weight to the factors that tend to inherently limit the ability of SSO rules to fight anticompetitive conduct in the standard-setting context. SSOs have to respect the interests of their member-undertakings who may not favour burdensome IPR policies. And even if an SSO imposes far-reaching IPR policies, it will often not be able to effectively enforce the duties created by such policies.

1.8. Remedies

- (63) The Draft Horizontal Guidelines do not really discuss remedies. In contrast to this approach, future "Standardisation Guidelines" need to lay out at least coherent cornerstones for structuring remedies in standardisation cases.
- (64) Remedies in the standardisation context should try to foster a standardisation regime that strives for choosing the "best" technology for a given purpose. They should seek to eliminate hold-up risks, especially where they are created by the threat of injunctive relief. Remedies should avoid the reduction of innovation incentives by unjustified royalty-free licenses, but they should also deter effectively from capturing a standard. They should reduce the uncertainties resulting from a need to determine FRAND conditions. And they should not – without good reasons – harm locked-in standard users by declaring an implemented standard void.

³³ Cf. Commission Decision of 9 December 2009, Case COMP/38.636 – *Rambus*.