

Non- Price Restrictions in Licensing Agreements from the Perspective of Competition Law: A Comparative Study of the Iranian, U.S. and E.U. Legal Systems

Reza Maboudi Neishabouri¹

Assistant Professor of Law, Ferdowsi
University of Mashhad

Sima Toufani Asl²

M.A. in Private Law, Islamic Azad
University of Mashhad

Received: 3/4/2015

Accepted: 8/6/2016

Abstract

There are many agreements for transferring technology, but license agreement is the most important agreement in this regard. According to the mentioned agreement, the owner of patent or technology as licensor grants the license to licensee in specific duration and in a given territory. Exclusive rights of licensor and the objectives of competition law, including the welfare of consumers or preventing monopoly in competition may create a challenge between exclusive rights of licensor and competition law. In other words, it is probable that imposing some restrictions on licensee in using the technology may result in distortion of competition in relevant market, reduction of competitors and prevention of new entrants to the market. On the other hand, the failure to maintain the security of innovation of inventor and the lack of its legal support will destroy the incentive of the creation of new technologies and finally lead to market failure and absence of competition. Therefore, licensing agreements can provoke more concerns of competition law. Rules and aims of competition law must order the economic policy in a community in such a way that provide welfare of consumers and at the same time, the competition in the market does not confront restriction and the monopoly or misuse does not occur. On the other hand, in licensing agreements, intellectual property rights are accompanied by some kind of exclusivity which can allow the owner to impose some restrictions on the licensee. Although the exclusivity of intellectual property rights is desired, it should not endanger the welfare of consumers and aims of competition law. The restrictions on licensee could be price or non-price restrictions. The price restrictions are the ones that their subject is relevant to price or they directly affect the price of products in the market. However, the discussion

1- maboudi@um.ac.ir

2- simatoufani@yahoo.com

of the current article is non-price restrictions that are the ones that their effects and subject are irrelevant to price but their main effect is on the other aspects of the market positively or negatively. The most important non-price restrictions are grant-back clause, tying arrangements, sale restrictions, output restriction, field of use restriction and non-compete clause. In fact, we regard these restrictions from competition law point of view and the main question here is whether the competition law looks at all non-price restrictions in licensing agreements in the same way and recognizes them as a distortion of competition or does not consider some of them anti-competitive due to their pro-competitive effects. Moreover, for comprehensive study of all of these restrictions it is important to verify whether the distortion of competition - regardless of its legal aspects- depends on various economic elements such as the market share of parties, kind of relevant technology market, dominant position or not and if the answer is positive what is the scope of such dependency and whether there is a specified standard or not. To answer these questions, three legal systems of Iran, the U. S. and the E. U. have been examined comparatively in the article. The current research is a fundamental study and exploits the analytical-descriptive method and uses the library method and digital or classic note taking for data collection. Of course, various legal systems take different solutions in meeting challenges due to their different frameworks. But, the comparative study of developed systems can open new horizons for some countries like Iran which has less than a decade experience in competition law legislation. The study shows that the Iranian legislation in this regard requires some amendments so that it can establish a more suitable equilibrium between competition regulations and technology transfer law. For instance, although E.U. regulations have provided some exemptions from competition law prohibitions for licensing agreements, Iranian statutes have not enacted any exemption in this regard and it will result in an illogical contrast between competition law in intellectual property law. Also, the mentioned subject may endanger the incentive for innovations and inventions. Due to the aforesaid concerns, the enactment of some exact and standard exemptions for licensing agreements by Iranian legislature is recommended in the current article. Also, the E.U. regulations have provided more clarity about the prohibition possibility of licensing agreements for activists in the intellectual property field because an exact market share has been mentioned as the prohibition border and thereby the duties of the license holders have been clarified. However, Iranian statutes have not provided any clear and specified border for economic dominant position or market share and therefore, it is not clear exactly that how much market share can put the licensor in a dominant position. So, it has been advised in the article that the Iranian Legislature enact the exact threshold of market share for dominance standard separately for vertical and horizontal licensing contracts. Unlike the U.S. and E.U. statutes that have provided some special competition rules for licensing agreements, Iranian legal system does not have any particular competition rules for such agreements and general competition standards apply in the field. Therefore, it has been suggested that Iranian legislature by tapping the experiences of two mentioned legal systems provide some special provisions in the field so it can result in more efficiency.

Keywords: Licensing agreement, Patent, Competition law, Dominant position, Intellectual property Laws.

References in Persian :

- [1] Abdi Pour, E. (2009). Abuse of dominant position. *Journal of Islamic Law*, 21(6), 125-156. (In Persian).
- [2] Bagheri, M., & Abbasi, S. (2012). Competition law's policies & intellectual property rights. *Faculty of Law and Political Science Tehran University Journal*, 42(2), 59-74. (In Persian).
- [3] Ghaffari Farsani, B. (2014). *Competition law & its civil remedies* (1st ed.). Tehran: Mizan Legal Foundation. (In Persian).
- [4] Law on Amendment of the Law of the Fourth Economic, Social & Cultural Islamic Republic of Iran and the Implementation of General Policies Principle Constitution Law. Approved by the Expediency Council (1/6/2008). (In Persian).
- [5] Saberi, R. (2008). *Licensing agreements* (1st ed.). Tehran: The SD institute of law research & study. (In Persian).
- [6] Sadeghi, M., & Mahmoudi, A. (2007). Interaction and co-operation license agreements, intellectual property rights & competition law. *Iranian Journal of Trade Studies (IJTS)*, 43, 249-282. (In Persian).

References in English:

- [7] Ahlborn, C., Evans, D., & Padilla, J. (2004). The Antitrust economics of tying: A farewell to per se. Available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=381940[8]
- [8] American Bar Association. (2002). *Antitrust Law Developments*. (5th Ed), ABA Book Publishing.
- [9] Anderman, S. (2007). *Technology transfer and the IP/competition interface*. European Competition Law Annual. Portland. Hart Publishing.
- [10] Aranda, L. M. (2005). *Technology licensing agreements comparative study between the E.U. and the U. S.* (Unpublished master's thesis). Faculty of Law, University of Lund, Sweden.
- [11] Baches Opi, S. (2000). The approaches of the European commission and the U.S. antitrust agencies towards exclusivity clauses in licensing agreements. *Boston College International and Comparative Law Review*. 24(1), 85-143.
- [12] Barazza, S. (2014). The technology transfer block exemption regulation & related guidelines: Competition law & IP licensing in the E.U. *Journal al of European Competition Law & Practice*, 9(3), 186-207.
- [13] Bellis, F. (2014). IP and competition: A survey of developments in the past year. *Journal al of European Competition Law & Practice*, 6(1), 54-60.
- [14] Christiansen, A., & Kerber, W. (2006). *Competition policy with optimally differentiated rules instead of per se rules vs. rule of reason*. London. Oxford University Press Publishing.
- [15] Commission Regulation (EU) No 316/2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements. Available at [www. Eur-lex. Europa. Eu](http://www.eur-lex.europa.eu). (Last visited at 6/9/2015).
- [16] Commission Regulation (EU) No 772/2004 on the Application of Article 101(3) of the Treaty to Categories of Technology Transfer Agreement. Available at [www. Eur-lex. Europa. Eu](http://www.eur-lex.europa.eu). (Last visited at 6/9/2015).
- [17] Communication from the Commission. Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements. (2014/C 89/03). Available at [www. Eur-lex. Europa. Eu](http://www.eur-lex.europa.eu). (Last visited at

- 6/9/2015).
- [18] Einer, E. (2009). *Tying, bundled discounts, and the death of the single monopoly profit theory*. Discussion Paper No. 629. Harvard Law Review. Available at www.Law.Harvard.Edu/programs/olin_center/. (Last visited at 6/9/2015).
 - [19] European Commission, (2002), Glossary of Terms Used in EU Competition Policy- Antitrust & Control of Concentrations. Luxembourg. Official Publications of the European Communities.
 - [20] Fine, F. (2006). *The EC competition law on technology licensing*. London. Sweet & Maxwell publishing.
 - [21] Gülfem Bozdog, G. (2014). Technology transfer block exemption regulation (240/96) and guidelines in terms of hard core and excluded restrictions. *Gazi University Faculty of Law Journal*, 18, 79-90.
 - [22] Han, J. (2005). *Study on intellectual property licensing under antimonopoly law in the U.S., Europe, Japan and Korea*. IIP Bulletin 2005. Available at https://www.iip.or.jp/e/e_summary/pdf/detail2004/e16_14.pdf
 - [23] Hull, D., & Toro, A. (2004). Reform of the technology licensing rules. Available at <https://www.cov.com/-/media/files/corporate/.../oid32193.pdf>.
 - [24] Johansson, C. (2005). *Licensing in the perspective of EC competition law* (Unpublished master's thesis). School of Economics and Commercial Law, Department of Law, Gotenborg University.
 - [25] Kjøelbye, L., & Peeperkorn, L. (2007). The new technology transfer block exemption regulation and guidelines. *European Competition Law Annual: 2005*. Portland. Hart Publishing.
 - [26] Korah, V. (2006). *Intellectual property rights and the EC competition rules*. Oregon: Hart Publishing.
 - [27] Kutty, A., & Chakravarty, S. (2011). The competition-IP: Emerging challenges in technology transfer licenses. *Journal of Intellectual property Rights*. (16). 258-266.
 - [28] Lugard, P. (2014). The new EU technology transfer regime like a rolling stone? *Digiworld Economic Journal*. 95. (3rd Ed). Available at www.ssrn.com/abstract=2603717.
 - [29] Melamed, D., & Lerch, D. (2007). Uncertain patents, antitrust, and patent pools. *European Competition Law Annual: 2005*. Portland.Hart Publishing.
 - [30] Miller, R. S. (2003). Antitrust pitfalls in intellectual property licensing. Available at www.Law.Berkeley.Edu.
 - [31] Nguyen, T. T. (2010). *Competition law, technology transfer and the TRIPS agreement implications for developing countries*. UK: .Edward Elgar Publishing.
 - [32] Rab, S. (2014). New E.U. technology transfer block exemption: A note of caution. *Journal of European Competition Law & Practice*, 5(7), 436-450.
 - [33] Rättzén, M. (2013). The enforceability of non-compete clauses in patent license agreements in the E.U. and the U.S. Essay. Master of Laws programed. Faculty of Law. Lund University.
 - [34] Ritter, L., & Brawn, D. (2004). *European competition law a practitioner's guide*. Kluwer law International Publishing.
 - [35] Sherman Antitrust Act 1890.
 - [36] The Treaty on the Functioning Of the European Union. (26. 10. 2010). Official Journal of the European Union. Available at www.Eur-lex.Europa.Eu.
 - [37] U. S. DEP'T OF JUSTICE& FED. TRADE COMM'N, (2007). Antitrust enforcement and Intellectual Property Rights: Promoting Innovation and

Competition.

- [38] U. S. DEP'T OF JUSTICE& FED. TRADE COMM'N. (1995). Antitrust Guidelines for the Licensing of Intellectual Property.
- [39] Warren, M., & Zafar, O. (2014). Technology licensing and settlements of IP disputes: Implications of the European commission's new regime. *Journal of European Competition Law & Practice*, 5(6), 364-367.