Client Alert

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Technology Transfer Agreements and EU Antitrust Law

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The European Commission has adopted new rules on the application of the EU's antitrust regime to technology transfer agreements.

A founding principle of the European Union is to ensure freedom of movement – of goods, services, people and capital – among its member states. The EU's antitrust regime exists to ensure the removal of barriers to freedom of movement including, in particular, agreements that distort competition across the EU. For many years, the EU has relied on a series of "Block Exemptions" to permit, within certain parameters, certain frequently occurring types of agreements and behaviours that are generally felt to be acceptable in competition law terms.

One such Block Exemption, dealing with a broad range of agreements for the transfer of technology, has just been renewed and amended. Organisations based in the EU or doing business with the EU should be aware of the changes in what may – or may not – be allowed in technology-related agreements.

Arrangements that prevent, restrict or distort competition in the European Union are prohibited by Article 101 of the Treaty on the Functioning of the European Union (the "Treaty"). The European Commission, however, recognises that, despite this general prohibition, certain specific types of arrangement or agreement (*e.g.*, technology transfer agreements, research & development agreements and distribution agreements) do not give rise to competition law concerns as long as they stay within certain bounds or safe harbours. These types of arrangements or agreements are, subject to certain conditions, "block exempted" from the application of Article 101 on the Treaty by a number of EU regulations, known as block exemption regulations.

On 21 March 2014, the European Commission adopted a new Technology Transfer Block Exemption Regulation (the "TTBER"). The new TTBER is accompanied by an updated version of the Commission's Guidelines on the application of the Treaty to technology transfer agreements (the "Guidelines").

The new TTBER will replace a prior block exemption regulation in force from 2004 until 30 April 2014. It will become effective on 1 May 2014, with a one year transition period to apply to agreements that were exempted under the previous regulation but which no longer meet the conditions of the new one. The new TTBER will last until 30 April 2026.

The new TTBER exempts agreements from the prohibition in Article 101 of the Treaty when one party authorises or licenses another party to use its technology for the production of goods or services and when those parties have limited market power. The accompanying Guidelines provide information for assessing compliance with Article 101 of the Treaty for agreements that are not exempted by the new TTBER.

Agreements covered by the TTBER include many types of technology licences, including, for example, both bilateral agreements and multi-party patent pools. An agreement is covered regardless of whether it's between competitors (so-called horizontal agreements) or non-competitors at different stages of the supply chain (so-called vertical agreements).

SIZE MATTERS

As was previously the case, the new TTBER doesn't give *carte blanche* to all types of technology transfer agreements. As explained below, some types of agreements are too awful for the EU to contemplate and must be individually considered for exemption. The same applies if the parties to the agreement are too big and powerful in their particular market.

The critical market share threshold is 20% for agreements between competitors and 30% where the parties are not competitors. The thresholds apply to both the market where the technology is licensed (upstream market) and the market where the product goods are sold (downstream market). If the parties' collective market shares are above those limits, they need to consider the application of the Article 101 prohibition without the assistance of the TTBER.

As well as size, colour is important in the world of block exemptions, although only monochrome. Previous versions of the TTBER have divided up certain types of agreement clauses into a "black list" and "grey list".

Black list clauses contain the most anti-competitive, hard-core restrictions – things like resale price maintenance, market sharing and restrictions on freedom to operate. If you include a hard-core, black-list restriction in your agreement, the block exemption doesn't apply and the agreement could be void on antitrust grounds.

If you include a grey-list clause in your agreement, the potential effect isn't as bad: the prohibition merely applies to the grey-list clause itself and not the entire agreement in which it resides.

The new TTBER is, broadly speaking, similar to its predecessors, and the black-list/grey-list split is retained – so it remains important in negotiating any technology transfer agreement affecting the EU market to be aware of what's covered by those lists. But the new TTBER still makes a number of key changes to the current regime.

PASSIVE SALES RESTRICTIONS

The old TTBER previously allowed non-competing undertakings (*e.g*., a technology owner licensing a local licensee) to allocate to the licensee an exclusive territory or customer group and then to restrict passive sales by that licensee into another licensee's territory or customer group for a maximum of two years. That option has been removed from the new TTBER, which means that all passive sales restrictions are on the black-list, excluded from the safe harbour provided by the block exemption. This had been largely expected because it aligns the new TTBER with the existing Vertical Agreements Block Exemption.

GRANT-BACK OBLIGATIONS

Under the new TTBER, the grey list includes any direct or indirect obligation on the licensee to grant back to the licensor or its nominee an exclusive licence (or assign rights) to any improvements that the licensee makes to the licensed technology. Previously, there had been a distinction between severable and non-severable improvements (*i.e*., ones which could or could not be used with the original technology): only exclusive grant-back obligations relating to severable improvements didn't benefit from the block exemption. The new TTBER treats all exclusive grant-back obligations in the same manner and these clauses will now require individual assessment to ensure compliance with Article 101 of the Treaty.

NO-CHALLENGE CLAUSES

The new grey list also covers any direct or indirect obligation on either party not to challenge the validity of intellectual property rights held in the EU by the other party. Previously, the Commission had allowed parties to include a right providing for termination of the agreement in the event of a challenge to the validity of a party's intellectual property rights – and this particular aspect has now changed, being permissible in exclusive licence agreements only. This change could have a significant impact on some forms of agreement because licensors and licensees in non-exclusive technology licences will now have to assess no-challenge clauses and accompanying termination rights under Article 101 of the Treaty and cannot rely on the fact that termination rights were previously protected by the block exemption.

SETTLEMENT AGREEMENTS

The Commission accepts that, very often, settlement agreements in the context of technology disputes (*e.g.*, about whether a patent is valid and infringed) are a legitimate way to find a mutually acceptable compromise to a legal dispute when the parties feel that the dispute has become too costly and time consuming.

However, the TTBER now clarifies that settlement agreements that lead to a delayed or otherwise limited ability for the licensee to launch a product in the EU may be prohibited by Article 101. If the parties to a settlement agreement are competitors and there is a significant value transfer from the licensor to the licensee, the Commission will be particularly attentive to the risk of market allocation or market sharing. This type of agreement is commonly referred to as "pay-for-delay" agreement or "reverse payment patent settlement" (where the term "reverse payment" refers to the fact that a payment is made in the opposite direction to that which would normally occur in a licensing agreement where a potential infringer/licensee pays the patent holder for the right to enter the market).

The TTBER Guidelines also clarify that even if a no-challenge clause in a settlement agreement in many cases would be seen as an inherent part of the agreement, it may be prohibited under specific circumstances, in particular in cases where the patent was granted following the provision of incorrect or misleading information. Scrutiny of such clauses may also be necessary if the licensor, besides licensing the technology rights, induces, financially or otherwise, the licensee to agree not to challenge the validity of the technology rights or if the technology rights are a necessary input for the licensee's production.

TECHNOLOGY POOLS

Agreements establishing technology pools are not covered by the new TTBER and are thus subject to a case-by-case assessment under the Article 101 prohibition. The Commission recognises that such pools can have both pro-competitive and anti-competitive effects, and that a range of specific factors affect the antitrust treatment of technology pools.

The Commission's Guidelines note that the creation and operation of a technology pool will typically fall outside the Article 101 prohibition if all of the following conditions are fulfilled:

- participation in the pool is open to all interested rights owners;
- sufficient safeguards are adopted to ensure that only essential technologies (which therefore necessarily are also complements) are pooled;

- sufficient safeguards are adopted to restrict the exchange of sensitive information to a level which is necessary to create and operate the pool;
- the pooled technologies are in-licensed into the pool on a non-exclusive basis;
- the pooled technologies are out-licensed on fair, reasonable and non-discriminatory (FRAND) terms;
- the parties contributing technology to the pool and any licensees are free to challenge the validity and essentiality of the pooled technologies; and
- the parties contributing technology to the pool and the licensees are free to develop competing products and technologies.

A technology pool will generally need to be individually assessed for compliance with Article 101 of the Treaty, but the Commission's comments indicate the parameters within such an assessment can be made.

SCOPE OF APPLICATION OF THE NEW TTBER

Technology licensing sometimes occurs in the context of other categories of agreements. The TTBER clarifies the interaction with other block exemptions. So, the new TTBER will also not apply to:

- specialisation agreements or research & development agreements: these are covered by other block exemptions;
- agreements for the mere reproduction and distribution of software copyright protected products: the production of copies of software for the purposes of selling those copies is not considered to be "production" for the purposes of the TTBER. In the Commission's view, these types of agreements are more akin to distribution agreements and should be assessed under the Vertical Agreements Block Exemption.

It is helpful that the Commission has clarified the interaction between Article 101 of the Treaty and technology pools, and that the new TTBER will not apply to specialisation agreements, research & development agreements or software distribution and resale. What is more concerning, however, is how the changes to the regime applicable to exclusive grant-back clauses, no-challenge clauses and accompanying termination rights will impact licensing. These changes will increase the burden on parties by requiring them to perform an individual assessment when they wish to include these types of provision in a licence agreement in circumstances where the licence agreement would otherwise benefit from the terms of the new TTBER. It may well be that these types of clauses will no longer be included in licence agreements affecting the EU market, and that the new TTBER will be used as a reason for licensees refusing agreement to these types of clauses.

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