EUROPEAN COMMISSION

MEMO

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# Antitrust: Commission adopts revised competition regime for technology transfer agreements – frequently asked questions

The European Commission has today adopted new competition rules for the assessment of technology transfer agreements, through which a licensor permits a licensee to exploit patents, know-how or software for the production of goods and services (see IP/14/299).

### A. General Questions

**What are the EU competition rules applicable to technology transfer agreements?**

Article 101 of the Treaty on the Functioning of the European Union (TFEU) prohibits anticompetitive agreements and practices. Companies need to assess whether agreements they conclude are anticompetitive and would therefore be prohibited by Article 101 TFEU. In order to simplify this assessment, the Commission has defined certain categories of agreements that are unproblematic from a competition point of view based on its market and case experience. These are set out in various "block exemption regulations" (BER). If an agreement fulfils all criteria of a certain BER, it is exempted from prohibition under Article 101 TFEU.

The rules on how to assess technology transfer agreements are set out in the technology transfer block exemption regulation (TTBER) and its accompanying Guidelines. The TTBER exempts licensing agreements concluded between companies that have limited market power (i.e. market share not exceeding 20% for agreements between competitors and 30% for agreements between non-competitors), and that fulfil certain conditions set out in the TTBER. Such agreements are deemed to have no anticompetitive effects or, if they do, the positive effects outweigh the negative ones. Agreements that meet these conditions are therefore automatically in line with EU antitrust rules. The Guidelines provide criteria for assessing the compliance with the antitrust rules of technology transfer agreements that fall outside the safe harbour of the TTBER. They also give guidance on the application of the TTBER.

**What are technology transfer agreements?**

For EU competition law, a technology transfer agreement is a licensing agreement where one party (the licensor) authorises another party or parties (the licensee(s)) to use its technology (patent, know-how, software license) for the production of goods and services.

Technology transfer agreements cover licensing agreements between two (bilateral) or several parties (e.g. patent pools). The TTBER covers only bilateral agreements while the Guidelines also cover multi-party agreements in the form of patent pools. Technology transfer agreements can be concluded between competitors (so-called horizontal agreements; concluded between companies that compete against each other for the sale of the same product or service) and non-competitors (so-called vertical agreements;

concluded between companies active at different levels of the production or supply chain, such as for example a mining company and a steel manufacturer).

**What was the reason for revising the rules?**

The current TTBER (2004 TTBER) expires on 30 April 2014 giving the Commission cause to consider what regime should apply after that date. The Commission commissioned a study and consulted stakeholders in 2011/12 on the application of the current regime as well as on a revised draft proposal in 2013.

**What feedback has the Commission received in the 2011-2012 consultation?**

On 6 December 2011, the Commission launched a first public consultation on the current technology transfer regime. The consultation ended on 3 February 2012. 38 replies were received, mainly from law firms, law associations and industry associations, although comments from several companies and citizens were also received. The submissions are available here.

A majority of the stakeholder responses on the present system were positive. They considered both the TTBER and the Guidelines as useful and important tools for the industry. Many respondents also made suggestions for incremental improvements in both texts. Comments focused on issues concerning the scope of the TTBER, market share thresholds and patent pools. Stakeholders also commented on hardcore restrictions, grant-back provisions and cross-licensing.

**What feedback has the Commission received in the 2013 consultation concerning the draft proposal?**

The draft TTBER and the draft Guidelines were published for public consultation on 20 February 2013. The public consultation ran until 17 May 2013. The Commission received 56 replies which are published on the Commission's competition website (here).

Stakeholders welcomed the Commission's proposal to keep the overall structure of the regime and only proposed incremental changes. Submissions also welcomed clarifications on the scope and that the draft Guidelines were more reader friendly. On substance, most of the submissions focused on the proposed changes concerning the market share thresholds, termination clauses, exclusive grant-back obligations and patent pools. An overview of the submissions received was published here.

**B. Technology Transfer Block Exemption Regulation**

**What are the main substantive changes?**

***Explicit rule on which BER to apply***

Licensing sometimes occurs in the context of other categories of agreements such as R&D agreements. It is now clarified that the TTBER will only apply if the block exemption regulation on R&D agreements and the block exemption regulation on specialisation agreements are not applicable.

***Changed test for when purchase of raw material or equipment is covered by the safe harbour of the TTBER***

The revised TTBER introduces a new test for determining whether certain provisions in a technology transfer agreement, in particular concerning purchases of raw material or equipment from a licensor or the use of the licensors trademark, are exempted from Article 101 TFEU together with the technology transfer agreement itself. The previous test assessed whether such provisions (for example purchase conditions for raw material to produce the products covered by the agreement) were less important than the actual licensing of technology. Stakeholders considered this test difficult to apply. Therefore, the safe harbour of the TTBER now covers such provisions if, and to the extent that, they are directly related to the production or sale of the contract products which are produced with the licensed technology. This means, for example, that even if the input bought from the licensor (and to be used with the licensed technology) is more expensive than the royalties to be paid for the licensed technology, the provisions relating to the purchase are still covered by the exemption of the TTBER.

***Passive sales restrictions between licensees are never exempted by the TTBER***

The TTBER contains a list of so called "hardcore" restrictions, i.e. practices that are deemed so serious that they, together with the rest of the agreement in which they are found, are excluded from the safe harbour of a BER. The 2004 TTBER already included such an exclusion for restrictions on licensees not to sell into each other's' territories, as such restrictions may partition the market and hinder market integration. However, the 2004 TTBER contained a small exception to this exclusion of passive sales restrictions, protecting a licensee during the first two years of an agreement between non-competitors. This has been removed, which means that all passive sales restrictions between licensees are excluded from the safe harbour. This change aligns the TTBER with the BER for vertical restraints. This type of passive sales restrictions can still be allowed if the restraints are objectively necessary for the licensee to penetrate a new market. In the light of the second public consultation, the Guidelines now clarify that in individual cases also a longer period than two years of protection might be necessary for the licensee, to enable him to recoup the costs incurred in entering a new market. This should however be assessed on a case-by-case basis.

***The hardcore list for competitors has not changed in substance***

The hardcore list of the TTBER applicable to license agreements where licensor and licensee are competitors has been simplified. The simplification does not lead to any change on substance.

***The market share thresholds were not changed***

The draft TTBER put out for public consultation had proposed to apply the lower market share threshold of 20% also for non-competitors where the licensee owns a competing technology used for in-house production. This was seen by stakeholders as adding too much complexity to deal with a scenario which is rare. In light of these submissions, the Commission abandoned this additional threshold in the final TTBER. Thus, the market share thresholds of the new TTBER are identical with the 2004 TTBER.

***All exclusive grant-back obligations fall outside the safe harbour of TTBER***

All exclusive grant-back obligations will now be treated equally. These are provisions where the licensee is obliged to license back to the licensor on an exclusive basis, and not even use its own improvements to the licensed technology itself. The 2004 TTBER made a distinction between so-called severable and non-severable improvements and excluded only exclusive grant-back obligations concerning severable improvements from the safe harbour. All exclusive grant-back obligations will now fall outside the safe harbour of the TTBER and will require an individual assessment. However, the rest of the agreement can still benefit from the safe harbour of the TTBER. This change will ensure that there are sufficient incentives for follow-on inventions. All non-exclusive grant-back obligations are still covered by the TTBER.

***Also termination clauses fall outside the safe harbour of the TTBER***

No-challenge clauses, which prevent a licensee to challenge the validity of a technology, do not benefit from the safe harbour under neither the 2004 TTBER nor the revised TTBER. They are to be assessed individually as they can be a significant barrier for the removal of invalid IPR from the market. Invalid IPR are an unmerited extra cost for licensees and limit innovation and economic activity. The new TTBER will also exclude termination clauses in non-exclusive licensing agreements (that allow the licensor to terminate the agreement if the other party challenges the validity of the licensed technology) from its safe harbour. Indeed, the two types of clauses may have similar effects, in particular where a licensee has made substantial investments or where a technology is an essential input (e.g. in the case of standard essential patents). However, introducing such a provision in an agreement does not prevent the rest of the agreement from benefiting from the safe harbour of the TTBER.

In light of the second consultation, the TTBER will continue to cover termination clauses in exclusive agreements when the relevant market share thresholds are not exceeded. In case of exclusive licensing the licensee generally has no incentive to have the IPR declared invalid, but may in particular use the threat of a challenge to put pressure on a smaller innovating licensor. Automatically exempting termination clauses only in cases of exclusive licensing will lead to a proper balance between, on the one hand preserving incentives to innovate and license out, and on the other ensuring that invalid IPR are removed as a barrier to innovation and economic activity. This will in particular support SME innovators to license out their technology on an exclusive basis, without creating a situation of dependence towards their exclusive licensees.

## C. Guidelines for technology transfer agreements

### What are the main general changes introduced?

The Guidelines have been updated to reflect the changes in the TTBER as described above as well as modified to improve the reader-friendliness. In substance, changes have, in particular, been introduced in two areas, namely for settlement agreements and technology pools (e.g. patent pools).

### What are the main changes in the section on settlements?

Settlement agreements in the context of technology disputes (about whether a patent is valid and infringed) are in principle a legitimate way to find a mutually acceptable compromise to a legal disagreement. The parties may prefer to discontinue the dispute or litigation because it proves to be too costly and time consuming.

However, this section now clarifies that settlement agreements which lead to a delayed or otherwise limited ability for the licensee to launch the product on any of the markets concerned, may be prohibited by Article 101(1) TFEU. If the parties to such an agreement are actual or potential competitors and there was 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". The term "reverse payment" refers to the fact that a payment is made in the opposite direction as to what would ordinarily occur in a licensing agreement: normally a potential infringer/licensee pays the patent holder for the right to enter the market.

Furthermore, the Guidelines clarify that even if no-challenge clauses in settlement agreements in many cases are seen as an inherent part of the agreement, they may be prohibited by Article 101(1) TFEU 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.

**What are the main changes in the section on technology pools?**

The Commission has clarified that the definition of essentiality covers not only essentiality in relation to producing a particular product but also in relation to complying with a standard.

The section further clarifies that licensing agreements between a pool and third parties in principle fall outside the scope of the TTBER. This is because licensing out from a pool is normally considered to be a multiparty agreement given that contributors in general determine together the conditions for such licensing.

Finally, the section on pools now provides a comprehensive safe harbour for pools covering not only the creation of the pool but also its subsequent licensing out. By structuring their pool and the subsequent licensing agreements from the pool in such a way that the safe harbour conditions are fulfilled, the pool contributors can be certain that the pool is considered to be pro-competitive, regardless of the market share the pool could obtain. This is expected to give further incentives to the creation of pro-competitive pools.

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