Published by iam®

The IP Media Group™

The EU Technology Transfer Block Exemption Regulation

Bernd Allekotte and Ulrich Blumenröder,
GRÜNECKER Patent Attorneys and Attorneys at Law

Intellectual Asset Management

Yearbook 2015

Building IP value in the 21st century

GRÜNECKER
PATENT ATTORNEYS AND ATTORNEYS-AT-LAW

The EU Technology Transfer Block Exemption Regulation

By **Bernd Allekotte** and **Ulrich Blumenröder,** GRÜNECKER Patent Attorneys and Attorneys at Law

On May 1 2014 the revised EU Technology Transfer Block Exemption Regulation entered into force and the European Commission issued related guidelines. While the new regulation, like its predecessor, provides a safe harbour to protect certain technology transfer agreements from being classified as anti-competitive, there are some important changes to be noted. The new regime is more restrictive in certain areas. This chapter highlights the new approach in relation to:

- passive sales restrictions;
- grant-back clauses; and
- no-challenge clauses.

From the guidelines, settlement agreements and technology pools can be identified as key aspects.

Overview

Article 101(1) of the Treaty on the Functioning of the European Union (TFEU) contains a broad prohibition of anti-competitive agreements that affect trade within the European Union. If an agreement is caught by Article 101(1), it is void and unenforceable. Moreover, if the infringement of Article 101(1) is serious, it may be enforced by a national competition authority or the European Commission, and/or may be subject to actions for damages and other relief.

Exempt from the prohibition in Article 101(1) are agreements that can be shown to have pro-competitive effects (Article 101(3) of the TFEU). Certain categories of agreement presumed to meet these requirements are defined in block exemption regulations. Provided that the parties to an agreement stay within the limits of these regulations, they know that the agreement is in accordance with antitrust laws – and therefore enforceable and not subject to potential action by either competition authorities or competitors. Despite the practical drawbacks – in particular as regards the definition of 'market share' – the regulations provide legal certainty.

The predecessor of the existing Technology Transfer Block Exemption Regulation expired on April 30 2014, after being in force for 10 years. Over the past two years consultations were carried out, and the new regulation takes into account some of the concerns raised during the consultation period.

The overall structure of the new Technology Transfer Block Exemption Regulation – in particular, the provision of a safe harbour and the market share thresholds implemented in the previous regulation – has not changed. In particular, the new regulation continues to apply to agreements between competing undertakings if they do not have a combined market share of more than 20%, and to agreements between non-competing undertakings if they do not have a combined market share of more than 30%. If an agreement is not protected by the regulation, it continues to be lawful unless it contains particularly serious (or 'hardcore') restrictions.

This chapter now examines some of the most important changes brought about by the new Technology Transfer Block Exemption Regulation.

> “If an agreement is not protected by the regulation, it continues to be lawful unless it contains particularly serious (or ‘hardcore’) restrictions”

Passive sales restrictions

Just like the former regulation, the new Technology Transfer Block Exemption Regulation limits the territorial restrictions imposed on licensees.

With respect to agreements between competitors, the new regulation has made no changes: it remains the case that a restriction in an agreement between competitors that prevents passive sales by the licensee into a territory or to a customer group that is exclusively reserved for another licensee is a hardcore restriction. Under the old regulation, passive sales restrictions regarding a territory exclusively reserved for another licensee were permitted in agreements between non-competitors. However, this exception for agreements between non-competitors has been removed from the new Technology Transfer Block Exemption Regulation: now agreements between neither competitors nor non-competitors qualify for a safe harbour exemption if the agreement contains passive sales restrictions.

However, the guidelines acknowledge that there may be room for (individual) exemptions if a licensor seeks to prevent passive sales by a licensee in territories exclusively allocated to other licensees. In particular, this may be the case if it is objectively necessary for the licensee to penetrate a new market – for example, where the licensee must incur substantial upfront costs in order to develop or enter a new market.

According to the commission, this more restrictive approach as regards passive sales restrictions shall ensure consistency between the new Technology Transfer Block Exemption Regulation and the legal regime applicable to vertical agreements (covered by the EU Vertical Agreements Block Exemption Regulation).

Grant-backs

The former Technology Transfer Block Exemption Regulation provided no safe harbour for restrictions requiring a licensee to license or assign its own severable improvements to, or its own new applications of, the licensed technology back to the licensor (or a designated third party) on an exclusive basis. ‘Severable’ meant that the improvements could be exploited without infringing the licensed technology. Nevertheless, if such a clause were contained in an agreement, this would not have had the potential to render the whole agreement void; rather, only the particular clause containing such restriction would not benefit from the exemption set out in the Technology Transfer Block Exemption Regulation. By contrast, a respective obligation to license or assign exclusively non-separable improvements benefited from the block exemption.

Under the new Technology Transfer Block Exemption Regulation, this distinction between separable and non-separable improvements has been removed. Now, all exclusive grant-back clauses will fall outside the scope of the safe harbour, irrespective of whether the improvements are separable or non-separable. Therefore, the new regulation is stricter in this respect.

The underlying rationale of the commission in limiting the exemption is to encourage licensees to innovate and develop new technologies themselves, which is more attractive if there is no obligation for them to grant back a licence to the licensor on an exclusive basis.

No-challenge and termination clauses

An important change has been introduced regarding no-challenge and termination clauses. These play an important role in all licence agreements. It is usually in the interests of the licensee to retain the right to challenge the validity of the IP right (eg, a patent). If the patent is invalidated, this usually results in a release from the obligation to pay royalties.

Even under the former regulation, no-challenge clauses were not exempt, meaning that a licensee could not be barred from challenging the licensed IP right. However, the former regulation permitted the provision of a termination right for the licensor in case the licensee challenged the validity of the IP right.

Under the new Technology Transfer Block Exemption Regulation, this has changed significantly as the new law is much stricter. The new regulation allows the licensor in an exclusive licence agreement to provide for termination of the agreement only if the licensee challenges the validity of the licensed IP rights. This means that in non-exclusive licence agreements, the safe harbour provided for under the old regulation has been removed. According to the commission, the underlying rationale for this distinction between exclusive and non-exclusive licensing agreements is that in the case of exclusive licensing, the licensee usually has no incentive to have the IP right declared invalid.

Settlement agreements

The new Technology Transfer Block Exemption Regulation does not deal with settlement agreements. However, the commission's guidelines on the application of Article 101 of the TFEU to technology transfer agreements dedicate a whole chapter to settlement agreements.

Often, legal disputes relating to alleged patent infringement lead to settlements, and licensing (of the patent in suit) is considered as a way to settle. The commission acknowledges that in principle, settlement agreements are a legitimate way to find a compromise. With specific reference to licensing, the commission acknowledges that this is generally not restrictive of competition as such. However, certain provisions of settlement agreements may be subject to scrutiny by the commission. For example, settlement agreements have received a great deal of attention in the area of pharmaceuticals.

The commission acknowledges that 'pay for delay'-type settlements may be caught by Article 101(1) of the TFEU. 'Pay for delay' is a scenario where the licensee receives payment for not entering the market with these products. *In Lundbeck* the commission recently declared such agreements to be restrictive to competition and therefore caught by Article 101(1). What is seen as critical by the commission is a value transfer from the licensor to the licensee. In such case, the commission will be particularly attentive to the risk of market allocation and/or market sharing.

Settlement agreements may lead to cross-licensing – that is, both parties license IP rights to each other. If restrictions on the use of technologies, including restrictions on the licensing to third parties, are imposed on the other party, such settlement agreements may also be caught by Article 101(1).

In contrast to licence agreements, in settlement agreements no-challenge clauses are generally considered to fall outside the scope of Article 101(1). This is acknowledged by the commission in the guidelines. The commission notes that it is inherent in settlement agreements that the parties agree not to challenge *ex post* the IP rights at the

> "Pools may reduce innovation by foreclosing alternative technologies, making it more difficult for new and improved technologies to enter the market"

Contributing profiles

Bernd Allekotte
Partner
allekotte@grunecker.de

Bernd Allekotte has handled numerous patent infringement disputes for domestic and foreign clients. The focus of his work is primarily on telecommunications and life sciences patents. Dr Allekotte also has extensive knowledge of IP-related EU and German antitrust issues. Over the past few years, he and his team have often been involved in complex cross-border cases, in particular regarding standards-essential patents in the telecommunications area.

Dr Allekotte graduated from Munich University School of Law (1995). He holds a doctorate in law from Munich University (1995) and obtained an LLM from Columbia University School of Law (1996). He is admitted to both the German and New York Bars. He lectures and publishes regularly on patent enforcement issues.

Ulrich Blumenröder
Partner
blumenroeder@grunecker.de

Ulrich Blumenröder practises unfair competition law, design patent and copyright law. However, he focuses on patent litigation before all German courts, particularly those in Dusseldorf, Mannheim and Munich. Dr Blumenröder also has experience in cross-border litigation, organising and conducting multinational litigation and arbitration. His clients range from mid-sized German entities to large Korean, Chinese, US and Japanese companies. As the possibility of a settlement is an integral part of any litigation, Dr Blumenröder has vast experience in licensing. He lectures on patent litigation at various commercial institutions and international conferences in Europe, Asia and the United States, and is an arbitrator of the Qingdao Arbitration Commission.

centre of the dispute. However, exceptions may apply, such as if the licensor financially induces the licensee to agree not to challenge the validity of the licensed IP right.

Technology pools

Technology pools are arrangements between two or more parties whereby a package of technology is assembled and licensed to the pool members and third parties.

Technology pools remain outside the safe harbour provisions of the Technology Transfer Block Exemption Regulation. This is because they usually do not qualify as a technology transfer agreement, given that technology pools do not permit a licensee to produce contract products. With respect to agreements between a technology pool and a third party, they will also fall outside the safe harbour as they usually will be considered multi-party agreements (whereas the safe harbour applies only to bilateral agreements).

Nevertheless, technology pools play an important role in the area of technology transfer. Therefore, even though they are not covered by the Technology Transfer Block Exemption Regulation, in the guidelines the commission has addressed its position with respect to technology pools.

Technology pools have certain pro-competitive effects – they usually allow for ‘one-stop’ licensing of the technologies covered by the pool and may also help to implement industry standards. However, they also may restrict competition: the joint licensing of the pooled technology implies the risk of price fixing and pools may reduce innovation by foreclosing alternative technologies, making it more difficult for new and improved technologies to enter the market.

The guidelines set down a number of criteria to be taken into account when assessing the competitive risks and efficiencies. The commission will generally assume that the creation and operation of a technology pool will fall outside Article 101(1) of the TFEU if the following conditions are fulfilled:

- Participation in the pool creation process is open to all interested technology rights holders.
- Sufficient safeguards are adopted to ensure that only essential technologies are pooled.
- Sufficient safeguards are adopted to ensure that the exchange of sensitive information (eg, pricing and output data) is restricted to what is necessary for the creation and operation of the pool.
- The pooled technologies are licensed into the pool on a non-exclusive basis.
- The pooled technologies are licensed out to all potential licensees on fair, reasonable and non-discriminatory terms.
- The parties contributing technology to the pool and the licensees are free to challenge the validity and the essentiality of the pooled technologies.
- The parties contributing technology to the pool and the licensees remain free to develop competing products and technology.

This evaluation applies irrespective of the market share of the pool. In practice, this means that even dominant technology pools should benefit from the guidelines.

Comment

The new Technology Transfer Block Exemption Regulation does not mark a fundamental departure from the previous regulation. However, in some respect, the commission appears to have taken a stricter approach. For example, the revised approach to no-challenge clauses and the grant-back clauses represent a major shift in the balance of interests of the parties involved in favour of the licensee.

In practice, the primary challenge is the one-year transitional period: existing agreements or provisions that complied with the former Technology Transfer Block Exemption Regulation remain exempt (ie, benefit from the old safe harbours) only until April 30 2015. If no action is taken to make these comply with the new regulation, they will lose this benefit. Therefore, all relevant parties should review existing agreements executed in the technology law area in the past 10 years – which may take quite some work. This is particularly the case in light of the fact that no-challenge and grant-back clauses have been drafted and executed based on the former Technology Transfer Block Exemption Regulation for a long time, so the legislative change may lead to a complete renegotiation of existing technology agreements. *iam*

GRÜNECKER
PATENT ATTORNEYS AND ATTORNEYS AT LAW

GRÜNECKER Patent Attorneys and Attorneys at Law
Leopoldstr 4
80802 Munich
Germany
Tel +49 89 21 23 50
Fax +49 89 22 02 87
Web www.grunecker.de