**REVISED TECHNOLOGY TRANSFER BLOCK EXEMPTION RULES**

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1 **INTRODUCTION**

On 21 March 2014, the European Commission adopted the new rules for the assessment of technology transfer agreements between two undertakings. The regime maintains two separate instruments: the Technology Transfer Block Exemption Regulation (TTBER), which creates a safe harbour, under certain conditions, for licensing agreements concluded between companies with limited market power, and Technology Transfer Guidelines (Guidelines), which provide guidance on the application of the TTBER, as well as on the application of EU competition law to technology transfer agreements that fall outside the safe harbour of the TTBER.

The following paragraphs summarize the main changes in the revised technology transfer block exemption rules, regarding both the TTBER (par. 2) and the Guidelines (par. 3). Finally, a brief conclusion (par. 4) on the “incremental changes” of the revised regime.

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1 Italian Competition Authority.


3 According to Article 1(1)(b) of the TTBER the concept of ‘technology right’ covers know-how as well as patents, utility models, design rights, topographies of semiconductor products, supplementary protection certificates for medicinal products or other products for which such supplementary protection certificates may be obtained, plant breeder’s certificates and software copyrights or a combination thereof as well as applications for these rights and for registration of these rights, see also point 44 of the Guidelines.

2 THE NEW RULES IN THE TTBER

The new TTBER confirms a safe-harbour for agreements deemed, on balance, to have no anticompetitive effect or to have positive effects which outweigh the negative ones.

Apart from formal modifications of the text, there are few substantial updates of the rules. More precisely, a first amendment concerns the scope of the TTBER, whereby the test for “ancillary provisions” in Art. 2(3) has been changed to cover also cases where input/IPRs are not “exclusively” used for the contract product. As a consequence, provisions concerning purchase of input and/or licensing of other intellectual property rights (IPRs) are covered by the TTBER “to the extent” that they are directly linked to the production or the sale of the contract products, but no longer need to be “exclusively and directly” connected to it.

Moreover, the market-share thresholds have been simplified in the new text of TTBER. In particular, the lower market share threshold (20%) in Art. 3(2), which applied to situations where the licensee owns a captive technology which is substitutable for the licensed technology, has been repealed. The envisaged situation seemed in fact to be quite rare in practice and additional compliance costs for undertakings were considered not motivated. Therefore, there are now only two possible scenarios: either the parties of the agreement are competing undertakings - and, then, the 20% threshold applies pursuant to Art. 3(1) - or they are not competing undertakings - and then the 30% threshold applies pursuant to Art. 3(2).

As regards the hardcore restrictions, the most significant changes consist in reformulating the “black-list” of exemptions between competing undertakings (Art 4(1) TTBER) and limiting the same list between non-competing undertakings (Art. 4(2) TTBER). In particular: i) the fields of use restrictions between competing undertakings are no longer listed as hardcore restrictions in Art. 4(1)(c) TTBER (see also point 113 of the Guidelines), and, ii) for non-competitors, the automatic exemption for restrictions on passive sales between exclusive licensees during the initial two years of the contract has been removed from Article 4(2)(b)(ii) TTBER.

The restraints on passive sales, however, may still fall outside Article 101(1) TFEU if they are objectively necessary for the licensee to penetrate a new market (e.g. in case of substantial investments in production assets and promotional activities), for the period necessary for the licensee to recoup its investments. This period is in most cases two years from the date on which the contract product was first put on the market, although, in individual cases, a longer period of protection might be necessary (see point 126 of the Guidelines). This change aligns the TTBER with the rules of the Vertical Block Exemption Regulation (VBER).^5

Also the list of “excluded restrictions” under Art. 5 TTBER has been simplified: all exclusive grant-backs are now considered as “excluded restrictions,” whereas before only exclusive grant-backs for severable improvements fell within Art. 5(a) TTBER. The amendment implies, apart from the fact that it is removed from Art. 5 TTBER the (complex and uncertain) distinction between severable and non-severable improvements, that the licensor can only have non-exclusive grant-backs on improvements of the licensed technologies developed by its licensee and that innovation can be used by the licensee for its own production.

Within the same list of “excluded restrictions,” the new text of the TTBER confirms that termination clauses⁶ are covered by safe-harbor in case of exclusive license, whereas non-challenge clauses⁷ are not covered. However, on the basis of the amended text of the above provision, termination clauses are considered as an “excluded restriction” in case of non-exclusive license. Indeed, such a termination right can have the same effect as a non-challenge clause, in particular where switching away from the licensor's technology would result in a significant loss to the licensee⁸ or where the licensor's technology is a necessary input for the licensee's production (point 136 of the Guidelines). The licensee may be deterred from challenging the validity of the intellectual property right, in case it would risk the termination of the licensing agreement and face risks which go far beyond its royalty obligations. On the contrary, in case of exclusive licensing, termination clauses are generally less likely to have anti-competitive effects: in fact, the licensor may be in a situation of dependency, as the licensee is its only source of income as regards the licensed technology rights (e.g. if royalties are linked to production with the licensed technology). In this scenario, if the licensor were to be locked into an agreement with an exclusive licensee which no longer makes significant efforts to develop, produce and market the product, the incentives for innovation and for licensing out could be undermined (point 139 of the Guidelines).

Finally, pursuant to the revised text of Art. 6(1) TTBER, the Commission may no longer exercise its power of withdrawal, in individual cases, if the undertakings do not exploit the technologies transferred without any objectively valid reason.

In particular, it follows from Article 4(b) VBER that, in principle, distributors must be free to make passive sales into the territories of other exclusive distributors, see also point 61 of the Guidelines on Vertical Restraints (OJ C130/01 of 19.5.2010).

⁶ Such clauses give to the licensor a possibility to terminate the technology transfer agreement in the event that the licensee challenges the validity of any of the licensed technology rights, see point 136 of the Guidelines.

⁷ Such clauses consist of direct or indirect obligations not to challenge the validity of the licensor's intellectual property, see point 133 of the Guidelines.

⁸ This is the case when the licensee has already invested in specific machines or tools which cannot be used for producing with another technology, see point 136 of the Guidelines.
3 THE NEW GUIDELINES ON TECHNOLOGY TRANSFER AGREEMENTS

As regards the Guidelines, the principal changes concern, in particular, the treatment applied to some types of clauses in exclusive agreements, software licenses, patent pools and settlement agreements.

3.1 Non-challenge and termination clauses in exclusive agreements

The new Guidelines illustrate more clearly the problem of non-challenge clauses and termination clauses within exclusive contracts (point 133 ff.), as a deterrent to the removal of invalid intellectual property rights (IPRs) through judicial review.

Indeed, licensees are normally in the best position to determine whether or not an IPR is invalid and, for sake of legal certainty and undistorted competition, invalid IPRs should be eliminated. More precisely, non-challenge clauses are likely to be contrary to Art. 101(1) TFEU where the licensed technology is valuable and undertakings that are prevented from using it, or must pay royalties for it, are put at a competitive disadvantage.\(^9\)

As mentioned above, Article 5(1)(b) TTBER now excludes from the safe-harbour of the block exemption the right for the licensor, in case of non-exclusive license, to terminate the agreement in the event that the licensee challenges the validity of any IPR that the licensor holds in the Union. The Guidelines, however, specify that, except in case of standard essential patents (e.g. in the telecoms markets) or IPRs with very significant market position, a termination clause does not generally constitute a disincentive to challenge the validity of the licensed rights and, consequently, does not produce the same effect as a non-challenge clause (par. 136-137).\(^10\)

3.2 Software licenses

Contrary to the previous Guidelines text, copyright licensing on software for mere “reproduction” and distribution of a protected work (i.e. the production of copies for resale only) are no longer covered by the exemption in question (point 62 of the Guidelines). In fact, “such agreements do not concern the licensing of a technology to produce but are more akin to distribution agreements” (cons. 7 of

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\(^9\) However, no restriction of competition arises if the IPR is related to a technically outdated process or if the IPR is granted for free (see point 134 of the Guidelines).

\(^10\) The same notions of “exclusive” or “sole” licenses have been reformulated in the Guidelines, in order to clarify the two concepts, as opposed to “sale restrictions” (point 190 ff.): in fact, an “exclusive licence” means that the licensor neither can produce on the basis of the licensed technology rights, nor can license it out to third parties, so that - in general or for that particular use or in that particular territory - the licensee is the only one allowed to produce on the basis of the licensed technology rights. The license is a “sole licence” where the licensor undertakes only not to licence third parties to produce within a given territory. Exclusive or sole licensing is often accompanied by “sales restrictions” that limit the freedom of the parties as to where they may sell.
Therefore this discipline will now fall within the scope of the VBER and the related Guidelines on Vertical Restraints.

However, in the event that licensed software is “incorporated” into the product by the licensee, the agreements may be covered by the TTBER: for example, contracts in which the licensee acquires the right to reproduce a software by incorporating it into a device with which the software interacts are covered by the safe-harbor of the TTBER and related Guidelines, as this activity falls within the notion of “production” of the TTBER (point 63 of the Guidelines).

### 3.3 Settlements

The new Guidelines include a longer section on reverse payment settlements (Section 4.3), which clarifies and updates the Commission’s policy in the light of recent case practice.\(^{11}\)

Licensed of technology rights may be a legitimate means of settling disputes or avoiding that one party exercises its IPRs to prevent the other party from exploiting its own technology rights.\(^{12}\) However, the individual terms and conditions of settlements, as any other license agreements, may be caught by Article 101(1) TFEU, especially, where the parties are actual or potential competitors. In fact, “pay-for-restriction” or “pay-for-delay” agreements do not often imply a transfer of technology rights, but a value transfer (e.g. sums of money) from one party in exchange for a limitation of entry and/or expansion of the other party into the relevant market. If the settlement includes a license of the IPR involved in the dispute between the undertakings and entails a delay or, at least, a restriction of the licensee's ability to launch its product(s) on any of the markets concerned, it may fall within the scope of Article 101(1) TFEU and must then be appreciated in the light of Art. 4(1), lett. (c) and (d) TTBER (point 239 of the Guidelines).

The new text of the Guidelines gives also guidance on situations where, prior to the settlement agreement, the undertakings are blocking each other with their respective IPRs from entering the relevant market (i.e. a one-way or two-way “blocking position”):\(^{13}\) in such scenarios, the parties to an agreement should not be considered as competitors (point 29 of the Guidelines).

### 3.4 Patent Pools

Although formally excluded from the scope of the TTBER (as this only covers agreements among two undertakings), the Guidelines specifies a sort of “soft” safe-harbour for patent pools (Section 4.4):

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11 Case Lundbeck, not yet published.

12 The parties may prefer to discontinue the dispute or litigation because it proves to be too costly, time-consuming and/or uncertain as regards its outcome. Settlements can also save courts and/or competent administrative bodies effort in deciding on the matter and can therefore give rise to welfare enhancing benefits (point 235 of the Guidelines).

13 This for instance the case where one technology right covers an improvement of another technology right and the improvement cannot be legally used without a license of the basic technology right.
regardless of the market shares of the parties, a pool is legitimate if all the conditions set in point 261 are fulfilled.\textsuperscript{14}

However, if the pool has a “dominant position” on the market, to avoid foreclosure and other anti-competitive effects on down-stream markets, royalties and other licensing terms should be “non-excessive and non-discriminatory” and licences should be non-exclusive (point 269 of the Guidelines).

4 CONCLUSIONS

The new regulatory framework of technology transfer agreements maintains substantial continuity with the previous discipline. Only minor changes, in fact, have been included in the revised rules and, mainly, with a view to align them with the regulatory framework already adopted in other sectors (e.g. on passive sales in case of exclusive distribution agreements), also on the basis of the overall positive feedback received from stakeholders during the public consultation, held from February to May 2013.\textsuperscript{15}

Any major amendment of the discipline would have been probably premature, given that, on the one hand, the discipline in force seems flexible enough to accommodate different situations and, on the other hand, pending investigations or litigations, the most complex issues are not yet definitively settled (e.g. pay-for-delay or pay-for-restriction agreements in the pharmaceutical sector).\textsuperscript{16}

\textsuperscript{14} The creation and operation of the pool, including the licensing out, generally falls outside Article 101(1) of the Treaty, irrespective of the market position of the parties, if all the following conditions are fulfilled: (a) participation in the pool creation process is open to all interested technology rights owners; (b) sufficient safeguards are adopted to ensure that only essential technologies (which therefore necessarily are also complements) are pooled; (c) sufficient safeguards are adopted to ensure that exchange of sensitive information (such as pricing and output data) is restricted to what is necessary for the creation and operation of the pool; (d) the pooled technologies are licensed into the pool on a non-exclusive basis; (e) the pooled technologies are licensed out to all potential licensees on FRAND terms; (f) the parties contributing technology to the pool and the licensees are free to challenge the validity and the essentiality of the pooled technologies, and; (g) the parties contributing technology to the pool and the licensee remain free to develop competing products and technology.

\textsuperscript{15} http://ec.europa.eu/competition/consultations/2013_technology_transfer/index_en.html

\textsuperscript{16} Pazzi M.G., Revised technology transfer block exemption rules. DOI: 10.12870/iar-10205