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EUROPEAN COMMISSION CONSULTS ON REVISED COMPETITION REGIME FOR TECHNOLOGY TRANSFER AGREEMENTS

On 20 February 2013, the European Commission published for consultation its proposal for revisions to the EU technology transfer competition regime. The consultation period runs until 17 May 2013. The new regime will be adopted before April 2014. The EU's approach to the application of competition law to technology transfer agreements is set out in two instruments, the technology transfer block exemption regulation ("TTBER") and the accompanying guidelines ("Guidelines"). The TTBER exempts certain types of technology agreements between entities, while the Guidelines address both the application of the TTBER and the approach of EU competition law to tech transfer agreements that do not benefit from the TTBER's "safe harbour".

THE MAIN PROPOSED CHANGES TO THE TTBER

The Commission is proposing to make a number of changes to the TTBER. *First*, it proposes to revise the test that determines whether certain provisions of tech transfer agreements, including those relating to the purchase of products by, and the licensing of trademarks to, the licensee, fall within the TTBER. The TTBER currently exempts these provisions (together with the technology transfer agreement) when they are not the primary object of the agreement but are directly related to products produced using the licensed technology.[1] The proposal is to assess these provisions by reference to whether they are "directly and exclusively related" to products produced using the licensed technology.[2]

The *second* proposed change impacts on the market share thresholds which determine whether a tech transfer agreement falls within the TTBER. The TTBER currently differentiates between agreements between competing undertakings on the one hand (exempting agreements if the *combined* share of the parties does not exceed 20%) and those between non-competing undertakings (exempting agreements if the share of *each* of the parties does not exceed 30%) on the other.[3] The Commission is proposing to apply the 20% threshold to agreements between non-competitors where the licensee owns a technology that is substitutable for the licensed technology but only uses its technology for captive production.[4]

The *third* proposal relates to restrictions on passive sales. The TTBER currently provides that tech transfer agreements between non-competitors which restrict the territory into which (or the customers to whom) the licensee may passively sell the products produced using the licensed technology do not benefit from the safe harbour of the TTBER. However, there are several exceptions to this rule, one of which permits passive sales restrictions protecting a licensee with an exclusive territory (granted by a non-competing licensor) from passive sales by others into that territory for up to two years.[5] The Commission proposes to remove this exception. However, it

[1] Article 1.1 (b) of the current TTBER
[2] Article 1.1 (c) of the revised TTBER.
[3] Article 3.2 of the current TTBER.
[4] Article 3.2 of the revised TTBER.
[5] Article 4.2 (b) (ii) of the current TTBER.

acknowledged that, in some cases, passive restrictions do not restrict competition because licensing would not occur absent the restraint.

Fourth, the Commission proposes to exclude all exclusive grant-back obligations (*i.e.*, exclusive licences to the licensor of improvements made by the licensee, such that even the licensee cannot use the improvements) in tech transfer agreements from the scope of the TTBER.[6] The TTBER currently exempts non-severable improvements, only depriving exclusive grant-back obligations relating to severable improvements from exemption.[7] Finally, the Commission proposes to no longer exempt clauses allowing the licensor to terminate the agreement if the licensee challenges the validity of the licensed technology (but not the entire agreement).[8]

THE MAIN PROPOSED CHANGES TO THE GUIDELINES

The proposals regarding the Guidelines would lead to substantial changes in the treatment of settlement agreements and technology pools.

Settlement Agreements

While the proposed Guidelines recognise the pro-competitive and welfare enhancing benefits of settlement agreements in technology disputes, they also emphasise the public interest in eliminating invalid intellectual property rights as a barrier to innovation and economic activity.[9] The proposed Guidelines provide that settlement agreements which may lead to delays in, or limit the licensee's ability to, launch a product may be caught by Article 101(1) TFEU.[10] In particular, the proposed Guidelines state that scrutiny is warranted if the licensor provides an inducement, financial or otherwise, for the licensee to accept more restrictive terms than the merits of the licensor's technology would otherwise support. The proposals are not surprising, given the Commission's enforcement activity in relation to pharma "reverse-payment patent settlements" (or "pay-for-delay") cases. Since the 2009 sector inquiry, the Commission launched has launched several pay-for-delay investigations, sending Statements of Objections to a number of pharma companies, including Lundbeck and Servier in 2012, and more recently to Johnson & Johnson and Novartis AG.

Reflecting the ruling by the Court of Justice of the EU in AstraZeneca,[11] the revised guidelines also provide that "non-challenge" clauses in settlement agreement may infringe EU competition law, [12] particularly if the licensor "knows or could reasonably be expected to know" that the relevant IP would not met the legal criteria for receipt of IP protection (*e.g.,* because a patent was granted following the provision of "incorrect, misleading or incomplete" information). The proposed Guidelines also state that a financially induced non-challenge clause may be problematic.

Technology pools

In relation to technology pools, the proposed Guidelines state that an agreement establishing a pool and setting out the terms and conditions for its operation does not fall within the TTBER, such that it must be assessed under to the Guidelines. Further, the proposed Guidelines make clear that 'licensing out from the pool' (*i.e.*, a licensing agreement between a pool and third parties) is not covered by the TTBER, since this is generally a multiparty agreement.[13]

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[6] Article 5.1 (a) of the revised TTBER.
[7] Article 5.1 (a) and (b) of the current TTBER.
[8] Article 5.1 (c) of the current TTBER and Article 5.1 (b) of the revised TTBER
[9] Para. 220. This statement reflects the Court of Justice's finding in Case 193/83 *Windsurfing v Commission* [1986] ECR 611, para. 92.
[10] Para. 223 of the proposed Guidelines.
[11] Case C-457/10 P, *AstraZeneca v Commission* [2012] (not yet published).
[12] Para. 226 of the proposed Guidelines.
[13] Para. 231 of the proposed Guidelines.

In addition, the proposed Guidelines explain that the complementarity of the technology included in a pool is important in the assessment of the procompetitive nature of the pool. They go on to provide a definition of "essentiality", both in relation to production and standard implementation. In relation to production, a technology is "essential" when there are no "commercially or technically viable substitutes" for a product or a process to which the pooled technologies relate. In the relation to standard implementation, a technology is "essential" when it constitutes "a necessary part" (*i.e.*, there are no viable substitutes) of the technologies necessary to implement the relevant standard.[14]

Finally, the proposed Guidelines take the view that the creation and operation of technology pools[15] escape Article 101(1) TFEU if the following cumulative conditions are met:

(a) Participation in the standard and pool creation process is open to all interested parties;
(b) Safeguards are adopted to ensure that only essential technologies are pooled;
(c) Safeguards are adopted to ensure that sensitive information is exchanged only to the extent necessary to create and operate 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) Technology contributors and licensees can challenge the validity and essentiality of pooled technology; and
(g) Parties contributing technology and licensees can develop competing products and technology.

CONCLUSION

Given the Commission's recent enforcement activity in relation to pay-for-delay arrangements and the licensing of standards essential patents, the focus on these issues in the proposals is not surprising. However, IP holders should consider whether the proposals regarding reverse-payment settlements, including the underlying characterising of the balancing of interests, is appropriate or whether it reflects an attempt to use soft law to achieve results that go beyond the cases before the Commission.

Not dissimilarly, the Commission's proposed definition of patent "essentiality" warrants consideration. The characterisation of technology as "essential" in the production context when there are no "commercially or technically viable substitutes", while requiring that technology constitute "a necessary part" (*i.e.*, there are no viable substitutes) of the technologies necessary to implement the relevant standard in relation to standard implementation, raises a number of questions. The impact of both definitions on a number of ongoing investigations of anticompetitive licensing conduct by holders of standards essential patents.

Finally, companies that are parties to tech transfer agreements, whether as licensor or licensee, should consider the extent to which the proposed shift to assessing whether ancillary provisions are directly and exclusively related to products produced using the licensed technology, the lowering of the market share thresholds for licensees captively using technology that is substitutable for licensed technology, and the proposed changes to the treatment of passive sale limitations, grant-back clauses and non-challenge termination rights impact on their operating models.

[14] Para. 237 of the proposed Guidelines.
[15] Para. 244 of the proposed Guidelines.

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