The New EU Guidelines on Technology Transfer Agreements

Trevor Cook†
WilmerHale, 7 World Trade Center, 250 Greenwich Street, New York, NY 10007, USA

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The recent revision by the European Commission of its Guidelines on Technology Transfer Agreements, as well as the Block Exemption which accompanies it, granting a safe harbour from competition law challenge for certain such agreements, makes it timely to review how these revisions reflect some of the recent controversies that have arisen at an EU level as to relationship between intellectual property and competition law.

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The Treaty on the Functioning of the European Union (TFEU), as with its predecessor treaties, provides two legal bases for challenging competition law abuses. One of these, Article 101 TFEU, relates to agreements or concerted practices which have the potential to affect trade between EU Member States, and the other, Article 102 TFEU, concerns abusive unilateral conduct by those with a dominant position in the relevant market. Both have much wider application than intellectual property (for example to mergers and to cartels), and reported decisions under them that relate to intellectual property are rare, but are of considerable importance to intellectual property practitioners, given that their breach can result in substantial fines for offenders and liability to third parties for damages. Even though it is Article 102 that has given rise to some of the highest profile case law as to the interface between intellectual property and competition law, namely in the context of refusals to license intellectual property, the provision of incorrect information to national patent offices, or in relation to controversies over standards essential patents, it is the former, Article 101, that has the greatest day to day effect in practice. This is because some intellectual property licences have the scope to fall within its ambit, and those agreements which breach it may not only expose the parties to it to fines but are potentially void, with consequences for the enforceability of provisions in such agreements which are by themselves otherwise unobjectionable.

Recognising however that most licence agreements do not restrict competition and that even where they do so they may give rise to balancing pro-competitive efficiencies, the European Commission, which enforces the EU Treaties, has long provided guidelines as to how technology transfer licences should be drafted so as not to fall foul of Article 101. These serve to clarify for such agreements in what situations Article 101(1), prohibiting “all agreements which may affect trade between EU Member States and which have as their object or effect the prevention, restriction or distortion of competition”, does not apply, and those cases in which Article 101(3), providing an exception to such prohibition for agreements with certain beneficial effects, will do so. Such Guidelines have also long been supplemented, as to agreements between parties with less than certain shares of the relevant market, with a Block Exemption that provides a safe harbour for agreements which comply with its terms, although agreements which do not fall within the Block Exemption may still comply with Article 101. The Guidelines and the accompanying Block Exemption which dated back to 2004 expired at the end of April 2014 (ref.6), and have now been replaced, as from 1 May 2014 new Guidelines and a Block Exemption which were adopted by the Commission on 21 March 2014 (ref.7).

The differences between the old and new versions of the Guidelines reflect in part some recent controversies as to relationship between intellectual property and competition law, such as those concerning patent settlement agreements between research based pharmaceutical companies and generic competitors and those concerning patent pools, especially in the context of standards essential patents. The Block Exemption has also been modified in small but significant ways to reflect developments in the Commission’s thinking.

†Email: trevor.cook@wilmerhale.com
How the New Block Exemption Differs from the Old

As before, the new Block Exemption only provides a safe harbour from competition law challenge to technology transfer licences (as well as assignments where the assignor retains an interest in the exploitation of the technology) between two parties having less than certain market shares: namely for competing undertakings a combined market share of less than 20% of the relevant market and of less than 30% each in the case of non-competing undertakings. The scope of the intellectual property rights that are covered has been expanded beyond patents and the like, know-how and software copyright to include design rights, and there is greater latitude as to the degree to which yet other intellectual property can also be the subject of the agreement and the Block Exemption still apply.

Also as before, the new Block Exemption contains a blacklist of what it terms ‘hardcore restrictions’ listing those provisions the presence of which in a technology transfer agreement will prevent its benefitting from the safe harbour that it otherwise affords. These relate in general to restrictions on the prices charged for and the output of licensed goods, as well as provisions which allocate markets or customers, although this last type of provision is itself subject to several exceptions, depending in part on whether the agreement is one between competitors or non-competitors, and in the case of an agreement between competitors whether the agreement is reciprocal or not. Although the arrangement of such exceptions has been simplified, the Commission considers this not to have changed their scope in substance, except that a contractual obligation in an agreement between non-competing undertakings restricting a licensee for a two year period from making unsolicited sales to the exclusive territory or exclusive customer group of another licensee is no longer block exempted.

The new Block Exemption also retains the concept of ‘excluded restrictions’ which are not themselves block exempted but the presence of which in an agreement does not prevent the rest of the agreement from benefitting from the safe harbour of the Block Exemption. However, the scope of such restrictions has been expanded in two respects. One concerns ‘termination on challenge’ clauses (allowing a party to terminate the agreement when the other challenges the validity of any intellectual property rights that the terminating party holds in the EU) and which had developed in response to the attitude to simple no-challenge clauses that was manifested in the early case law, which almost always treated them as anti-competitive, except in very limited circumstances, such as in the context of settlement agreements. The old Block Exemption treated simple no-challenge clauses as an excluded restriction but expressly excepted from this and so in effect sanctioned ‘termination on challenge’ clauses. Under the new Block Exemption ‘termination on challenge’ clauses are also treated as excluded restrictions unless they are in an exclusive licence. Another excluded restriction the scope of which has been expanded is an exclusive grant-back obligation on the part of the licensee in respect of its improvements to or new applications of the licensed technology. Formerly ‘non-severable’ improvements (being those the exploitation of which necessarily involved the infringement of the licensed technology) were excepted from the scope of such excluded restriction but under the new Block Exemption this is no longer the case – all exclusive grant back provisions, however formulated, are now excluded restrictions.

How the New Guidelines Treat Patent Pools

Patent pools have become an increasingly important feature of technology licensing in the ICT sector, and in particular in relation to standards such as, for example, audio or video codecs providing for data compression. The agreements that establish such patent pools are not themselves covered by the Block Exemption as they do not of themselves permit a particular product to be licensed, as explained by the Guidelines at 247. The new Guidelines however expand on the old in a number of respects in their discussion of the application of Article 101 TFEU to what they term ‘technology pools’ and which they define at 244 ‘as arrangements whereby two or more parties assemble a package of technology which is licensed not only to contributors to the pool but also to third parties’ and which they also note may support competing standards. The Guidelines go on at 245 to observe that such pools “can produce pro-competitive effects, in particular by reducing transaction costs and by setting a limit on cumulative royalties to avoid double marginalisation,” and can allow for ‘one-stop’ licensing of the technologies covered by the pool [which] is particularly important in sectors where intellectual property rights are prevalent and licences need to be obtained from a significant number of licensors in order to operate on the market.”
Apart from discussing in much more detail than in the old the application of Article 101 to such pools,7 the new Guidelines for the first time at 261, start to formulate a ‘safe harbour’ for the creation and operation of such pools if the agreements reflecting such creation and operation are to fall, generally irrespective of the market position of the participants, outside the scope of Article 101, and which to do so must fulfil all the following requirements:

“(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.”

This ‘safe harbour’ applies also to licensing out from the pool to third parties which are not members of the pool, an activity which cannot fall within the safe harbour of the Technology Transfer Block Exemption as such licences, as noted by the Guidelines at 247 will by their nature involve more than two parties.7

Patent Settlement Agreements

The discussion of settlement and non-assertion agreements in the old version of the Guidelines took six paragraphs. That in the new version takes ten, and although it notes that they can give rise to ‘welfare enhancing benefits’, it also notes a countervailing general public interest in removing invalid intellectual property rights. It also introduces into discussion the concept of what it terms ‘pay-for-restriction’ or ‘pay-for-delay’ type settlement agreements, which it characterises as often not involving the transfer of technology, but as ‘based on a value transfer from one party in return for a limitation on the entry and/or expansion on the market of the other party.’ Having noted that this specific type of agreement is likely to fall within Article 101(1) TFEU it concludes a brief discussion of their assessment under Article 101(3) TFEU by noting at 238 that if ‘the parties to such a settlement 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/market sharing.’

This is something of an understatement as to the Commission’s attitude, this being an area in which it has in recent years taken an especial interest, particularly in relation to agreements that settle patent litigation as between research based pharmaceutical companies and generic competitors, as reflected in its Communication concluding the Pharmaceutical Sector Inquiry.13 Indeed it has since the conclusion of the Inquiry been monitoring patent settlements in the sector,14 undertaken several “dawn raids” on the European offices of pharmaceutical companies and initiated proceedings against a number of these, although for the final outcome of this latter enforcement activity and the full framework for analysis of such agreements within the context of Article 101 TFEU we must await publication of the Commission decisions that emerge from it and the outcome of the appeals against such decisions to the General Court and on to the Court of Justice that will inevitably ensue.15

Conclusion

Those with already existing technology transfer agreements which were drafted specifically to take account of the provisions of the old version of the Block Exemption have an opportunity to review, and if they can agree between themselves to do so, to revise those agreements to conform with the new version of the Block Exemption, and yet retain the application of the safe harbour in the interim where the agreement fell within the safe harbour of the old version but will fall outside that of the new, provided that they do so by 30 April 2015 (ref. 16). This will probably be particularly relevant where the existing agreement closely tracks the formulation of the excluded restrictions in the old version of the Block Exemption.

The more detailed guidance in the Guidelines on patent pools is welcome but is unlikely to affect current practice in this area, as those establishing such patent pools have long been alert to the potential
competition law issues that these can raise, and the potential benefits of such pools are increasingly recognised given the high profile accorded to controversies concerning standards essential patents which are not the subject of such pools. As to the increased, but still limited, discussion of settlement agreements in the Guidelines, the pharmaceuticals industry is already fully on notice of the Commission’s attitude to settlements which involve, after expiry of the initial patents protecting a product, a value transfer from the potential market entrant to the rights owner to secure entry to the market before expiry of still subsisting patents that also protect the rights owner to secure entry to the market before a value transfer from the potential market entrant to the rights owner to secure entry to the market before expiry of the initial patents protecting a product, so the Guidelines tell companies in that sector nothing as to the attitude of the Commission of which they are not already well aware.

References

1 Some discussion of Article 101 TFEU can give the impression that “agreements” and “concerted practices” are readily to be inferred whereas recent case law suggests otherwise – namely, as to agreements, Case T-41/96 Bayer AG, [2000] ECR II-03383, where the Commission “made an error in the legal assessment … by holding it to be established that there was a common intention between Bayer and the wholesalers referred to in the Decision” and, as to concerted practices, Case T-442/08, International Confederation of Societies of Authors and Composers (CISAC), (General Court, 12 April 2013) holding that “the Commission has not proved to a sufficient legal standard the existence of a concerted practice relating to the national territorial limitations, since it has neither demonstrated that the collecting societies acted in concert in that respect, nor provided evidence rendering implausible one of the applicant’s explanations for the collecting societies’ parallel conduct”.


5 The case law to this effect is all old, because the development of various guidelines and block exemptions (those for technology transfer discussed later in this article are not the only ones, and they exist also for research and development agreements, vertical agreements and specialisation agreements) has contributed to greater legal certainty and reduced the risk of parties entering into intellectual property agreements that present problems under Article 101 TFEU – see Case 56/64 and 58/64 Etablissements Consten and Grundig v EC Commission [1966] ECR 299 and Case 258/78 Nungesser v EC Commission [1982] ECR 2015. Not all intellectual property licences benefit from block exemptions and case law continues to develop in these other areas, such as for example in copyright in Joined Cases C-403/08 Football Association Premier League and Others v QC Leisure and Others and Case C-429/08 Karen Murphy v Media Protection Services Ltd [2011] ECR I-09083, in which clauses of an exclusive licence agreement between an intellectual property rights holder and a broadcaster were held to constitute a restriction on competition prohibited by Article 101 TFEU where they obliged the broadcaster not to supply decoding devices enabling access to that right holder’s protected subject-matter with a view to their use outside the territory covered by that licence agreement.


9 Commission Memo MEMO/14/208 21 March 2014 – ‘Antitrust: Commission adopts revised competition regime for technology transfer agreements - frequently asked questions’.


14 For the 4th, most recent, such Report, for the period January to December 2012, published on 9 December 2013, summarising information gathered as a result of formal
requests sent by the Commission to various originator companies and generic companies, and concluding that “93% of the settlements fall into categories that prima facie raise no need for competition law scrutiny” see http://ec.europa.eu/competition/sectors/pharmaceuticals/inquiry/patent_settlements_report4_en.pdf.

15 The first such decision, Commission Decision of 19 June 2013 in Case COMP/39226 – Lundbeck is as yet unpublished but is currently on appeal to the General Court as Case T-472/13 H Lundbeck and Lundbeck v Commission.