briefing note

Competition

Consultation on Technology Transfer Agreements

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On 20 February 2013, the European Commission (Commission) launched a consultation on its proposal for revisions to the Technology Transfer Block Exemption (TTBE) and the related Technology Transfer Guidelines (Guidelines). The proposal aims to update the current legislation in order to encourage research and innovation, facilitate the diffusion of intellectual property and promote competition. The consultation will end on 17 May 2013. Therefore, interested parties have less than three months to make their views heard.

The current TTBE and Guidelines, which expire on 30 April 2014, set out the Commission's approach to the application of EU competition law to technology transfer agreements (i.e. transfers and licences of patents, know-how and software copyrights). They provide for automatic exemption of technology transfer agreements from the EU and national prohibitions on anti-competitive agreements provided such agreements meet certain conditions. They must fall below the safe harbour market share thresholds, not contain any hard core restrictions of competition (e.g. restrictions on a party's ability to determine resale prices, the allocation of markets or customers, etc.) and exclude certain restrictions (e.g. exclusive grant backs, "no challenge" clauses).

The new proposal preserves the principle of automatic exemption and has not fundamentally revised the TTBE and Guidelines, but sets out a number of changes. In the TTBE, these mainly relate to the scope of application of the TTBE, the extension of certain of the safe harbour market share thresholds, permitted restrictions on passive sales and revisions to the excluded restrictions. There is also new guidance in the draft proposed Guidelines on reverse payment settlements and patent pools.

Revised Scope of Application

The current TTBE covers technology transfer agreements which contain provisions relating to the purchase of inputs from a licensor (e.g. an obligation to buy raw materials or equipment) or the use of the licensor's trade mark if such provisions do not constitute the primary object of the agreement and are directly related to the production of the contract products.

The new TTBE proposes a revised scope of application. The new test for deciding whether a technology transfer agreement falls within its scope will instead depend on whether such supply arrangements contain obligations which are "directly and exclusively" related to the products the licensee produces with the licensed technology.

Therefore, it will not be necessary to show that the purchase of inputs or use of the licensor's trade mark is less valuable than the licensed technology (i.e. of lesser value than the primary object).

The new proposal also explicitly indicates that the TTBE would only apply when certain other block exemptions are not applicable, such as the block exemptions on R&D and specialisation agreements.

20% Market Share Threshold

Under the current TTBE, a technology transfer agreement between non-competitors is considered unproblematic if the market share of the parties does not exceed a 30% threshold (and contains no hard core restrictions). The new proposal indicates that this threshold be lowered to a stricter threshold of 20% (the same as the current threshold for technology transfer arrangements between competitors). This new threshold would apply provided that the licensee owns technology that it uses only for in-house production and which is substitutable for the licensed technology.

The Commission says that the justification is to capture the higher potential for anti-competitive effects resulting from the licensee having its own in-house competing technology. For example, currently under the rules a licensee could foreclose potential entrants to the downstream market by entering into an exclusive licence with the only company licensing technology as well as keeping its own technology to itself, but benefit from the 30% market share threshold for non-competitors (which is less strict).

Calculation of Licensor's Market Share

The current TTBE is silent on the basis for calculating the licensor's share of a technology market, leaving the Guidelines to set out a number of different approaches. The new proposal clarifies that the market share of the licensor on a technology market shall be calculated on the basis of using sales data for the products produced by the licensor and all its licensees combined in the relevant geographic catchment area.

Amendment to Restriction on Passive Sales

Under the current TTBE, where the parties are not competitors, a licensee is protected from passive sales into its territory by other licensees for the first two years of the licensee's sales in order to protect the licensee from free riding given the significant effort and resources invested by the licensee in developing the licensed technology. A passive sale is an unsolicited sale made in response to an order from a customer outside a licensee's allotted territory.

The new proposal suggests the removal of this exception in relation to arrangements between non-competitors and provides that no restrictions on passive sales should be allowed unless it can be shown that the passive sale restriction is objectively necessary for the licensee to enter a new market. If not, a ban on passive sales will be treated as a hard core restriction of competition taking the entire agreement outside the scope of the TTBE. This would bring the TTBE in line with other block exemptions (such as the block exemption on vertical agreements).

Grant Backs

Under the current TTBE, a licensor can insist on improvements to its intellectual property being exclusively licensed back to it where those are non-severable improvements (i.e. exclusive grant back). This means that the improvements cannot be used without also infringing the underlying patent, or disclosing the underlying know-how.

Under the new proposal all exclusive grant back obligations would fall outside the scope of the TTBE and would require an individual assessment of their likely competitive effects (the rest of the agreement could still benefit from the TTBE). The TTBE would not differentiate between severable and non-severable improvements.

The licensee would be free to exploit any improvements to the licensor's intellectual property, thus ensuring there are sufficient incentives for follow-on inventions. All non-exclusive grant-backs would continue to be covered by the TTBE.

No Challenge Clauses

Under the current TTBE, any obligation on the licensee not to challenge the validity of the licensed technology's intellectual property is an excluded restriction. This remains the case under the new proposals.

However, the current rules do allow a licensor to terminate the technology transfer agreement if the licensee challenges the validity of the licensed intellectual property rights. Under the new proposals, such termination clauses would fall outside the safe harbour, as they are considered to have the same effect as no challenge clauses.

This means that such termination provisions would need to be examined individually to determine if they raise any competition concerns on a case by case basis. The remainder of the agreement could still benefit from the TTBE.

Reverse Payment Settlements

The new proposed Guidelines acknowledge that settlement agreements can often be pro-competitive as they are often a legitimate way to find a mutually acceptable compromise to a genuine technology dispute. For example, in the absence of a particular licence, a licensee could potentially be excluded from the market.

However, the new proposal also recognises that the actual provisions of settlement agreements can give rise to significant competition concerns, particularly in the case of "reverse payment settlements" or "pay for delay" agreements. For example, where a settlement agreement between competitors includes a licence for the technology and market relevant to the litigation but where the licensee agrees to delay or not launch its product on the market in exchange for a payment.

Financial inducements by the licensor to the licensee in exchange for more restrictive settlement terms have increasingly been closely looked at by regulators in recent years, especially in the pharmaceutical sector where a patent holder pays a licensee to delay market entry of a generic product which may compete with the patent holder's branded product in the marketplace.

The new proposed Guidelines also state that clauses in settlement agreements that prohibit future challenges to a patent when the patent holder "knows or should have known" that the patentability criteria are not met, may be problematic. For instance, if the patent was granted on the basis of incorrect, misleading or incomplete information, this may be considered anti-competitive. Such no challenge clauses will be considered even more problematic if coupled with financial inducement from the licensor.

Technology Patent Pools

The Commission is also proposing changes to technology patent pools, which are multilateral agreements for the licensing of several sector-essential patents controlled by different owners, which is particularly common in the high-tech sector. These technology patent pools involve licensing not only to contributors to the pool but also to third parties.

Under the current Guidelines, the Commission considers that technology patent pools are generally pro-competitive if they include only "complementary" technology, i.e. non-competing technology that is essential to produce a particular product. The new proposals would clarify that a patent can be considered essential (and in effect complementary) not only if it is necessary to produce a particular product but also if it is required to comply with a standard.

The new proposals also state that licensing agreements between a technology patent pool and third parties should fall outside the scope of the TTBE because they are considered to be a multiparty agreement. The TTBE covers bipartite technology pools for a particular licensee to produce contract goods.

The new proposals also set out a safe harbour for the creation and operation of technology pools. In effect, the creation of a technology pool implies joint selling of pooled technologies and where such technologies are competing, they can potentially amount to a price-fixing cartel. Likewise, where the pool supports an industry or de facto industry standard, this can result in foreclosure of other technologies and a reduction in innovation. By structuring the pool to fall within the safe harbour conditions set out in the revised Guidelines, pool contributors can get comfortable that their pool is pro-competitive regardless of the market share the pool could obtain.

Such conditions include, for example, ensuring participation in the standard and pool creation process is open to all interested parties; sufficient safeguards are in place so that only essential (and thereby complementary) technologies are pooled and there is no exchange of sensitive information between competing pool participants; pooled technologies are licensed on a non-exclusive basis and available to all potential licensees on fair, reasonable and non-discriminatory terms; parties contributing to the pool and licensees are free to challenge the validity and essentiality of the pooled technologies and that they remain free to develop competing products and technology.

The new proposals, if adopted, would enter into force on 1 May 2014 (when the current rules end) and expire on 30 April 2026. There would be a one year transitional period to 30 April 2015 during which the prohibitions on anti-competitive agreements would not apply for existing arrangements in force on 30 April 2014 and which satisfy the conditions of the current TTBE but not the new TTBE.

Further information on the consultation can be found at: http://ec.europa.eu/competition/consultations/2013_technology_transfer/index_en.html

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