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European Union Adopts New Rules for Technology Licensing Agreements

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The European Union has a new regime for assessing technology licensing agreements under EU competition law. The new rules include a new technology transfer block exemption regulation (“TTBER”), which exempts certain bilateral licensing agreements from antitrust rules, and revised Technology Transfer Guidelines (“TT Guidelines”), which provide further guidance on the application of the rules to both bilateral and multi-party agreements. These rules cover all technology licensing agreements that may affect trade between EU Member State and therefore be subject to Article 101 TFEU. In force beginning 1 May, they replace the current rules dating from 2004. However, undertakings have until 30 April 2015 to ensure that existing agreements are put in conformity with the new rules.

While technology licensing agreements are generally recognized as stimulating competition, companies should be aware of the fact that such agreements, or some their provisions, can be subsequently challenged by a competition authority or, even more likely, by the counterparty before national courts.

These are the main changes:

- The scope of IP rights agreements covered by the rules remains essentially similar, although a new test is introduced for ancillary purchases of raw material or equipment and trademark licensing.
- Because the new rules do not modify the market shares thresholds, the list of hardcore restrictions, or the TT Guidelines additional safe harbor, most existing licensing agreements should remain compliant.
- Some specific clauses that are frequent in practice (*e.g.* termination for challenge clauses and exclusive grant-backs on nonseverable improvements) might nevertheless become unenforceable.
- The TT Guidelines introduce more detailed provisions on settlement agreements and patent pools, including a specific safe harbor for patent pools.

What agreements are covered by the new rules? All agreements concluded between two parties for licensing know-how or IP rights (patents, software, design, etc) for the production of goods and services are covered, whether concluded between competitors or non-competitors.

By analogy the new rules also apply to copyright for the production of contract products (thus not for licensing of rental or performance rights for film or music). The licensing of software copyrights are covered by the TTBER, unless it is for the purpose of mere reproduction and distribution of protected work (i.e., production of copies for resale), which instead fall under the general rules for vertical agreements.

With regards to trademarks and raw material/equipment purchases, the new TTBER modifies the test for the application of the TTBER and TT Guidelines from a center of gravity test or “primary object” test (i.e., whether trademark licensing or purchase conditions for raw materials are “less important” than the actual licensing of technology) to a direct relationship test (i.e., whether they are directly related to the production or sale of the contract products which are produced with the licensed technology).

What remains unchanged? The primary rules of the existing system remains unchanged:

- *Thresholds to benefit from the TTBER safe harbor.* When the combined share of the relevant markets accounted for by the parties does not exceed 20% for agreements between competitors and 30% for agreements between non-competitors, they benefit from the TTBER block exemption.
- *Hardcore restrictions.* The list of so-called “hardcore” restrictions that are never accepted remains largely untouched. The sole substantive modification was the replacement of the automatic exemption of passive sales restrictions between non-competitors during the first two years of an agreement by a case-by-case analysis of the objective necessity of such restriction (and its duration) for the licensee to penetrate a new market.

Other changes in hardcore restrictions are merely textual. While the hardcore restrictions do not expressly exclude field of use restrictions between competitors anymore, the TT Guidelines clarify that such restrictions should not be seen as customer or output restrictions, and remain thus covered by the TTBER. Similarly, the TT Guidelines confirm that the obligation on the licensor not to license the technology to another licensee in a particular territory is still not considered as a hardcore restriction.

- *The TT Guidelines additional safe harbor.* Besides the market share based block exemption provided in the TTBER, the TT Guidelines keep the second safe harbor that is applicable when (i) there is no hardcore restriction, and (ii) there are four or more additional independently controlled technologies that may be substitutable for the licensed technology at a comparable cost to the user.

Termination for challenge. Provisions allowing the licensor to terminate a non-exclusive agreement if the licensee challenges the validity of the IP rights are no longer exempted, limiting the exemption of termination clauses to exclusive license agreements. Such clauses that are included in many licensing non-exclusive agreements would therefore have to be assessed on a case-by-case basis. However, they would not affect the application of the TTBER to the rest of the agreement.

Grant-back. Grant-back obligations whereby the licensee is obliged to license back non-severable improvements to the licensor on an exclusive basis (i.e., not even use its own improvements to the licensed technology itself) will also fall outside the safe harbor of the TTBER and require an individual assessment. Non-exclusive grant-back obligations are still covered by the TTBER.

Settlements Agreements. Pay-for-delay or reverse settlement agreements are addressed in more details to reflect the Commission's recent decisional practice in the pharmaceutical and technology sectors which considers that such agreements might be caught when there is a significant value transfer to the licensee in return for a limitation of entry or expansion.

In addition, while the previous Guidelines provided that non-challenge clauses in settlement agreements were "*generally considered to fall outside Article 101 TFEU*," the new Guidelines add that they might nevertheless be caught under specific circumstances, in particular in cases where the patent was granted following the provision of incorrect or misleading information or the licensee is "*financially induced*" to agree not to challenge the patent validity.

Patent pools. Acknowledging the often procompetitive nature of patent pools, the licensing from multi-party agreements in the form of patent pools now benefits from a safe harbor in the Guidelines if:

- participation in the pool creation process is open to all interested IP owners,
- sufficient safeguards are adopted to ensure that only "*essential*" technologies (which therefore necessarily are also complements) are pooled,
- 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,
- 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 ("FRAND") terms,
- contributors and licensees are free to challenge the validity and the essentiality of the pooled technologies, and,
- contributors and licensees remain free to develop competing products and technology.

The above safe harbor for patent pools, which applies regardless of market shares, covers not only the creation of the pool but also its subsequent licensing out from the pool (which in itself is considered as a multiparty agreement not covered by the TTBER). This new regime is expected to give further incentives to the creation of pro-competitive patent pools.

Implications

To be prepared for the implementation of these new rules, companies subject to these rules should:

- Review and possibly amend termination for challenge and grant-back clauses in their existing licensing agreements by 2015.
- Ensure that all new bilateral licensing agreements fall under the TTBER or could be individually justified under the Guidelines.
- When entering into patent pools, consider the conditions for the TT Guidelines safe harbor.

The Commission regulation and Guidelines can be read here: http://ec.europa.eu/competition/antitrust/legislation/transfer.html#TTBER_and_guidelines

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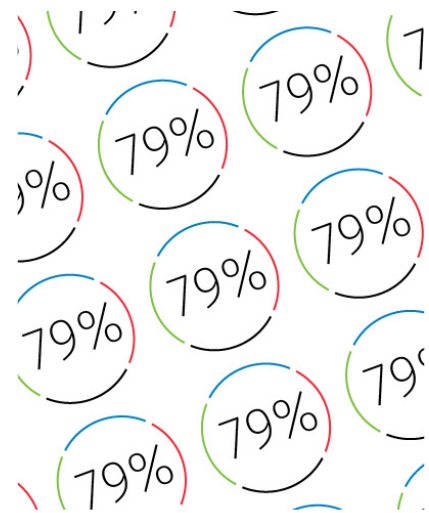
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