

EU Competition Law

European Commission Adopts New Technology Transfer Block Exemption Regulation and Guidelines

SUMMARY

The principal rules of EU competition law relating to technology licensing are set out in the European Commission's Technology Transfer Block Exemption Regulation ("TTBER") and Guidelines on Technology Transfer Agreements ("Guidelines") (collectively, the "TTBER and Guidelines"). The TTBER provides a "block exemption" that shields certain types of agreements from EU antitrust scrutiny, while the Guidelines explain the TTBER and provide additional guidance on the EU competition law analysis of technology transfer agreements that do not fall within the scope of the TTBER. Agreements not falling within the block exemption are (i) subject to a case-by-case analysis of their competitive effects using the analytical methodology set forth in the Guidelines or (ii) presumed to be a violation if they fall within the "hardcore" restrictive provisions identified in the TTBER. Following a public consultation launched on February 20, 2013, the European Commission adopted the new TTBER and Guidelines on March 21, 2014. The new TTBER and Guidelines will replace the current TTBER and Guidelines when the current Guidelines expire on April 30, 2014.¹

In sum, the new TTBER and Guidelines subject additional licensing agreements to EU review and limit the types of agreements that had enjoyed safe-harbor protection under the existing rules. Among other changes, as of May 1 the TTBER safe harbors will no longer apply to:

- Exclusive grant-back or assignment clauses for improvements to licensed technology; and
- Provisions that allow the licensor to terminate the license if the licensee challenges the validity of the licensed intellectual property right, although licensors can terminate the exclusivity granted to the licensee in response to such a challenge without losing the protection of the TTBER.

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In addition to explaining the TTBER changes, the new Guidelines contain considerably expanded discussion regarding the EU competition law analysis of settlement agreements and technology pools, including the factors likely to make such agreements compliant with EU competition law. The additional guidance on settlements and pools reflects the European Commission's increasing interest, echoed by other competition law enforcement authorities around the world, in licensing and other uses of intellectual property in markets that are dependent on innovation and where patents and other intellectual property protections are of critical importance.

The new TTBER and Guidelines come into force on May 1, 2014. There is a one-year transitional period for agreements in force on April 30, 2014 that satisfy the conditions set out in the current TTBER.

BACKGROUND

In April 2004, the European Commission (the "Commission") adopted the TTBER (Regulation (EC) No. 772/2004), which exempts certain defined categories of technology-transfer agreements from the EU competition law prohibition on anti-competitive agreements that affect trade between EU states.² The TTBER provides a general exemption for two-party technology-transfer agreements involving patents, know-how, and/or software copyrights if the parties' market share in any relevant product market or technology market does not exceed 20% (combined, for competitors) or 30% (each, for non-competitors).

However, the TTBER exemption generally does not apply to agreements that include restrictions on price, limits on output, market-allocation provisions, or restrictions on the licensee's ability to conduct research or exploit its own technology. Along with the TTBER, the Commission has issued Guidelines that explain the TTBER and the limits of any safe-harbor provisions, particularly with respect to certain provisions which apply to settlements of intellectual property disputes and establishing patent pools.

On March 21, 2014, following a public consultation process, the Commission adopted the revised TTBER and Guidelines. The changes to the TTBER and Guidelines come at a time when the Commission appears to be increasingly concerned with the effects of transferring, licensing, and enforcing intellectual property rights. Senior Commission officials have noted that they intend to use EU competition law to "prevent the misuse of patent rights to the detriment of a vigorous and accessible market" and to "intervene to ensure that markets remain open enough for innovation to be able to flourish."³ The Commission has given effect to these pronouncements by increasing its enforcement efforts. Most recently, the Commission, like the U.S. DOJ and other regulatory agencies, has been reviewing the efforts of patentees to seek injunctive relief to enforce standard essential patents.⁴ The Commission has also demonstrated an interest in scrutinizing patent litigation settlement agreements in order to determine if they include anticompetitive elements such as "pay for delay" agreements between holders of drug patents and generic manufacturers,⁵ and has taken a more active role in reviewing patent pools.

As discussed below, the new TTBER and Guidelines on balance impose stricter rules on evaluating technology-transfer agreements, and reflect the Commission's clear policy to more carefully review the licensing and other use of intellectual property.

KEY CHANGES IN THE NEW TTBER AND GUIDELINES

The new TTBER is similar to the existing TTBER in that it provides a general exemption from liability under Article 101 TFEU for two-party technology-transfer agreements that satisfy certain conditions. However, there are a number of changes in the contours of the safe harbors under the new TTBER:

- ***Passive sales restrictions will take an agreement outside the safe harbor of the TTBER in most circumstances.*** The new TTBER safe harbor will not apply to agreements restricting a licensee's passive sales — unsolicited sales made to customers outside the licensee's allotted territory — unless the restriction is objectively necessary to allow the licensee to enter a new market.
- ***Exclusive grant-back or assignment provisions will fall outside of the TTBER safe harbor.*** Grant-back provisions requiring a licensee to grant an exclusive license back to the licensor for any improvements made by the licensee to the licensed technology will be subject to Commission review and analysis. The new TTBER eliminates the distinction between “severable” and “non-severable improvements,” and excludes all exclusive grant-back provisions from the safe harbor. Non-exclusive grant-back provisions will continue to fall within the safe harbor, regardless of the nature of the improvement.
- ***Termination-for-challenge clauses will fall outside the TTBER.*** Under the current TTBER, no-challenge clauses, which prohibit the licensee from challenging the validity of the licensed intellectual property, do not benefit from the safe harbor. However, the safe harbor under existing TTBER applies to provisions that simply allow the licensor to terminate the agreement if the licensee challenges validity. Under the new TTBER, such termination-for-challenge provisions will also be excluded from the safe harbor, except that licensors can terminate any exclusivity granted to the licensee in response to such a challenge without losing the protection of the TTBER.
- ***The safe harbor will more broadly apply to technology-licensing agreements with additional non-licensing components.*** Under the current TTBER, provisions in an agreement that relate to non-licensing aspects such as the purchase of non-licensed products or equipment do not fall within the safe harbor unless they are “directly and exclusively related to the production” of licensed products and “do not constitute the primary objective of the agreement.” The new TTBER will eliminate the “primary objective” prong, and thus consider only whether the ancillary product or equipment is “directly and exclusively related” to the goods or services produced by the licensee using the licensed technology.
- ***The TTBER will not apply where other block-exemption regulations are applicable.*** The new TTBER includes a new provision stating that the TTBER does not apply to licensing agreements that fall within the Commission's R&D and specialization agreements block-exemption regulations.

The new Guidelines explain the Commission's basis for the changes to the TTBER described above, and also include, as discussed below, extensive new and revised guidance relating to settlement agreements and technology pools.

Settlement Agreements. The new Guidelines discuss two categories of settlement agreement that may result in Commission scrutiny. First, as with certain enforcement authorities in the United States,⁶ the Commission noted its concerns with so-called “pay-for-delay” or “reverse-payment” settlement

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agreements, in which the licensor provides an inducement, financial or otherwise, for the licensee to agree to more restrictive terms (such as delay) than it would have accepted solely on the strength of the licensor's intellectual property. Second, the Commission noted its interest in settlement agreements between competitors containing cross-license provisions where the competitors have a significant degree of market power and the agreement imposes restrictions beyond what is required to unblock each party's use of the licensed technology. Provisions the Commission considers suspect include those requiring the parties to share future inventions. The Commission also notes that non-challenge clauses in genuine settlement agreements will typically not fall foul of Article 101 TFEU, but the analysis is fact-dependent and such agreements could amount to infringements in certain circumstances.

Technology Pools. The new Guidelines clarify certain issues that the Commission believes minimize competitive concerns with respect to technology pools.

First, in assessing whether a technology pool is procompetitive, one important factor for the Commission is whether only complementary technology (*i.e.*, non-competing technology) is included in the pool. Technology which is essential to produce a particular product is by definition complementary, because if you need both A and B to produce X, then A and B are both essential and complementary. The Guidelines clarify that the definition of essentiality covers not only essentiality with respect to producing a particular product but also with respect to complying with a particular standard.

Second, the new Guidelines expressly state that the creation and operation of the pool will generally fall outside the prohibition of Article 101 irrespective of the market position of the parties if the following conditions (which are also set out in the current Guidelines) are met:

- Participation in the standard and pool creation process is open to all interested parties.
- Sufficient safeguards are adopted to ensure that only essential technologies (which therefore by necessity are also complements) are pooled.
- Sufficient safeguards are adopted to ensure that exchange of sensitive information 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 FRAND terms.
- The parties contributing technology to the pool and the licensees are free to challenge the validity and the essentiality of the pooled technologies.
- The parties contributing technology to the pool and the licensee remain free to develop competing products and technology.

These factors are similar to those identified by the United States Department of Justice in Business Review Letters we have obtained on behalf of clients.⁷

IMPLICATIONS

The new TTBER and Guidelines constitute significant changes to the EU competition laws rules on technology transfer agreements and reduce the safe harbor protection for licenses and certain assignments of intellectual property rights. This increases the scope for such agreements to be subject to review under EU competition law. Accordingly, companies that are parties to such agreements that affect trade between EU states, or that are likely to enter into these agreements (including those related to the pooling of technology), may want to consider submitting comments before the May 17, 2013 deadline. In addition, companies should review their current technology transfer agreements and any pool contracts for compliance with the new rules. While the new TTBER and Guidelines will become effective on May 1, 2014 for agreements entered on or after that date, existing agreements which meet the current TTBER and Guidelines and continue in force will be not be subject to the new regulation until May 1, 2015.

In addition to the specific provisions noted above, the new Guidelines provide further learning on the Commission's current thinking on the competition law issues raised by the licensing and other use of intellectual property. That guidance will be useful in fashioning agreements that do not specifically include "safe" or "hardcore" provisions, and allow parties to achieve their respective business objectives while minimizing the risk that the Commission may consider the agreements to be anticompetitive.

The new TTBER and Guidelines confirm the Commission's increasing interest in the antitrust implications of intellectual property licensing, transfer and enforcement. Thus, companies subject to EU competition regulation should carefully consider these proposals along with the Commission's recent statements and enforcement actions in their intellectual property licensing and enforcement strategies.

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ENDNOTES

- ¹ Commission Regulation (EU) No .../..of XXX on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements; Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements.
- ² Article 101 of the Treaty on the Functioning of the European Union (“TFEU”).
- ³ Joaquín Almunia, Vice President of the European Comm’n responsible for Competition Policy, *Industrial and Competition Policy: Quo vadis Europa?*, Address at the New Frontiers of Antitrust 3rd International Concurrences Conference (Feb. 10, 2012) (SPEECH/12/83) (http://europa.eu/rapid/press-release_SPEECH-12-83_en.pdf); Alexander Italianer, Dir. Gen. of the European Comm’n Directorate-General for Competition, Prepared Remarks on: Level-Playing Field and Innovation in Technology Markets, Address at the Conference on Antitrust in Technology (Jan. 28, 2013) (http://ec.europa.eu/competition/speeches/text/sp2013_01_en.pdf).
- ⁴ See Commission Press Release (6 May, 2013) (IP/13/406 http://europa.eu/rapid/press-release_IP-13-406_en.pdf) (Commission sends Statement of Objections to Motorola Mobility on potential misuse of mobile phone standard-essential patents); Commission Press Release (October 17, 2013) (IP/13/971 http://europa.eu/rapid/press-release_IP-13-971_en.pdf) (Commission consults on commitments offered by Samsung Electronics regarding use of standard essential patents).
- ⁵ See Commission Press Release (19 June, 2013) (IP/13/563; http://europa.eu/rapid/press-release_IP-13-563_en.pdf) (Commission fines Lundbeck and other pharma companies for delaying market entry of generic versions of Citalopram); Commission Press Release (July 30, 2012) (IP/12/835; http://europa.eu/rapid/press-release_IP-12-835_en.pdf) (Commission preliminarily concluded that patent settlement agreements concluded by Servier with potential generic competitors, as well as Servier’s acquisition of key competing technologies, were aimed at delaying or preventing the market entry of generic versions of perindopril); Commission Press Release (December 10, 2013) (IP/13/1233 http://europa.eu/rapid/press-release_IP-13-1233_en.pdf) (Commission fines Johnson & Johnson and Novartis €16 million for delaying market entry of generic pain-killer fentanyl).
- ⁶ See our publication dated June 19, 2013, entitled “[Supreme Court Subjects Reverse-Payment Settlements to Antitrust ‘Rule of Reason.’](#)”
- ⁷ See, e.g., Letter from Joel I. Klein, Assistant Attorney General, to Gerrard (sic) R. Beeney (June 26, 1997) (<http://www.justice.gov/atr/public/busreview/215742.htm>); Letter from Joel I. Klein, Assistant Attorney General, to Garrard R. Beeney (December 16, 1998) (<http://www.usdoj.gov/atr/public/busreview/2121.htm>).

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