EU Competition Law Implications of Technology Licensing

European Commission Proposes Changes to Its 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 (collectively, the "TTBER/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. Practices not falling within the block exemption would be (i) subject to a case-by-case analysis by the Commission of the competitive effects of such practices using the analytical methodology set forth in the Guidelines or (ii) presumed to be a violation if such practices fell within the “hardcore” restrictive provisions identified in the TTBER. On February 20, 2013, the European Commission released for public comment proposed new TTBER/Guidelines to replace those currently in force when they expire on April 30, 2014.¹

The proposed revisions to the TTBER would, if enacted, subject additional licensing practices to EU review and limit the types of agreements that enjoy safe harbor protection under the existing rules. Among other changes, the TTBER exemption safe harbors would no longer apply to:

- Agreements containing exclusive grant-back clauses for improvements to licensed technology;
- Agreements that allow the licensor to terminate the license if the other party challenges the validity of the licensed intellectual property right; and
- In certain circumstances, agreements between non-competitors with a combined 20% market share in any relevant product or technology market.

¹ The proposed TTBER and Guidelines are available for public comment at http://ec.europa.eu/competition/antitrust/mergers/ttber/guidelines/index_en.htm.
In addition to explaining the proposed TTBER changes, the proposed 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, to closely review licensing and other uses of intellectual property in markets that are increasingly dependent on innovation that has been granted patent and other protections.

The deadline for public comments on the proposed TTBER and Guidelines is May 17, 2013.

**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. 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 as certain provisions apply to settlements of intellectual property disputes and establishing patent pools.

On February 20, 2013, the Commission released for public comment its proposed revisions to the current TTBER/Guidelines. The proposed changes come at a time when the Commission appears to be increasingly concerned with the effects of transferring, licensing, and enforcing intellectual property rights. In a number of recent speeches, 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.” In addition, the Commission has increased its enforcement efforts. Most recently, for example, the Commission issued a Statement of Objections in one case and opened an investigation in another in which patent holders sought an injunction for infringement of standard essential patents. The Commission also has a number of ongoing actions relating to patent litigation settlement agreements, and has taken a more active role in reviewing patent pools.

As discussed below, the proposed new TTBER/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 PROPOSED TTBER AND GUIDELINES

The proposed TTBER is similar to the existing one in that it provides a general exemption from Article 101 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 proposed TTBER:

- **The market-share ceiling for application of the TTBER to agreements between non-competitors would be lowered in certain circumstances.** Under the current rules, the TTBER exemption applies to agreements between non-competitors so long as the market share of each is less than 30%. Under the proposed TTBER, the combined market-share ceiling for non-competitors would be 20% where the licensee already owns another technology that it uses only for in-house production and that is substitutable for the licensed technology. The proposed new rule is intended to reduce the possibility that a party may seek to reduce competition or innovation by obtaining exclusive rights to substitutable technologies.

- **Passive sales restrictions would take an agreement outside the safe harbor of the TTBER in most circumstances.** The proposed TTBER safe harbor would 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 provisions would fall outside of the TTBER safe harbor.** Grant-back provisions requiring a licensee to license back to the licensor any improvements made by the licensee to the licensed technology would be subject to Commission review and analysis. The current TTBER distinguishes between “severable” and “non-severable improvements,” and excludes only exclusive grant-back provisions relating to severable improvements from the TTBER safe harbor. The proposed TTBER would eliminate this distinction, and exclude all exclusive grant-back provisions from the safe harbor. Non-exclusive grant-back provisions would continue to fall within the safe harbor, regardless of the nature of the improvement.

- **Termination-for-challenge clauses would 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 applies to provisions that simply allow the licensor to terminate the agreement if the licensee challenges validity. Under the proposed TTBER, such termination-for-challenge provisions would also be excluded from the safe harbor.

- **The safe harbor would 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 proposed TTBER would 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 would not apply where other block-exemption regulations are applicable.** The proposed TTBER includes a new provision stating that it does not apply to licensing agreements that fall within the Commission’s R&D and specialization agreements block-exemption regulations.

The proposed 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, the Commission noted its concerns with so-called “pay-for-delay” or “reverse-payment” settlement 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 would include those requiring the parties to share future inventions.

**Technology Pools.** The proposed 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 proposed Guidelines expressly state that the creation and operation of the pool will generally fall outside 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.⁵
IMPLICATIONS

If adopted, the proposed TTBER/Guidelines would result in significant changes in the EU competition laws rules on technology licensing agreements and subject more licenses and other practices regarding intellectual property to Commission review. 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 proposed new rules. While the new TTBER/Guidelines would become effective on May 1, 2014 for agreements entered on or after that date, existing agreements which meet the current TTBER/Guidelines and continue in force would be not be subject to the new regulation until May 1, 2015.

In addition to the specific provisions noted above, the proposed 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 proposed TTBER/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


2 Article 101 of the Treaty on the Functioning of the European Union ("TFEU").


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