COMMENTS

European Commission Proposes Stricter EU Antitrust Rules on Technology Transfer

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Anti-competitive practices; Block exemptions; EU law; Investigations; Market share; Settlements; Technology transfer

The European Commission recently tabled a draft Technology Transfer Block Exemption Regulation and Guidelines to replace the "safe harbour" rules in force for technology transfer arrangements. While reflecting various "good housekeeping" measures to clarify which licensing deals can benefit from the new regime, a tougher stance is also proposed in relation to certain provisions which have hitherto benefited from an automatic exemption. The scope of the guidance has also been expanded to embrace complex issues such as technology pools and settlement agreements, reflecting recent administrative practice that has developed in these areas. An interesting consultation process is anticipated by IP rights stakeholders.

If tabled proposals are ultimately implemented, the current legal regime which applies to the assessment of technology transfer arrangements under EU antitrust rules is about to undergo some significant changes. Technology transfer agreements have been subject to a specific Block Exemption Regulation since 1984,[1] and the Commission has refined its assessment in its various revisions of the Block Exemption regime until the adoption of the current version in 2004 (the TTBER).[2] On February 20, 2013, the European Commission (the Commission) initiated a Public Consultation on its proposed revision of the current regime applicable to technology transfer agreements. The proposal, in the form of a new Technology Transfer Block Exemption Regulation (the Draft TTBER) which is accompanied with Guidelines (the Draft TT Guidelines), has been prepared following a prior consultation launched on December 6, 2011 (the 2011–12 Consultation).[3] The finalised legal instruments are likely to enter into force by April 30, 2014, upon expiry of the current regime.

The Draft TTBER and Draft TT Guidelines include a number of proposed substantive changes that affect many aspects of the current "safe harbour" regime applicable to technology transfer agreements under the Block Exemption regime.[4] These new proposals cover, inter alia: (1) clarifying the scope of application of the Draft TTBER; (2) providing additional guidance on the method of calculating market shares in the context of technology licensing agreements; (3) re-defining certain "hard-core" (i.e. virtually "per se" rules) and exclusivity restrictions; and the provision of more extensive guidance regarding the compatibility with EU antitrust rules of (4) settlement agreements and (5) technology pools.

Scope of application of the Draft TTBER

In response to a number of requests made by stakeholders in the 2011–12 Consultation, the Commission has proposed to clarify the scope of application of the Draft TTBER. The fragmented nature of the "safe harbour" Block Exemption regime, with numerous Block Exemption Regulations having been adopted in response to the growth of specific commercial practices across the European Union, means that a degree of regularisation is

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[1] See Regulation 2349/84 on the application of art.85(3) [currently art.101(3)] of the Treaty to certain categories of patent licensing agreements [1984] OJ L219/15–24.

[2] See Regulation 772/2004 on the application of art.81(3) [currently art.101(3)] of the Treaty to categories of technology transfer agreements [2004] OJ L123/11–17.

[3] The Draft TTBER and Draft TT Guidelines can be found at *http://ec.europa.eu/competition/consultations/2013_technology_transfer/index_en.html* [Accessed May 1, 2013].

[4] The Commission may adopt Block Exemption Regulations applicable to specific categories of agreements (e.g. technology transfer agreements, distribution agreements, etc.), by virtue of which it establishes a presumption that certain agreements do not affect competition adversely within the EU (and are therefore covered by a "safe harbour") provided that the conditions of the applicable Block Exemption Regulation are satisfied. Agreements that fail to fulfil the conditions set in the applicable Block Exemption Regulation do not automatically infringe art.101(1) TFEU (subject to a case-by-case assessment), and may also be capable of individual exemption under art.101(3) TFEU. However, such agreements will not benefit from the automatic "safe harbour" established under the applicable Block Exemption regime. The enforceability of such arrangements will need to be assessed by the parties themselves (under the principle of "self-assessment") given that the formal notification procedure to the Commission is no longer in use since the adoption of Council Regulation 1/2003 (with the satisfaction of the terms of art.101(3) TFEU now being considered in the context of national proceedings).

being increasingly required. Thus it is appropriate to clarify the precise scope of the Block Exemption as it applies to certain types of technology transfer:

- The Draft TTBER expressly carves out from its application technology licensing in the context of R & D and specialisation agreements that fall within the scope of the respective separate Block Exemption Regulations for these types of agreements, and in the context of the establishment of technology pools.
- The Draft TT Guidelines propose the exclusion from the Draft TTBER of software licensing in the context of mere reproduction and distribution of software copyright-protected products, since these agreements, in the view of the Commission, are more appropriately addressed by the separate regime that is found in the Vertical Block Exemption Regulation and the Guidelines on Vertical Restraints.[5]
- In addition to defining the scope of the technology licensing regime, the Draft TTBER includes an exhaustive list of the IP rights the licensing of which would be understood to be a "technology" transfer agreement subject to the application of the Draft TTBER (e.g. know-how, patents, utility models, design rights, supplementary protection certificates, and software copyrights for their use beyond mere reproduction and distribution). Although the Commission initially considered (and made subject to the 2011–12 Consultation) the possibility of including "trade marks" among the IP rights constituting "technology", trade marks have been left outside the scope of the Draft TTBER, probably owing to a lack of favourable responses by stakeholders.[6] Accordingly, the licensing of trademarks to be attached to goods produced by the licensee (without there being any licensing or assignment of other IP rights or know-how constituting "technology" for the production of such goods) will continue to be assessed under art.101 TFEU, applying by analogy the Block Exemption regimes for vertical arrangements and technology transfer agreements.[7]
- Further, the Draft TTBER purports to apply to the licensing of "technology" where this is combined with the licensing of other IP rights (e.g. trade marks, or non-software copyrights), or where it includes provisions relating to the purchase of products by the licensee (insofar as such licensing or purchase is directly and exclusively related to the production of the contract products). This modification will depart from the current legal test for the licensing of technology, which requires that such licensing constitute the "primary object" of the agreement in order for the TTBER to apply. For example, under the proposed new regime, the disclosure of know-how ("technology") and the licensing of a trade mark to produce goods would also be covered even if the main objective of the parties is to exploit such a trade mark (rather than the know-how in question).[8]

Market share thresholds and calculations

The Draft TTBER proposes to maintain the same level of market share thresholds below which parties to a technology transfer agreement may be covered by the exemption set out in the *TTBER* (i.e. 20 per cent market share where the licensing occurs between actual or potential competitors; 30 per cent market share between non-competing firms). However, the Draft TTBE clarifies that the 20 per cent market share threshold should also be observed in licensing agreements between non-competing companies where the licensee owns a technology which it uses *only* for in-house production and which is substitutable for the licensed technology.[9] The Commission has proposed to apply this approach in order to be able to address potential threats to competition that have been detected in recent cases.[10]

In addition, the Draft TTBER and the Draft TT Guidelines address in detail market share calculations at the technology licensing level. In this regard, the Commission clarifies that the market share of both licensors and licensees should be calculated on the basis of the combined sales of the products integrating the licensed technology (i.e. their "footprint" sales at the product market level). The licensor's and licensees' respective sales should be calculated as part of a market which should encompass competing products, irrespective of whether or not they have been manufactured under a

[5] See Draft TTBER art.9.
[6] It appears that only the Intellectual Property Lawyers' Association supported the inclusion of trade mark licensing under the scope of the Draft TTBER.
[7] See, for example, Case IV/28.173—*Campari* [1978] OJ L70/69–78.
[8] See Draft TT Guidelines, para.51. The Commission indicates that agreements such as the one assessed by it in Case IV/32.736—*Moosehead/Whitbread* [1990] OJ L100/32–37) would be covered by the Draft TTBER.
[9] See Draft TTBER art.3(2); and Draft TT Guidelines, paras 72 and 73.
[10] See, for example, Case COMP/M.4827—*Rio Tinto/Alcan*, in which the market share of the merging parties at the technology licensing level was of 75–85% (see paras 92 and 93). The transaction was cleared in this regard due to the behavioural commitments agreed upon by the acquirer in a previous transaction.

technology licence.[11] New technologies which have not yet been applied to the production of products, and therefore have not generated sales in the preceding calendar year, will benefit from the assignment of a zero market share.

"Hard-core" and excluded restrictions

By broadening the scope of certain "hard-core" and "excluded" restrictions, the Draft TTBER proposes to apply a more stringent approach regarding particular arrangements in technology transfer agreements. This caution has been no doubt prompted by the many IP-related competition law investigations which have been launched over the past few years. These investigations have provided the Commission with a different perspective on the strategic use of certain types of IP-licensing obligations.[12]

Licensees' protection from sales by other licensees as "hard-core" restrictions

In the context of technology licensing agreements between non-competing firms, the Draft TTBER retains the protection conferred on a licensor in its exclusively allocated territory against "passive" sales made from its licensees.[13] However, in contrast with the current regime, the Commission has proposed that the "safe harbour" exemption no longer protect licensees from passive sales by other licensees made into their exclusive allocated territories or designated exclusive customer groups during the first two years in which licensees sell products manufactured under licence.[14] This proposed revision seems to follow the path set under the Vertical Block Exemption Regulation and the Guidelines on Vertical Restraints applicable to distribution arrangements (i.e. in principle, an exclusive distributor cannot be protected against passive sales from other distributors into its exclusive territory).[15]

While refusing the automatic exemption for these passive sale restrictions, the *Draft TT Guidelines* indicate that:

> "[R]estrictions on passive sales by licensees into an exclusive territory or customer group allocated to another licensee … may fall outside Article 101(1) for a certain duration [of up to two years] if the restraints are objectively necessary for the protected licensee to penetrate the new market."

This limited exception will, however, be no doubt difficult to manage in practice, as it passes the risk and burden of the self-assessment process under art.101 TFEU entirely to the licensing parties.[16] The Draft TTBER and the *Draft TT Guidelines* applying to these scenarios therefore arguably create significantly *less*, rather than greater, legal certainty for firms than does the current "safe harbour" regime.

Exclusion from "safe harbour" of exclusive "grant-back" obligations regarding all kinds of improvements

Under the current regime, a licensor may benefit from the safe harbour even if it imposes on its licensee an obligation to grant back an exclusive licence or to assign it rights with respect to the licensees' own non-severable improvements on the licensed technology. However, in the Draft TTBER, the Commission proposes that the benefit of the Block Exemption be removed as regards the exclusive licensing or assignment obligations of *any* improvements made by the licensee to the licensed technology (i.e. whether severable or non-severable). Thus the proposed safe harbour will now cover only non-exclusive grant-back obligations, regardless of whether they: relate to severable or non-severable improvements; are non-reciprocal; envisage the payment of consideration; or entitle the licensor to feed on these improvements to other licensees.[17] Exclusive grant-back obligations must be assessed individually, but the remainder of the agreement may still benefit from the safe harbour.

Exclusion of termination arrangement following challenges to IP rights

The Commission has expanded the scope of the exclusion from the safe harbour of no-challenge clauses regarding licensed IP rights. First, according to the Draft TTBER, no-challenge clauses do not benefit from the exemption, regardless of whether the ultimate beneficiary of such a provision is the licensor or the licensee. Secondly, the Commission proposes to exclude from the exemption

[11] See Draft TT Guidelines, para.76. This approach had already been adopted by national competition authorities in some EU Member States (e.g. see Decision of the Spanish Competition Authority, *Cardboard manufacturers (II)* Case 575/04, , Legal Basis No.5).

[12] See, for example, the Commission Sector Inquiry on the Pharmaceutical Sector of July 8, 2009 (followed by several patent settlement-monitoring reports), *http://ec.europa.eu/competition/sectors/pharmaceuticals/inquiry/index.html* [Accessed May 1, 2013]. See also *GlaxoSmithKline v Commission* (C-501/06 P) [2009] E.C.R. I-9291, [2010] 4 C.M.L.R. 2; *AstraZeneca v Commisson* (C-457/10 P) [2013] 4 C.M.L.R. 7; and the Commission investigation in Case COMP/39,247—*Texas Instruments/Qualcomm*.

[13] See Draft TTBER at art.4(2)(b)(i). A "passive" sale is one which is made without the seller having solicited the business of the purchaser. The Guidelines on Vertical Restraints provide extensive guidance on what should be considered as "active" or "passive" sales at paras 51 et seq., to which the Draft TT Guidelines cross-refer.

[14] See TTBER art.4(2)(b)(ii).

[15] See Vertical Block Exemption Regulation art.4(b)(i); the Draft TT Guidelines refer themselves to the definition of "active" and "passive" sales provided in the Guidelines on Vertical Restraints (see Draft TT Guidelines, para.98).

[16] See Draft TT Guidelines, para.116; the language is similar to that used in para.61 of the Guidelines on Vertical Restraints.

[17] See Draft TT Guidelines, para.122.

regime those clauses that provide for the termination of the technology licence agreement in the event of a challenge to the validity of the IP rights concerned (these clauses are not excluded under the current TTBER). In a departure from the comparable situation which applies to R & D agreements,[18] the Commission takes the view that such clauses can have the same deterring effect as no-challenge clauses, which do not benefit from the exemption. Further, the possible anti-competitive effects deriving from any such termination clause might be exacerbated in the context of so-called patent thickets.[19]

Settlement agreements

Further to the Commission's 2009 Sector Inquiry on the Pharmaceutical Sector, which has been followed by several monitoring reports of patent settlements, the Commission has deemed it necessary to extend its assessment to settlement agreements in the context of technology licensing. While the Commission indicates that settlement agreements constitute a legitimate way of putting an end to lengthy and costly court proceedings, it is also the case that invalid IP rights should not prevail at the expense of innovation and competition.

The Draft TT Guidelines clarify that settlement agreements may have anti-competitive outcomes where the licensee agrees, upon being induced by the licensor (e.g. financially, or by providing it with a licence), to more restrictive settlement terms than would otherwise have been accepted solely on the basis of the strength of the licensor's technology (so-called "pay-for-delay" or "reverse payment" settlement agreements). Further, the Commission indicates that no-challenge clauses in the context of settlement agreements are likely to be anti-competitive if the licensor knows or could reasonably be expected to have known that the licensed technology was obtained unfairly (e.g. it did not meet the appropriate legal conditions to justify being conferred IP law protection).

Technology pools

Following an increased demand from industry in the 2011–12 Consultation, the Draft TT Guidelines set forth the current competitive assessment of technology pools endorsed by the Commission. Agreements which establish technology pools and set out the terms and conditions for their operation, as well as agreements for the licensing of the pooled technology, are not covered by the Draft TTBER. As such, the Commission proposes that businesses self-assess their behaviour under art.101 TFEU by reference to the principles contained in the envisaged Draft TT Guidelines in order to comply with EU competition rules. The self-assessment process should consider: (1) the formation and operation of technology pools (including the possibility of being covered by the "(soft) safe harbour"); and () an analysis of the restraints stemming from agreements between technology pools and their licensees.

Formation and operation of technology pools/standard-essential patents

The formation and operation of technology pools has to be assessed on a case-by-case basis in order to identify any possible anti-competitive risks and efficiencies. For these purposes, several factors have to be taken into consideration, such as the transparency of the pool-creation process (e.g. the extent to which independent experts are involved in the creation and operation of the pool) and the selection and nature of the pooled technologies (including whether or not these are an essential part of the pooled technologies needed to produce the contract products or to comply with the standard supported by a patent pool). Other important factors are whether or not safeguards against the exchange of sensitive information and independent dispute resolution mechanisms have been established by the parties to the pool arrangement.

The Draft TT Guidelines formalise the creation of a "(soft) safe harbour" that is likely to become the cornerstone for the assessment of technology pools.[20] Subject to the observance of certain conditions, such as the open character of the standard and pool creation process, the establishment of safeguards to ensure limits on the exchange of sensitive information, or the possibility of parties and licensees to challenge the validity or essential nature of the pooled technologies, a pool agreement and also its licensing-in agreements will generally be considered to fall outside the scope of art.101 TFEU irrespective of the market position of the parties. Outside of this "(soft) safe harbour", the likelihood of anti-competitive effects, as well as resulting efficiencies, must be assessed on a case-by-case basis. It should be noted that the Commission seems to be inclined to consider that efficiencies are likely to outweigh the non-observance of certain less sensitive "(soft) safe harbour" conditions, such as the inclusion of non-essential technologies in the pool (i.e. technologies which do not constitute a necessary part of the pooled technologies needed to produce the contract products or to comply with the standard supported by the pool in question).

In addition to the above, the envisaged Draft TT Guidelines propose to maintain certain elements for the assessment of technology pools that were present in the previous regime (e.g. the greater competition concerns posed by technology pools including substitutable

[18] See Regulation 1217/2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to certain categories of research and development agreements [2010] OJ L335/36–42 art.6(a). A justification for such a departure might lie in the potentially more harmful effects on competition that may derive from any direct or indirect no-challenge arrangement *in technology transfer agreements covered by the TTBER (i.e. because they relate to the production of goods rather than to the more preliminary upstream R & D stage).
[19] Namely, those situations where there exists an overlapping set of patent rights.
[20] See Draft TT Guidelines, para.244.

technologies, and the importance of establishing safeguards to prevent the flow of sensitive -yet indispensable- information among the parties to the pool).

Analysis of restraints stemming from agreements between the technology pool and its licensees

Beside the formation of the technology pool itself, licensing-out agreements between a pool and its licensees may also be a source for competition concerns and, because of their multi-party nature, fall outside the scope of the Draft TTBER.[21] In this regard, the Draft TT Guidelines propose the slight modification of the parameters that should be used to assess the possible anti-competitive effects that might derive from the agreed conditions in a technology pool licensing agreement. As such, the Commission has indicated that banning licensing to certain licensees, or licensing pooled technology based on discriminatory terms, might lead to an infringement of EU competition rules where the market position of the technology pool is strong. Further, technology transfer agreements between technology pools and licensees should not contain any of the hard-core and excluded restrictions found in the Draft TTBER.

Special attention is required where the technology pool holds a dominant position on the relevant market. In those situations, the Draft TT Guidelines propose that royalties and licence terms be set on fair reasonable and non-discriminatory (FRAND) terms, and that the relevant licences be non-exclusive. However, the Commission indicates that the mere establishment of different royalties for different product markets or different uses is, as a general principle, not liable to constitute an infringement of EU competition rules insofar as no discrimination is occurring within the product markets affected by the licensed technology.

Conclusions

The proposed changes to the existing EU antitrust regime which governs the licensing of technology is likely to raise some eyebrows in the antitrust community worldwide, especially for companies that derive significant business from technology licensing-out arrangements.

At one level, a number of important changes are being introduced in the respective Draft TTBER and Draft TT Guidelines which create greater clarity for fundamental concepts such as, on the one hand, the types of IP rights that will not be covered under this specific "safe harbour" regime (e.g. trade marks, certain copyrights and IP right licensing in the context of agreements covered by other Block Exemptions), and the clarification of market share calculations, on the other. As regards market share calculations, consistent with the administrative practice of the Commission in other contexts, "captive" IP rights utilised by the licensor will also be included in the calculation of market shares. While there is nothing inconsistent or controversial in the adoption of such an approach, it would be advisable to make any such test also subject to the unambiguous qualification that the internal use is able (and does) exert an indirect competitive constraint on the licensed IP rights available on the "merchant" market.[22]

While it is also the case that a clarification of the Commission's position in the application of antitrust policy to technology pools and settlement agreements is to be welcomed, especially given the development of Commission experience in the appraisal of such relationships over the past four to five years in individual cases brought under arts 101–102 TFEU, it is arguable that the identification of a "(soft) safe harbour" adds very little if anything to the pursuit of legal certainty, given that few elements of such fact-specific relationships lend themselves to the insulation from antitrust investigation that one usually associates with a Block Exemption instrument. Whereas the Commission's position on settlement agreements has come to be fleshed out through its numerous investigations into the pharmaceutical industry over the past few years, the working principles for technology pools are still very much a "work in progress" and it is extremely difficult to draw concrete conclusions about whether any particular refusal to license should be problematic in competition law terms.

Finally, practitioners might be most concerned by the Commission's tough stance in drawing the net wider than the current regime in order to catch a greater range of "hard-core" and "excluded" practices. These proposals are likely to prove most controversial because the adoption of a more restrictive approach in the technology transfer context departs from the more liberal approach taken by the Commission in relation to other Block Exemption Regulations. Insofar as the principal competition concerns about the treatment of clauses such as no-challenge and grant-back clauses stem from the existence of market power,[23] it seems counter-intuitive to treat such clauses as being automatically hard-core or excluded because of their "inherent" anti-competitive effects. Such an approach does not seem to reflect the historical development of the safe harbour regime with respect to technology transfer under the traditional art.101(3) TFEU approach, nor the more "effects based" approach which is supposed to characterise the Commission's enforcement priorities under art.102 TFEU. We can anticipate many robust responses by IP right holders in response to the Commission's proposals in this regard.

[21] As is also the case under the current TTBER.
[22] The extent to which this is compatible with the presumption proposed by the Commission (i.e. licensor and licensee being considered competitors where the licensee uses competing technology only for in-house production) will likely be determined in the Commission's future decisional practice.
[23] See, for example, Case COMP/C-3/36,824—*AllVoice/IBM*, where one aspect of the behaviour investigated involved IBM (whose possible dominance in the engine licensing market was mooted) retaining the right to terminate the speech recognition licence if AllVoice were to initiate proceedings against IBM or any of its customers for infringement of certain speech recognition patents.