New Technology Transfer Block Exemption and Guidelines

On 21 March 2014 the European Commission (Commission) adopted a revised Technology Transfer Block Exemption Regulation (TTBE) and accompanying Guidelines (Guidelines). The new rules will take effect from 1 May 2014 and follow a series of consultations on the draft texts that the Commission launched in 2011 and 2013. We asked EU and competition law barrister Suzanne Rab of Serle Court about the key implications in practice.

What, in brief summary, is the TTBE?

The TTBE provides a safe harbour or "block exemption" for certain categories of technology transfer agreements that fulfil the conditions set out in the TTBE. Where the requirements of the TTBE are met, the agreement will be compatible with Article 101 TFEU without the need for individual assessment. The TTBE applies to a variety of IP licensing scenarios including licences of patents, know-how and software copyright.

As with other block exemption regulations, the application of the TTBE is conditional on the parties' market shares not exceeding certain thresholds. These apply to both the relevant technology and product markets concerned by the technology licensing arrangements (20% combined for agreements between competitors and 30% for agreements between non-competitors). The application of the TTBE is also conditional on the non-inclusion of certain "hardcore" restrictions which are set out in Article 4. In addition, the TTBE contains a list of "excluded" restrictions (Article 5) which do not benefit from block exemption but whose inclusion does not automatically prevent the TTBE applying to the rest of the agreement. Such restrictions are subject to individual assessment to determine whether they are compatible with Article 101.

The Commission has published accompanying Guidelines which help parties and their advisors to determine whether the TTBE applies. The Guidelines also provide guidance on the application of Article 101 to technology transfer agreements which do not benefit from the TTBE.

In terms of the revised TTBE adopted on 21 March 2014, what are the main changes from the current TTBE which expires at the end of April 2014?

The key changes are the following:

- The scope of exempted restrictions on passive sales has been narrowed. As between non-competitors, the 2004 TTBE allowed a restriction of passive sales into an exclusive territory or exclusive customer group allocated by the licensor to another licensee during the first two years that this other licensee is selling the contract products into that territory or customer group. This exception from the hardcore restriction on selling into allocated territories is removed. However, the Guidelines allow this type of restriction where the restrictions are objectively necessary for a licensee to enter a new market.

- All forms of exclusive grant-back obligations will be excluded from the TTBE. This narrows down the scope of the TTBE. The 2004 TTBE excluded only those exclusive grant-backs that related to severable improvements. The aim is to ensure that there are incentives for follow-on improvements.
- Clauses entitling the licensor to terminate the licence in the event of a challenge to the validity of the technology in a non-exclusive licence will not benefit from the TTBE. Up to now it has been typical to provide the licensor with a right to terminate the licence in the event of a challenge to the IPR but this carve-out no longer enjoys the protection of the TTBE. However, such a clause will amount to an excluded restriction so that its inclusion which not automatically prevent the TTBE applying to the remainder of the agreement.
- The current requirement that the purchase of raw materials or equipment in the context of a technology licence must be secondary to the technology licensing in order for the TTBE to apply has been removed. The new TTBE will apply to such purchases where they are directly related to the production or sale of the contract products which are produced using the licensed technology.

What was the main thrust of feedback from the consultation process?

The feedback from the first (late 2011) consultation was broadly positive in that most commentators thought that the TTBE and Guidelines were important tools to assist parties to determine the application of EU competition law to their licensing agreements. Comments focused on issues such as the scope of application of the TTBE, market share thresholds, hardcore restrictions, grant-backs and cross-licensing. The second consultation which expired on 17 May 2013 was supportive of the Commission's intention to retain the broad structure of the TTBE and focused on amendments of an incremental nature. Most comments related to market share thresholds, the treatment of termination clauses in the event of a challenge to the validity of IPR, grant-backs and patent pools.

Are there any surprises and/ or provisions that will prove controversial?

The new TTBE is not a radical overhaul of the existing rules – it is more an evolution and tightening up of the existing structure. Despite some simplification, the list of hardcore restrictions as between competitors remains substantially the same.

However, the refined scope does mean that the new TTBE is less permissive than the previous version in some respects, in particular as regards the ability to impose restrictions on passive sales, grant-backs and termination provisions as already discussed.

The changes to the Guidelines that are particularly noteworthy concern settlement and technology pools. These changes coincide with the Commission’s competition law investigations into abuse of patent rights.

The Guidelines provide that settlement agreements which lead to otherwise delayed or limited market entry may be restrictive of competition under Article 101(1). If the parties are actual or potential competitors and there is a significant value transfer from the licensor to the licensee, the Commission will be vigilant to the risk of market sharing. This reflects the Commission’s sustained interest in provisions which are frequently referred to as “reverse payments” (in the current context, typically payments from the licensor to the licensee). Another feature of the Guidelines is the stance on no-challenge clauses in settlements. The Commission recognises that such clauses are often an inherent feature of settlements but considers that they may infringe Article 101, particularly where the underlying IPR is a necessary input for the licensee’s production. This may strike industry as surprising since the very aim of settlement is to draw a line under disputes between the parties.

The extended provisions of the Guidelines on technology pools clarify the application of the safe harbour to pools. The Commission notes that the concept of essentiality covers not only the position where the technology is essential for producing a particular product but where this is essential to meet a particular standard. The safe harbour will apply not only to the creation of the pool but also to any licensing out to members. However, any licensing arrangements between the pool and third parties will not be covered by the TTBE since such arrangements are considered by the Commission to be multiparty licensing arrangements where the parties collectively set the conditions for licensing.

Has anything changed since the draft TTBE was circulated following consultations in 2011 and 2013?

The Commission had initially proposed that the lower 20% market share threshold that applies to competitors would also apply to agreements between non-competitors where the licensee owns a substitute technology that it uses for its own in-house production. Commentators thought that this would increase the complexity of the TTBE and was, in any event, a relatively unusual scenario. The Commission has decided to retain the existing market share thresholds for competitors and non-competitors.

Following the 2013 consultation, the TTBE will continue to apply to *exclusive* agreements which entitle the licensor to terminate the licence in the event of a challenge to the IPR (assuming that the TTBE market share thresholds are met). This concession (i.e. exempting such clauses in the case of exclusive licensing) is intended by the Commission to achieve a better balancing of the incentives to innovate against the public interest in removing invalid IPR from the register. Another refinement is that the Guidelines make clear that a restriction on passive sales in an agreement between non-competitors might be necessary for a period of longer than two years to enable the licensee to recover the costs of penetrating a new market.