

Proposed Changes to EU Technology Licensing Rules

The European Commission has launched a consultation on proposed changes to the Technology Transfer Block Exemption (TTBE) and the related Technology Transfer Guidelines (the Guidelines), which govern the application of EU competition law to transfers and licences of patents, know-how and software copyrights. The main changes relate to restrictions on passive sales of products made with technology licensed by a non-competitor, exclusive grant-backs and no-challenge clauses. There is also new guidance on reverse payment settlements and patent pools.

New and improved?

The Commission has described its changes as incremental improvements, but some would require substantial changes to many licensors' business practices, if implemented.

The TTBE defines certain categories of arrangements for licensing of patents, know-how and software copyrights that are considered to be sufficiently benign that they are "block exempted" from the application of EU and national prohibitions on anticompetitive agreements, provided they meet certain conditions. The Guidelines assist in interpreting the TTBE, and also explain the Commission's approach to assessing IP licensing arrangements that fall outside the scope of the TTBE. The TTBE covers only bilateral agreements while the Guidelines also cover multi-party agreements in the form of patent pools.

The consultation - which ends on 17 May 2013 - is seeking views on the



proposed changes, which will be implemented in new versions of the TTBE and Guidelines when the current versions expire in April 2014.

The Draft TTBE

Passive sales

The Draft TTBE removes automatic exemption for restrictions on a licensee's ability to engage in "passive" (i.e. unsolicited) sales to customers outside its exclusive territory or customer group, where such restrictions are contained in a licence between non-competitors. The ability to restrict such sales is one of the most attractive and important features of the existing TTBE for licensors and licensees, as such restrictions are generally prohibited where goods and services are

distributed outside a technology licensing arrangement.

In the absence of cover by the block exemption, the Draft Guidelines state that such passive sales restrictions could be allowed if they can be shown to be objectively necessary for the licensee to enter a new market.

Lower market share threshold

Where a licensee owns a technology which it uses only for in-house production and which is substitutable for the licensed technology, the draft TTBE applies on condition that the parties have a share of less than 20% of any relevant market. This is stricter than the 30% threshold which applies currently.

Purchases of inputs

Purchases of inputs from a licensor or the use of the licensor's trademark, are only covered by the current TTBE if they are less important than the licensed technology. The draft TTBE covers instead all such supply arrangements, provided they are "directly and exclusively related" to

products created with the licensed technology.

Exclusive grant-backs

While the current TTBE exempts exclusive grant-backs of non-severable improvements, the draft TTBE excludes all such grant-backs from the scope of the safe harbour.

No-challenge clauses

The current TTBE permits licensors to terminate licences if a licensee challenges the validity of the licensed technology's IP protection. The draft version excludes such termination clauses from the scope of its exemption, meaning that they would need to be assessed individually for their antitrust compliance.

The Draft Guidelines

The draft Guidelines contain substantial new guidance in two areas.

Reverse Payment Settlements

The Draft Guidelines state that agreements to settle IP disputes may breach the competition rules if they involve a transfer of value from licensor to licensee, in return for the licensee accepting more restrictive terms. This reflects the approach

taken by the Commission in various investigations into "pay-for-delay" and "reverse payment patent settlement" agreements in the pharmaceutical sector in recent years.

The Draft Guidelines also highlight the antitrust risks of clauses in settlement agreements that prohibit future challenges to a patent, in circumstances in which the patent holder knows (or should know) that the criteria for patentability are not met, e.g. because the patent was granted on the basis of incorrect, misleading or incomplete information.

Patent pools

The Draft Guidelines clarify that technology that is essential to comply with a standard (as well as that which is essential to produce a given product) will be treated as "complementary", such that its inclusion in a pool of patents or other technologies will not usually be considered anticompetitive.

They also clarify that licensing agreements between a pool and third parties in principle fall outside the scope of the TTBE and so must be individually assessed. However, the Draft Guidelines now contain a safe

harbour covering not only the creation of the pool (regardless of the market share that it could obtain) but also its subsequent licensing out, provided certain conditions are met.

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