

New EU Technology Licensing Rules

The European Commission has published the new Technology Transfer Block Exemption (TTBE) and the related Technology Transfer Guidelines (the Guidelines), which will come into force on 1 May 2014. The TTBE and Guidelines 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 will require substantial changes to many licensors' business practices.

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 new versions of the TTBE and Guidelines will become effective on 1 May 2014, with a transitional period of one year for agreements that are covered by the current TTBE but will fall outside the scope of the new version.

The New TTBE

Passive sales

The new 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.

The new Guidelines state that, in the absence of cover by the new TTBE, such passive sales restrictions could

be allowed if they can be shown to be objectively necessary for the licensee to enter a new market.

Exclusive grant-backs

While the current TTBE exempts exclusive grant-backs of non-severable improvements, the new 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 new TTBE excludes no-challenge clauses from the scope of its exemption, meaning that they will need to be assessed individually for their antitrust compliance. However, in a departure from the draft that the Commission published for consultation last year, no-challenge clauses will continue to be block exempted if contained in an exclusive licence.

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 new TTBE will cover instead all such supply

arrangements, provided they are "directly related" to the production or sale of products created with the licensed technology.

Field of use restrictions still covered

While the new TTBE no longer includes an express exemption for restrictions that limit the licensee to one or more product markets or fields of use, the new Guidelines clarify that they remain covered by the block exemption, implicitly.

The New Guidelines

The new Guidelines contain substantial new guidance in two areas.

Reverse Payment Settlements

The new Guidelines state that agreements to settle IP disputes may breach the competition rules if they involve a transfer of value from licensor to licensee, and result in a delayed or otherwise limited ability for the licensee to launch a product in a relevant market. 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 new Guidelines also highlight the antitrust risks of clauses in settlement agreements that prohibit future challenges to a patent in certain circumstances, such as:

- where the patent in question was granted on the basis of incorrect or misleading information;
- where the licensee has been induced to agree to the no-challenge clause; or
- where the relevant patent rights are a necessary input for the licensee's production.

Patent pools

The new 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 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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