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New Block Exemption Rules for Technology-Transfer Agreements

Thorsten Bausch (Hoffmann Eitle) · Thursday, May 8th, 2014

The European Commission has adopted new competition rules for the assessment of technology-transfer agreements. The revised Block Exemption Regulation for Technology-Transfer Agreements (EU) 316/2014 ("TTBER"), and the accompanying Guidelines (OJ, 2014/C 89/03) entered into force on May 1, 2014.

The general structure and most of the provisions have in substance remained unchanged compared to the previous Regulation TTBER 772/2004 (although the language was streamlined quite a bit). Some changes are, however, highly relevant for licensing practitioners. Some of them tighten the exemption, in particular regarding

– restrictions of passive sales to territories reserved for "new" licensees,
– grant-back obligations for non-severable improvements and
– termination rights provided for a non-exclusive licensee's challenge of the validity of the licensed IP.

Other amendments take a more generous approach, in particular regarding the licensee's purchase obligations.

Main Changes in the Revised Regulation

The main changes pertain to (i) the applicability of the block exemption, (ii) the list of "hardcore restrictions" under Article 4, and (iii) the list of "excluded restrictions" under Article 5.

The revised TTBER clarifies that it will only apply if the Block Exemption Regulation on R&D Agreements and the Block Exemption Regulation on Specialization Agreements are not applicable (see Art. 9 TTBER). It also changes the test for when purchase of raw materials or equipment is covered by the safe harbor stipulated in the TTBER (see Art. 2(2) TTBER).

By contrast, market share thresholds, i.e. 20 % for competing and 30 % for non-competing undertakings, have not been changed (Art. 3 TTBER). In practice, determining the market shares of the parties involved is difficult. If it is unclear, in a particular case, whether or not the thresholds of the TTBER are met, the agreement should be assessed for compliance with Art. 101(1) and (3) TFEU outside the scope of the TTBER. Sec. 4 of the Guidelines will be helpful when applying these rules on an individual basis to various types of typical provisions in licensing agreements.

The exemption for passive sales restrictions, i.e. sales upon unsolicited requests from individual customers, has been removed from the exceptions from of the "hardcore restriction" consisting of allocation of markets (cf. Art. 4(2)(b)(ii) TTBER-2004). The 2004 TTBER already included such an exclusion for restrictions on licensees not to sell into one another's exclusive territories. However, the 2004 TTBER contained an important exception to this exclusion of passive sales restrictions, in that a licensee could be protected during the first two years of a license agreement between non-competitors. This exception has been removed. This means that all passive sales restrictions between licensees are excluded from the safe harbor provision. This change aligns the TTBER with the BER for vertical restraints. This type of restriction can still be allowed if the restraints are objectively necessary for the licensee to penetrate a new market. In light of the second public consultation, the Guidelines (Ref. 126) now clarify that in individual cases a longer period than two years of protection might also be necessary for the licensee in order to enable it to recoup the costs incurred when entering a new market. This is, however, to be assessed on a case-by-case basis.

In the Commission's view, the hardcore restrictions in agreements between competitors have not changed in substance. However, "field-of-use restrictions" (i.e. limitations to the use of the licensed technology only in a specified technical field or product market) have been removed from the list of exceptions from the general "ban" of hardcore restrictions aimed at the allocation of markets. In the Guidelines, the Commission indicate that field-of-use restrictions are by nature not hardcore restrictions because they do not split up product markets (no.113). This suggests that they are still allowed. However, this seems to be inconsistent with the Commission's statement that a single product market can encompass several technical fields of use (Guidelines, no. 208).

According to the revised list of excluded provisions, all exclusive grant-back obligations, i.e. obligations to grant an exclusive license back to the licensor of the licensee's own improvements, now fall outside the safe harbor provision (see Art. 5(1)(a) TTBER). The distinction between severable and non-severable improvements has been removed. Thus, exclusive grant-back obligations now require an individual assessment. In contrast, all non-exclusive grant-back obligations are still covered by the TTBER.

Also – and this is quite important – clauses providing for the licensor to terminate the agreement if a non-exclusive licensee challenges the validity of the licensed technology now fall outside the safe harbor provision (Art. 5(1)(b) TTBER). This is highly relevant since such a termination right was an acknowledged and almost always used way to protect a patent under the 2004 TTBER, where only (enforceable) obligations not to challenge the validity of the patent were outside the scope of the block exemption. Without such a clause, a licensee can take a non-exclusive license and challenge the licensed IP without risking a termination of the agreement by the licensor.

Main Changes in the Revised Guidelines

The Guidelines have been updated to reflect the changes in the TTBER. In addition, the section on settlements (4.3) and technology pools (4.4) have been revised. It has been clarified that agreements which lead to a delayed or otherwise limited ability for the licensee to launch the product on any of the markets concerned may be prohibited by Art. 101(1) TFEU, i.e. "pay-for-delay agreements" or "reverse-payment patent settlements" (Ref. 238).

With regard to technology pools, it is clarified that "essential" covers both essentiality in relation to a product and in relation to complying with a standard. A practically usable and specific safe harbor test has been provided for assessing whether the pool is pro-competitive. The test reflects relevant aspects relating to the creation and the administra¬tion of the pool and its subsequent licensing out.

When do existing license agreements have to conform with the new TTBER?

The revised TTBER applies to all license agreements entered into as from May 1, 2014. Earlier agreements will remain subject to the 2004 TTBER for a transitional period ending April 30, 2015.

Niels Hölder/Mike Gruber

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