New rules for technology transfer agreements

Companies have one year to adapt their agreements to the new rules

I. Introduction

The European Commission has published new competition (antitrust) rules for the analysis of technology transfer agreements, which update and replace the previous legal regime[1]. **Commission Regulation EU 316/2014 of 21 March 2014** on the block exemption (safe harbour) and its accompanying guidelines[2] (the "Regulation" and the "Guidelines") will apply from 1 May to those agreements by way of which companies authorise the use of **patents, know-how or software** ("technology" in general) by another company for the production of goods and services.

In general, the European Commission acknowledges the pro-competitive nature of such agreements, which stimulate research and innovation. Nevertheless, under certain circumstances, these agreements may restrict market competition through market sharing or the exclusion of competing technologies, in which case they are prohibited in consequence of article 101 of the Treaty on the Functioning of the European Union (the "Treaty"). In this regard, the new regime shares the philosophy of the old regime: the Regulation provides a safe harbour from the prohibition of article 101 to technology transfer agreements between companies with low market power which satisfy the conditions set out therein, whereas the accompanying Guidelines set out the criteria to be followed in the competition analysis of non-exempt agreements whilst providing direction on the implementation of the Regulation.

II. Entry into force

The new Regulation will enter into force on **1 May 2014**, meaning that new technology transfer agreements entered into from such date onwards must meet the conditions provided therein in order to be considered exempt from the prohibition contained in article 101 of the Treaty.

[1] Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements and EC Guidelines (2004/C 101/02) on the application of article 81 of the Treaty to technology agreements.

[2] Commission Regulation (EU) No 316/2014 of 21 March 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements and Guidelines (2014/C 89/03) on the application of article 101 of the Treaty to technology agreements.

In addition, technology transfer agreements concluded under the old regime will have to conform to the conditions of this Regulation **by 30 April 2015** in order to continue benefitting from the safe harbour.

III. Market share thresholds – safe harbour and prohibited clauses

Pursuant to the Regulation, agreements between two companies with low market power, whether or not they are competitors (with a **combined market share of less than 20% in the case of competitors and 30% in the case of non-competitors**), where one authorises the other to use its technology for the production of goods and services, are automatically exempted from the prohibition of restrictive agreements contained in article 101 of the Treaty, provided they do not contain any of the restrictions provided in articles 4 and 5 of the Regulation. Nevertheless, the Regulation identifies certain clauses that would, in any event, be prohibited due to their restrictive nature (with certain exceptions, as the case may be) and which shall not be admissible even when the companies involved have a combined market share lower than those indicated above.

A complete analysis of such prohibited clauses and the exceptions to the same is beyond the scope of this paper, which merely describes the most important changes introduced by the new Regulation with respect to the previous regime.

IV. Main changes introduced by the new Regulation

The Regulation introduces five important changes in the regime applicable to this type of agreement, namely:

(i) Clarifying its scope of application. Licensing agreements can appear in the context of other types of agreements, such as R+D or specialisation agreements. The new Regulation specifies that it is not applicable to those agreements covered by the **Regulation on the exemption of R+D agreements or the Regulation on the exemption of specialisation agreements**. This therefore requires careful identification of the block exemption regulation applicable to the type of agreement in each case.

(ii) Extending the scope of application of the safe harbour. The new Regulation is applicable to technology transfer agreement provisions governing the **acquisition of raw materials or the assignment of machinery** by the licensor to the licensee, even where the value of this transaction is higher than that of the technology license. Under the previous regulation, these provisions, together with the technology transfer agreement itself, were only covered by the safe harbour when their value was lower than that of the technology license. Therefore, from now on, if the agreement is exempt pursuant to the Regulation, these provisions will also be exempt, provided they are directly related to the technology that is the subject matter of the agreement.

(iii) **Prohibiting any type of restriction on passive sales between licensees**. The 2004 regulation allowed a two year grace period in which passive sales of the contractual products by a licensee to clients in a territory or to a group of clients assigned exclusively to another licensee could be restricted (that is, the exclusive licensee for a territory or group of clients had absolute protection from the sale by other licensees for the first two years). Under the new Regulation, any restriction on passive sales between licensees shall be considered a particularly serious restriction entailing the exclusion of the agreement from the safe harbour provided in the Regulation, which will need to be analysed on a case-by-case basis pursuant to the direction provided in the Guidelines.

(iv) The safe harbour does not apply to the obligation to grant an exclusive license in respect of the licensee's improvements to the licensed technology. Pursuant to the 2004 regulation, it was possible to establish an obligation (a grant-back clause) to grant an exclusive license to the licensor in respect of the licensee's improvements to the licensed technology, provided such improvements were not severable from the licensed technology. However, under the new regulation, any obligation on the licensee to grant an exclusive license of this kind will be excluded from the safe harbour provided by the Regulation. Such an obligation must be analysed individually and could be considered contrary to article 101 of the Treaty, although the rest of the agreement may benefit from the safe harbour (as opposed to hardcore restrictions, which cause the entire agreement to be excluded from the safe harbour). This change is especially relevant insofar as that grant-back clauses, permitted by the previous regulation and prohibited by the new one, are quite common.

(v) Any obligation on the licensee **to not challenge the validity of intellectual property rights** held by the licensor in the EU is also excluded from the safe harbour, as are clauses providing for the termination of a technology transfer agreement in the event that the licensee challenges the validity of the licensed technology in the case of a non-exclusive agreement. In this regard, the 2004 regulation permitted the inclusion of such termination clauses in all technology transfer agreements (exclusive and non-exclusive); from now on, these termination clauses will only be exempt in the case of exclusive agreements. Otherwise, the clause must be analysed independently pursuant to the direction of the Guidelines and could be considered contrary to the Treaty, although the rest of the agreement may benefit from the safe harbour.

V. Interpretative guidelines: Settlement Agreements and Technology Pools

As a separate point, the new Guidelines that accompany the Regulation introduce two changes that need to be mentioned in respect of settlement agreements and technology pools, defined as agreements through which two or more parties pool a package of technology for the purpose of licensing the same to participants or to third parties:

(i) The new Guidelines focus on those settlement agreements that may **delay or limit the licensee's capacity to launch the product in any of the affected markets** (e.g., pay for delay agreements). The Commission specifically states that it will pay particular attention to settlement agreements concluded between actual or potential competitors in which there is a significant value transfer from the licensor to the licensee, as well as to the risk that such agreements may lead to market sharing.

(ii) The new Guidelines also introduce changes in the analysis of **technology pools**, which tend to clarify the way in which they should be assessed from the point of view of competition law. In this regard, the Guidelines provide that, as a general rule, the creation and operation of technology pools will fall outside the scope of article 101 when they satisfy certain conditions, with emphasis on the requirement that only essential technologies are pooled. The Guidelines also define this concept, clarifying that essential technologies are considered to be those that (i) are necessary either to produce the product or carry out the process to which the pool relates, or (ii) are necessary either to produce the product or to carry out the process in question, complying with the standard supported by the pool.

VI. Conclusion

The new rules on technology transfer agreements are generally in line with the logic and philosophy of the old regulation, such that the general principles of the Regulation and Guidelines have not changed. However, the new regulation provides for important changes that will apply not only to new agreements but also to those agreements concluded under the previous regime, which must be adapted by 30 April 2015 in order to continue benefitting from the safe harbour under article 101 of the Treaty. In short, **companies have a year to analyse their agreements to transfer or receive technology and adapt them to the new rules**.

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