
European Commission's New Rules on Application of EU Competition Law to Licenses, Settlement Agreements and Patent Pools

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On 21 March, the European Commission published the final version of its revised Block Exemption Regulation and Guidelines on the application of Article 101(3) of the Treaty on the Functioning of the European Union (TFEU) to categories of technology transfer agreements. The new documents amend the 2004 Technology Transfer (TT) Block Exemption Regulation and Guidelines and have been the subject of detailed consultation with stakeholders.¹

The revised Technology Transfer Block Exemption ("the 2014 TT BE") will come into force on **1 May 2014**. The main changes are as follows:

Research and Development Block Exemption ("R&D BE") takes precedence. Intellectual property rights are often licensed in the context of R&D collaborations. The existing rules do not provide clear guidance on whether the R&D BE or the technology transfer block exemption applies to these arrangements. In contrast, the 2014 TT BE is very clear: if the R&D BE applies, the 2014 TT BE will not (Recital 7 and Article 9 of the 2014 TT BE and paragraphs 73 and 74 of the 2014 TT Guidelines). In practice therefore, parties should first consider whether their agreements fall within the sphere of the R&D BE and, only if they do not, then consider them under the 2014 TT BE.

Increased scepticism towards some settlement agreements. The 2014 TT Guidelines introduce two new paragraphs on "pay-for-delay" settlements (paragraphs 238 and 239), but they do not go so far as to provide clear guidance on how the Commission will assess these agreements in practice. The Guidelines state that the Commission will be "particularly attentive to the risk of market allocation/sharing" if the parties are actual or potential competitors and there is a "significant value transfer from the licensor to the licensee" in exchange for the licensee delaying or limiting launching a product. This concern appears to be primarily targeted at the pharmaceutical industry and payments from brand owners to generics manufacturers. Parties to such settlements will have to wait for further Commission announcements or decisions before they receive greater clarity.

Additional guidance on patent pools. The 2014 TT BE does not cover patent pools, but they are

discussed in the 2014 TT Guidelines. The main innovation is a “safe harbour” for pools that have the following characteristics (paragraph 261):

- The pool must be open to all interested parties.
- The pool must implement safeguards to ensure that only essential technologies are pooled. The guidance on what constitutes “essential” technology has been helpfully revised to cover not only technology that is essential to making a product, but also technology that is essential to complying with a standard (paragraph 252).
- The pool must implement safeguards to limit exchange of sensitive information to what is necessary.
- Licensing of the pooled technologies into the pool must be non-exclusive.
- Licensing of the pooled technologies to third parties must be on FRAND terms.
- Contributors and licensees must be allowed to challenge pooled technologies’ validity and essentiality. \
- Contributors and licensees must be allowed to develop competing products and technology.

Being outside the safe harbour does not mean that a pool unduly restricts competition. The 2014 TT Guidelines also expand the guidance on pools that are outside the safe harbour. For example, they recognise that it can sometimes be pro-competitive to include non-essential technologies in a pool, when the number of potentially essential technologies would make it prohibitively expensive to determine whether patents are essential (paragraph 264(a)).

Modified treatment of certain provisions that may need reviewing in existing agreements.

Existing licenses which comply with the 2004 TT Block Exemption, which expires on 30 April 2014, benefit from a grace period until 30 April 2015, but from then they will be assessed under the 2014 TT BE (Article 10). Counsel will need to consider whether existing licenses need to be modified in light of the changes introduced in the 2014 TT BE and Guidelines. Notably, the treatment of the following clauses is changing:

You can no longer automatically prohibit passive sales in licenses between non-competitors

during a start-up period. The 2004 TT Block Exemption treated as outside Article 101 TFEU agreements between non-competitors restricting the licensee from making passive/unsolicited sales into another licensee’s exclusive territory, or to another licensee’s exclusive customer group, during the first two years of the agreement. By contrast, the 2014 TT BE treats such a provision as a hardcore restraint which takes the whole agreement outside the Block Exemption. However, the 2014 TT Guidelines recognise that temporary restrictions on passive sales may be “objectively necessary” for a licensee “to penetrate a new market” (paragraph 126). The onus will be on the parties to substantiate this objective necessity.

Heightened scrutiny for exclusive grant-back provisions. Under the 2004 Block Exemption, clauses requiring exclusive grant-backs of “non-severable” improvements to the licensed technology fell within the exemption. The 2014 TT BE excludes all exclusive grant-backs from the

exemption, regardless of whether the improvement is severable or non-severable from the licensed technology (Article 5(1)(a)). Instead, any exclusive grant-backs will have to be reviewed separately for compliance with Article 101 TFEU, taking account of all relevant factual and economic circumstances.

Similarly, there is heightened scrutiny for clauses providing for termination following challenge to the licensed technology's validity. The 2004 Block Exemption allows a licensor to terminate the agreement if the licensee challenges the licensed technology's validity. The 2014 TT BE alters this significantly: while parties can continue to include such termination clauses in exclusive licenses, it is no longer possible to do this in non-exclusive licenses (Article 5(1)(b)). In non-exclusive licenses therefore, termination clauses will have to be assessed separately for compliance with EU Competition law.

What has not changed?

The 2014 TT BE and Guidelines do not radically change the existing framework for analysing compatibility of licenses with EU Competition law.

Market share thresholds. None of the provisions regarding the Block Exemption's market share thresholds have changed (Article 3). For agreements between competitors to fall under the 2014 TT BE, the parties' combined market share on all relevant product and technology markets will have to be below 20%. For agreements between non-competitors to fall under the 2014 TT BE, each party's individual market share on all relevant product and technology markets will have to be below 30%. The 2013 draft versions of the TT Block Exemption and Guidelines proposed applying the 20% market share threshold, which is normally applicable only to agreements between competitors, to some licenses between non-competitors, but this proposal has not been retained in the final version of the 2014 TT BE.

Hardcore restrictions of competition. Apart from removing the right to restrict temporarily passive sales in agreements between non-competitors, none of the hardcore restrictions of competition that would render the 2014 TT BE inapplicable have changed compared to the 2004 texts. The wording of the article concerning hardcore restrictions in licenses between competitors (Article 4(1)) has been somewhat simplified, but the Commission's *Frequently Asked Questions* document considers that this does not result in any substantive change.

¹ See <http://ec.europa.eu/competition/antitrust/legislation/transfer.html>. WilmerHale submitted comments during the two consultation periods in February 2012 and May 2013.

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