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*Practice Group:**Antitrust,
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Proposed Amendments to the EU Competition Assessment of Technology Transfers

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The European Commission (the "Commission") is considering revisions to the rules governing the assessment of technology transfer agreements such as patent licences in advance of the expiry of the existing rules on 30 April 2014.

The Commission proposes "to update the current regime in order to strengthen incentives for research and innovation, facilitate the diffusion of intellectual property and stimulate competition."¹

The Existing Rules

Broadly speaking, licensing is seen as pro-competitive as it entails the diffusion of intellectual property and the promotion of innovation. However, competition concerns can arise in relation to certain restrictions placed on licensees as to the way they are permitted to use the licensed technology. At the extreme end, an agreement between two competitors to use patents to divide markets between them would clearly be problematic.

The technology transfer block exemption² (the "Block Exemption") applies to licensing agreements for patents, know-how and/or software copyright provided that the parties' market shares do not reach certain thresholds and provided that there are no hardcore restrictions. Where these criteria are met, the Block Exemption automatically shields the agreement from the application of EU competition law³. The technology transfer guidelines⁴ (the "Guidelines") provide further guidance about how such agreements are analysed both within and outside the Block Exemption.

Key changes to the Block Exemption

- The Commission proposes to remove from automatic exemption restrictions protecting a licensee from **passive (i.e. unsolicited) sales** from other licensees into its exclusive territory during the first two years of a licence between non-competitors.
- All **exclusive grant-backs** whereby the licensee is obliged to license back to the licensor on an exclusive basis, and not even use itself, its own improvements to the licensed technology, will now be treated equally. The existing rules distinguish between "severable" and "non-severable" improvements and exclude from the exemption exclusive grant-back obligations concerning severable improvements. All exclusive grant-backs will now fall outside the exemption and require a case-by-case assessment. This is intended to bolster incentives for follow-on innovations by the licensee.
- The Commission proposes to treat **termination clauses** (that allow the licensor to terminate the agreement if the other party challenges the validity of the licensed technology) in the same way as no-challenge clauses (preventing the licensee from challenging the validity of the technology).

¹ http://europa.eu/rapid/press-release_IP-13-120_en.htm

² Commission Regulation 772/2004/EC on the application of Article 101(3) (ex. Article 81(3)) to categories of technology transfer agreements.

³ Specifically, the prohibition on anti-competitive agreements contained in Article 101(1) of the Treaty on the Functioning of the European Union.

⁴ Commission Notice – Guidelines on the application of Article 101 (ex. Article 81) to technology transfer agreements (2004).

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This means that neither benefit from the exemption and both are assessed individually; the remainder of the agreement may still benefit from the exemption.

Patent Settlement Agreements

Reverse-payment patent settlements, whereby a patent holder pays an alleged patent infringer (the reverse of what would normally be expected) to delay market entry with a competing product using the same technology, have been a hot topic in recent years and the focus of much attention by regulators particularly in the pharmaceutical sector. The new Guidelines now explicitly address such arrangements and confirm that such agreements may be anti-competitive and warrant close scrutiny.

Patent Pools

These are multi-lateral agreements for the licensing of several sector-essential patents controlled by different owners, particularly common in the high-tech sector (e.g. in relation to DVD technology). The proposed amendments to the Guidelines clarify that only non-competing, essential technology should be included in a pool to be confident of the pool being deemed pro-competitive. The new Guidelines would establish that a patent can be considered essential not only if it is necessary to produce a particular product, but also if it is required to comply with a certain standard. Emphasis is also placed on ensuring that sensitive information is restricted to what is necessary for the creation and operation of the pool and that the pooled technologies are licensed out to all licensees on fair, reasonable and non-discriminatory ("FRAND") terms.

Next Steps

The consultation on the proposed amendments is open until 17 May 2013. It is expected that the new rules will be adopted by April 2014 (subject to a one-year transitional period whereby existing agreements may continue to benefit from the existing Block Exemption) and will apply until April 2026.

If you have any questions as a result of the information contained in this article, please contact Neil Baylis or Jennifer Marsh of K&L Gates LLP.

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