



# BRISTOWS

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## Technology licensing: adapting to the EU's new regime

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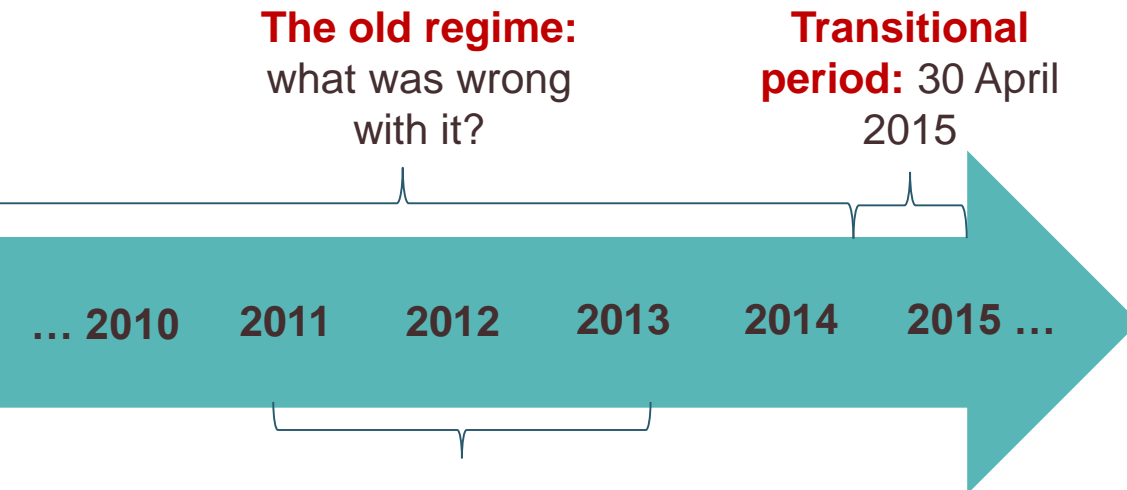
13 May 2014

# Agenda

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- **Introduction**
- **Key changes: roundtable discussion**
- **Final thoughts and Q&As**

## Introduction: how did we get here?



**The old regime:**  
what was wrong  
with it?

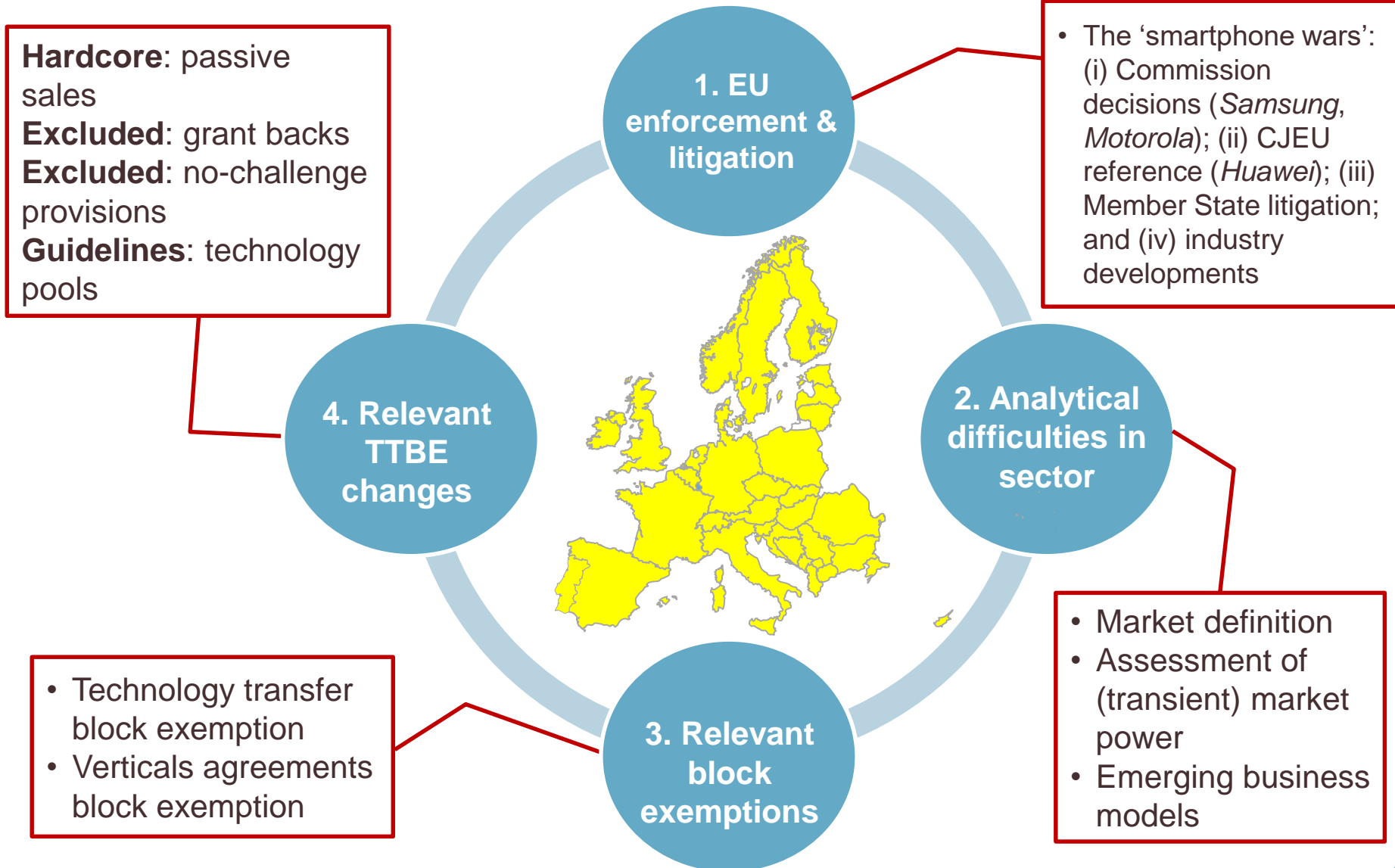
**Transitional  
period:** 30 April  
2015

**The consultations:**  
what was the fuss  
about?

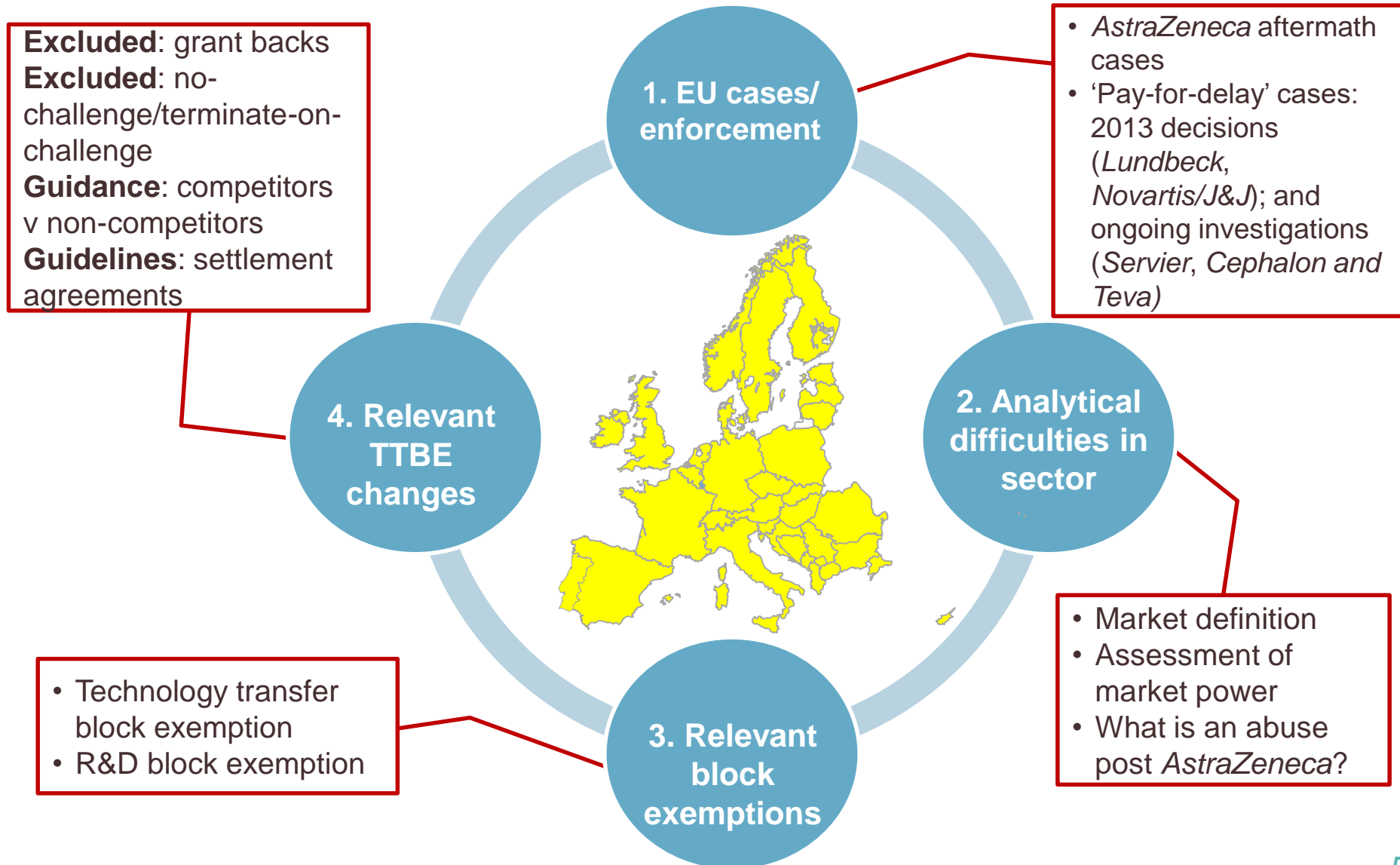
**The new regime:** where did we get to?

- **Scope**
- **Hardcore restrictions**
  - Passive sales
- **Excluded restrictions**
  - Grant back provisions
  - No-challenge/terminate-on-challenge provisions
- **Guidelines expanded**
  - Competitors v non-competitors
  - Settlement agreements
  - Technology pools

# Introduction: competition law/licensing universe, TMT

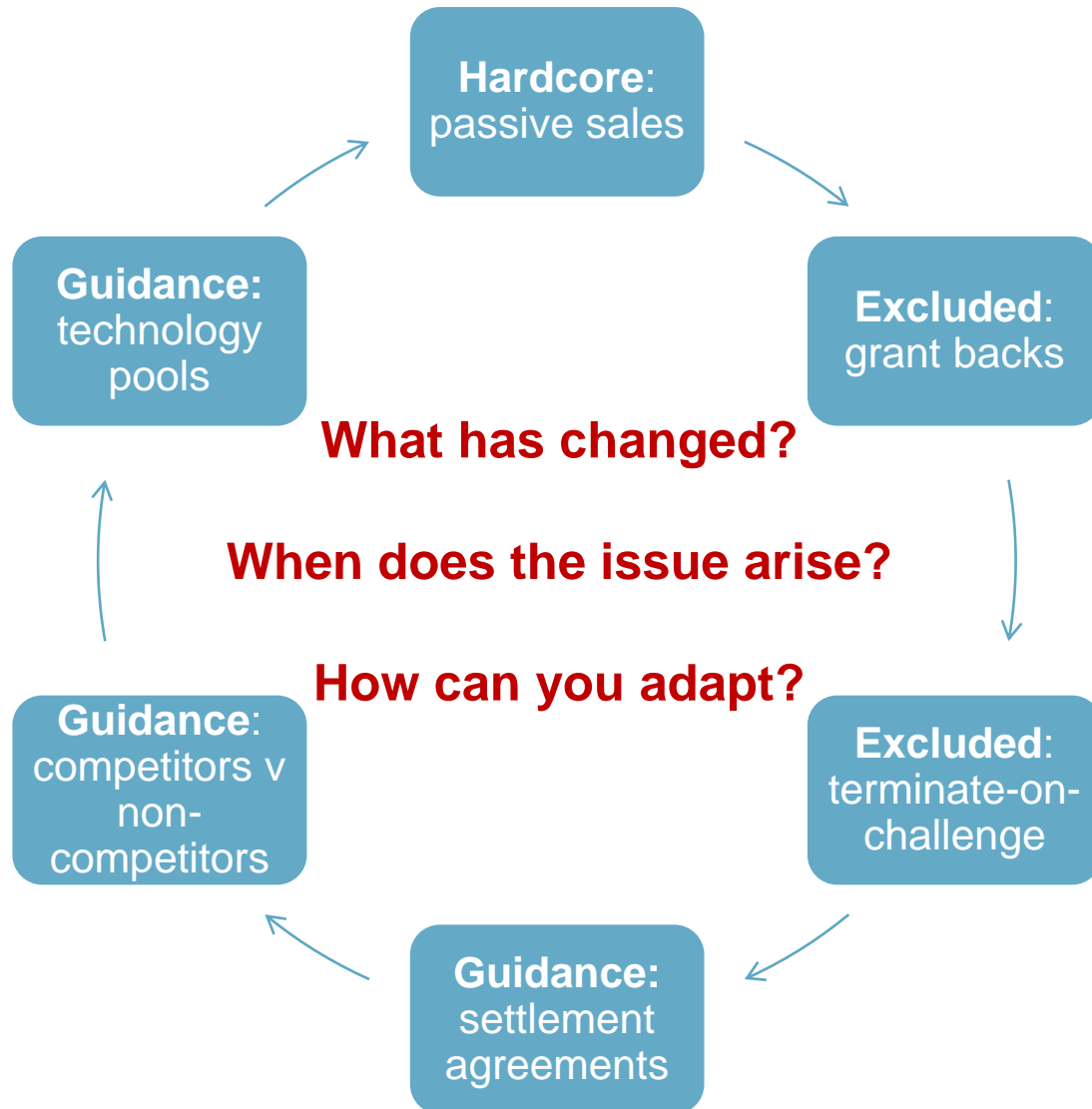


# Introduction: competition law/licensing universe, life sciences



## Key changes: roundtable discussion

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## Final thoughts and Q&As

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For further TTBE commentary, why not visit our blog on the competition law/IP interface, **The CLIP Board** at [www.bristowsclipboard.com](http://www.bristowsclipboard.com)

For the new TTBE and Guidelines, see:

<http://ec.europa.eu/competition/antitrust/legislation/transfer.html>





# Thank you

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## Hardcore restrictions: ‘passive’ sales

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- **What are they?** ‘Active’ sales: seller approaches the customer. ‘Passive’ sales: customer approaches the seller
- **Old position:** restrictions on passive sales by existing licensees to a territory or customer group reserved exclusively to a new licensee were permitted, for up to 2 years
- **New position:** all passive sales restrictions between licensees are no longer automatically exempted and must be assessed on a case-by-case basis. Guidelines accept that passive sales restrictions may still be allowed if the restraints are “*objectively necessary for the licensee to penetrate a new market*”. Note also: clarification on non-competes for restrictions on a licensee’s use of its own technology
- **What does this mean?** May potentially hinder the dissemination of technology into new territories, but provided genuine licensee investments are being made, 2 year protection is likely to remain acceptable (see Guidelines)



## Excluded restrictions: grant back provisions

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- **What are they?** Any obligation on the licensee to grant back (by assignment/exclusive licence) rights to improvements to the technology. Often critical for willingness to license technology – licensors want to protect investment in technology by ensuring they have access to improvements to technology licensed and prevent future blocking positions arising
- **Old position:** an obligation to grant back an exclusive licence to any severable improvements was an ‘excluded restriction’. More lenient approach for ‘non-severable’ improvements: obligations to grant back were block exempted
- **New position:** all exclusive grant-back obligations fall outside the scope of the TTBE and will therefore require an individual assessment. Non-exclusive grant back obligations continue to be exempted
- **What does this mean?** May have knock-on effect on willingness of businesses to license out technology – may prefer to maintain control over improvements by using technology in-house only. Change is broadly pro-licensee



## Excluded restrictions: ‘no-challenge’/‘terminate-on-challenge’

- **What are they?** ‘No-challenge’ clause refers to any obligation on the licensee not to challenge the validity of an IP right; ‘terminate-on-challenge’ clauses allow licensor to terminate if licensed IP right is challenged
- **Old position:** no-challenge clauses were ‘excluded’ restrictions; however, terminate-on-challenge clauses were covered by the block exemption
- **New position:** no-challenge clauses remain ‘excluded’. Terminate-on-challenge clauses in exclusive licences are still block exempted. However, terminate-on-challenge clauses in non-exclusive licences (and in exclusive licences above market share thresholds) must now be assessed on an individual basis
- **What does this mean?** Expectation that technology owners will continue to do business with those that later attack their IP rights (especially problematic if long-term arrangements with running royalties entered into). Ability of licensors to protect IP contractually is diminished. Decision whether to enforce such clauses is key



## Guidelines: settlement agreements (1)

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- **What is a settlement agreement for the purposes of the Guidelines?**
- How to distinguish a settlement agreement from a regular licence?
- For the purposes of the Guidelines, a settlement agreement is an agreement that either:
  - settles a “*bona fide legal disagreement*” in relation to technology rights
    - “*bona fide*” – “*honest and sincere*” (perhaps “*genuine*” is better?)
    - genuine disagreement – about what (validity and/or infringement, but not licence terms?); **or**
  - avoids one party exercising “*its intellectual property rights to prevent the other party from exploiting its own technology rights*”
    - seems very broad
    - freedom to operate type licence not technology transfer licence
- Note: Guidelines do not apply to settlements where no licence is granted

## Guidelines: settlement agreements (2)

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- **Guidelines on ‘pay-for-delay’ settlements**
- What are ‘pay-for-delay’ settlements?
- Commission inquiry and investigations – *Lundbeck, J&J/Novartis, Servier, Cephalon and Teva*
- Under Guidelines key characteristics of pay-for-delay settlements that cause concern:
  1. licence of disputed IP rights
  2. “*significant value transfer*” from licensor to licensee (beyond the grant of licence itself?)
  3. value transfer is in return for a limitation on entry to the market of licensee
  4. licensor and licensee are actual or potential competitors (presumably in the relevant market?)
- Note: “*The Commission will be particularly attentive to the risk of market allocation/market sharing*”

## Guidelines: settlement agreements (3)

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- **Guidelines on no-challenge clauses in settlement agreements**

*“In the context of a settlement agreement, non-challenge clauses are generally considered to fall outside Article 101(1) of the Treaty. It is inherent in such agreements that the parties agree not to challenge ex post the intellectual property rights which were the centre of the dispute. Indeed, the very purpose of the agreement is to settle existing disputes and/or to avoid future disputes”*



## Guidelines: settlement agreements (4)

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- **Guidelines give 3 examples of when no-challenge clauses in settlement agreements could be anti-competitive**
  1. *“where an intellectual property right was granted following the provision of incorrect or misleading information” (i.e. AstraZeneca)*
    - *“following”* – means as a result of?
    - *“provision of incorrect or misleading information”* – by or on behalf of the applicant or licensor?
  2. *“if the licensor, besides licensing the technology rights, induces, financially or otherwise, the licensee to agree not to challenge the validity of the technology rights”*
    - note: *“besides licensing the technology rights”*
    - review *Lundbeck* decision when published
  3. *“if the technology rights are a necessary input for the licensee’s production”*
    - would always apply?
    - Guidelines say: *“See also point 136”*



## Guidelines: competitors and non-competitors

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- **What is the relevance?** Whether parties are competitors or non-competitors is critical to determining how the block exemption applies – which hardcore list and which market share thresholds
- **Old position:** existence of blocking IP rights meant that parties were treated as non-competitors, *i.e.* the more lenient approach applied
- **New position:** “*particularly convincing evidence of the existence of a blocking position*” now required whenever the parties have a common interest in claiming the existence of such a position; if parties have made “*advanced plans to enter a market*”, they may be treated as potential competitors regardless of any blocking position
- **What does this mean?** Change has particular relevance for settlement agreements – no judicial finding re: existence of right, and parties have common interest to claim. Query whether the changes have wider implications – arguably not in the private enforcement context, as the parties have different interests, but watch out for licensees which were originally planning to enter a market independently



## Guidelines: technology pools

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- **What are they?** Arrangements whereby two or more parties assemble a package of technology which is licensed not only to contributors to the pool but also to third parties. Facilitates commercial adoption of standard; licensors collectively may have superior bargaining position; licensees have benefit of efficient licensing for lower royalties
- **Old position:** pools were broadly considered to be pro-competitive, allowing efficient one-stop licensing for pooled IP, though with some antitrust risk. However, guidance was limited
- **New position:** Guidelines reiterate pro-competitive effects of patent pools and provide a new ‘soft safe harbour’. Commission has also clarified that essentiality covers both ‘commercially’ as well as ‘technically’ essential technologies
- **What does this mean?** Encourages the creation and licensing of patent pools; note that pools should license on FRAND terms and should not include terminate-on-challenge provisions

