New technology transfer rules

Does the new regime represent evolution or revolution?

*by **Sophie Lawrance****

In 2004, a new technology transfer block exemption (TTBER) was introduced two years before the previous version was due to expire, with a two-year transitional period for existing agreements. In 2014, by contrast, the expiry of the 2004 TTBER was only a matter of weeks away when the final text of the new exemption and accompanying guidelines (which came into force on 1 May 2014) were introduced. This time, the transitional period is just a year, and the exemption will last 12 years, rather than the previously standard 10.

Do these statistics matter? In practical terms, yes, at least to some extent: companies have had little time to familiarise themselves with the new rules before they come into force, and may have started negotiating agreements before the rules were finalised. The brevity of the transitional period is also a practical problem for existing agreements. After 30 April 2015, the parties will therefore need to consider whether to renegotiate existing agreements which no longer comply with the exemption, or accept the risk of no longer being within the TTBER's safe harbour.

Of greater importance, however, is the substance of the changes. Here, the statistics mentioned above again make interesting reading. At first glance, the amendments compared to the 2004 version of the exemption appear relatively minor: there has been no change to the overall approach, including the nature of each of the sections of the TTBER; no alteration in the market share thresholds; no entirely new sections in the guidelines; and confirmation that the TTBER is a subsidiary regulation, to be applied only if the R&D or specialisation block exemptions do not. This contrasts with the wholesale overhaul in 2004 of the 1996 version, which led to a more economic approach being used in place of black- and white-listed clauses. Indeed, Commission officials on the conference circuit in the consultation period referred to the changes between the 2004 and 2014 versions as "evolution" rather than "revolution".

Despite this, two reasonably significant policy shifts can be detected in the 2014 TTBER and guidelines. First, the encouragement of disruptive innovation by parties other than the licensor is strengthened and the protection given to existing intellectual property rights (IPRs) correspondingly weakened. Second, the relevance of IPRs for determining whether parties are competitors has been significantly diluted. These policy shifts are reviewed below.

Excluded restrictions

Two key changes in the TTBER itself are made in article 5, which lists the "excluded restrictions". These are restrictions of competition that require separate analysis under article 101(3) but are not as serious as the hardcore restrictions listed in article 4.

First, the rule relating to grant-backs of licensee improvements to the licensed technology has been tightened. In the 2004 TTBER, the general rule was that licensees could not be required to assign or license back such improvements on an exclusive basis to the licensor. However, licensors were permitted to insist that any "non-severable" improvements – ie improvements which could not be used separately from the original technology – should be assigned/licensed back. Under the 2004 rules, an improvement or new application was regarded as severable from the licensor's IPRs "if it [could] be exploited without infringing upon the licensed technology" (para 109).

This wording has now been removed. Under the new TTBER, IPR holders cannot take contractual steps to prevent the licensee from using its improvements, even if such use infringes the licensor's IPRs, without risking unenforceability. If the clause is not enforceable under article 101(3) principles, the licensor will have to rely on exercising its IPRs in the normal way, subject to rules such as those relating to pass-through of rights.

The approach to grant-back provisions means that future, disruptive innovation (ie by the licensee) is promoted, even at the possible expense of reducing the protection available for existing innovation. This aim is made clear by the guidelines, which state, about all of the excluded restrictions: "The purpose of article 5 is to avoid block exemption of agreements that may reduce the incentive to innovate" (para 128).

Curiously, reference to the fact that it is only the licensee's incentives which are relevant is omitted in the 2014 guidelines, whereas it was explicit in the 2004 version (see para 108). Yet the focus clearly is on licensee innovation. This is in line with the recommendation in the Régibeau and Rockett economic report commissioned by DG Competition in the consultation period for the 2014 TTBER (COMP/2010/16), which noted that "the negative effect of a grant-back clause on innovation incentives is potentially an important issue" (p51). The report therefore concluded that "there are reasons to query current policy whereby grant-backs of non-severable innovations are treated with leniency" (p100).

The second change in article 5 relates to non-challenge provisions. These are contractual stipulations that the licensee shall not challenge the licensed IPRs. Here, there has been a three-stage evolution:

- Under the 2004 TTBER, the general position was that non-challenge provisions were carved out of the safe harbour. However, terminate-on-challenge arrangements were accepted.
- In the draft amended TTBER, the Commission proposed removing all terminate-on-challenge provisions from the safe harbour.
- The final 2014 TTBER is a halfway house with terminate-on-challenge accepted in the context of exclusive licences (only).

The justification for treating most terminate-on-challenge provisions in the same way as standard non-challenge clauses is

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that "such a termination right can have the same effect as a non-challenge clause, in particular where switching away from the licensor's technology would result in a significant loss to the licensee" (see the guidelines, para 136). The guidelines also invoke the CJEU's 1986 judgment in *Windsurfing International*: "The public interest of strengthening the incentive of the licensor to license out by not being forced to continue dealing with a licensee that challenges the very subject matter of the licence agreement has to be balanced against the public interest to eliminate any obstacle to economic activity which may arise where an intellectual property right is granted in error" (para 138).

Here, it is not so much licensee innovation per se that is being protected. Rather, it is the licensee's business interests, and the wider policy interest in eliminating invalid IPRs. However, a distinct policy shift in favour of licensees is again discernible.

Policy shift

The other main policy shift emerges mainly from the guidelines, rather than the TTBER itself, although it has an indirect impact on the block exemption.

The section covering settlement agreements has changed considerably compared with the 2004 equivalent. This is unsurprising, given the focus on such agreements in the context of the pharmaceutical sector over the intervening period. The Commission has been careful to emphasise the benefits offered by settlement agreements (provided they settle "bona fide legal disagreements" – see para 235) in terms of avoiding the costs, delay and uncertainty of litigation for the parties and courts. Set against that, the *Windsurfing* principle again comes into play.

Strictly speaking, the guidance in the technology transfer guidelines only applies to settlement agreements that also involve a "technology transfer" – ie the grant of a licence. It is in this area that the additions to the guidelines concentrate. Separate sections relate to the situation where there is no value transfer from the patentee to the licensee, and where a "pay-for-delay" agreement is concerned. This now familiar term is joined by a new concept of "pay-for-restriction", in line with the Commission's view that it is not only delay which may affect competition, but also other limitations on the ability of the alleged infringer to market its product (see the guidelines, para 238).

In relation to agreements where there is no value transfer, the guidelines note that licensing in the context of settlement agreements is treated in the same way as other licence agreements. There is, however, a conceptual problem with the idea that a licence granted in conjunction with a settlement agreement could be found in an agreement with no value transfer. The Commission's annual patent settlement monitoring reports make clear that the concept of value transfer does not only encompass cash payments. Other benefits, including licence grants or non-assertion promises, also represent a passing of value to the alleged infringer / the party seeking revocation of the patent.

Another anomaly arises from new statements in the guidelines which emphasise the relevance in this context of the competitive relationship between the parties. The implication is that the parties will usually be regarded as potential or actual competitors. For example, paragraph 239 indicates that any limitation on the licensee's ability to launch its product on particular markets will need to be assessed under article 4(1)(c) or (d) TTBER – ie the market-sharing provisions within the hardcore list applicable to competitors. The litigated patent rights are thus evidently assumed not to block the alleged infringer, as any such blocking position would normally mean that the parties are non-competitors.

A separate section of the guidelines deals with the relevance of patents to the question of whether companies are competitors. Although it is not mentioned in the Commission's memorandum outlining the changes under the new TTBER (MEMO 14/208), this section is another area where important changes have been made. The normal position is that where a patent is held, the parties will be non-competitors. However, the guidelines now require "particularly convincing evidence of the existence of a blocking position" where the parties have a common interest in claiming the existence of such a position or "if there is a significant financial inducement from the licensor to the licensee" (para 33). Given that the Commission views the grant of a licence as equivalent to a financial inducement in the settlement context, it appears that there are few situations where it will be accepted that the parties are non-competitors.

The weakened concept of blocking patents applies more broadly than just the settlement context. The guidance notes that "substantial investments already made, or advanced plans to enter a particular market, can support the view that the parties are at least potential competitors, even if a blocking position cannot be excluded" (para 33). In such cases, parties have to abide by the stricter list of hardcore restrictions, and their agreements will not be protected by the TTBER at all unless they pass the lower market share thresholds applicable to competitors. This is a potentially significant development, which may reduce the usefulness of the block exemption in many cases.

Conclusion

This article has not set out to describe every change introduced by the new TTBER and guidelines. As well as the issues on which this article has focused, there are notable developments in the treatment of passive sales, the extent to which ancillary agreements with the licensor (in particular, the purchase of raw materials and/or the use of the licensor's trademark) are covered by the block exemption, and patent pools.

To answer the question posed in the standfirst, there has been no wholesale revolution. However, policies have clearly evolved and will have an impact on companies active in licensing. To conclude, it is worth mentioning one notable – and possibly unintended – side-effect of the changes which have been reviewed in this article, namely the reduced availability of contractual means for reducing litigation risks. It is clear that settlement agreements are constrained, which in some cases may mean more (or longer) litigation. The new approach to grant-backs may similarly make for more disputes. Now that licensees have to be allowed to retain rights to non-severable improvements, unauthorised use of those improvements will probably be an infringement of the licensor's IPRs, which it may need to enforce. The reduction in availability of terminate-on-challenge provisions is also likely to mean more litigation. While the encouragement of disruptive innovation is a clear and reasonable policy objective, it is questionable whether the consequences have been so well thought through – increased litigation is rarely regarded as a benefit to industry.