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The New EU Technology Transfer Regime

Out of the straightjacket into the safe harbour ?

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New Technology Transfer Regime

- New technology transfer rules:
  - Technology Transfer Block Exemption Regulation (“TTBER”) Technology Transfer Guidelines

- Highlights
  - Published 7 April 2004
  - Enter into force 1 May 2004
  - Replace old Regulation 240/96
  - End five year overhaul of Article 81 to make interpretation more effects-based (Vertical, Horizontal and Technology Guidelines)
  - Covers software, but not performance copyrights, for the first time
  - Block exemption regulations on specialisation and R&D agreements remain in effect and apply separately

New Technology Transfer Regime

- Regulation 1/2003 also enters into force on 1.5.04
    - Replaces old Regulation 17/62 ex ante notification/exemption regime
    - Introduces decentralised ex post legal exception regime
    - Allows Article 81(3) to be enforced by national courts and national competition authorities
    - Removes Commission's power to issue exemptions or comfort letters
        - Decisions finding inapplicability – Community public interest
        - Informal guidance – novel/unresolved legal questions

Old and New Regimes Compared

- Old regime:
  - “White list” of exempted clauses
  - No reference to parties’ market power
  - No distinction between competitors/non-competitors
  - Restrictions not covered had to be individually notified under Regulation 17/62
  - Formalistic approach created “straightjacket” for licenses

Old and New Regimes Compared

- New regime
  - "Positive" safe harbour based on market share
    - Competitors: 20% (combined)
    - Non-competitors: 30% (each)
  - "Negative" safe harbour based on number (4 minimum) of substitutable technologies available at comparable cost to user
  - Effects-based "safe harbour" approach is more economically sound and more flexible

Old and New Regimes Compared

- Old regime
  - More legal certainty - white listed restrictions were lawful for the duration of the agreement
  - More legal certainty for restrictions outside block exemption that were individually notified
    - immune from fines
    - following Commission decision/comfort letter, effectively immune from law suits

Old and New Regimes Compared

- New regime
  - Less legal certainty within safe harbours - they are based on criteria outside parties' control
  - Less legal certainty outside safe harbours - no possibility of exemption/comfort letter from Commission
  - Outside safe harbour - apply Technology Guidelines

Practical Implications for Licensors

- No black listed provisions should be included
  - Automatically void and unenforceable
  - Bring whole license outside block exemption
  - Cannot be severed to make rest of the agreement enforceable
  - Exceptional cases: may qualify for individual exemption - see Notice on interpretation of Article 81(3)

Practical Implications for Licensors

- Positive safe harbour
  - Competitor/non-competitor analysis at outset applies for duration of agreement
  - Note that increase in market share brings restriction outside block exemption at the time the restriction is enforced
    - 2 year from outset to lose status
  - Confers (positive) presumption that net effect of license is pro-competitive
  - Note rules on calculation on technology/product markets
    - Downstream products -- See paras 20-25 of Guidelines

Practical Implications for Licensors

- Negative safe harbour
  - 4 alternative substitutable technologies
  - Available at comparable cost to user
  - Independently controlled
  - Are the substitute technologies a real constraint?
    - Network effects - See para 131
  - Confers (negative) presumption that license is not prohibited by Article 81, if no hardcore restrictions

Practical Implications for Licensors

- Technology Guidelines
  - Non-binding statement of Commission's current views
  - Cover potentially contentious issues in bilateral agreements
    - Running royalty obligations – para 156 ff
    - Exclusive licenses (territory) and sales restrictions – para 162 ff
    - Output restrictions and site licenses – para 175 ff
    - Field of use restrictions – para 179 ff, 184
    - Tying and non-compete obligations – paras 191 and 196 ff
    - Settlement agreements – para 204 ff
  - Cover multilateral agreements not covered by TTBER
    - Technology pools

Case study 1

- Calculation of market share
  - **A wishes to license B with Technology X**
  - **A and B compete on the relevant affected technology market but not on the downstream product market**
  - **Market share is calculated by combining:**
    - the sales of products incorporating B's technology; with
    - the sales of the products incorporating A's technology; then
    - dividing them by the total sale of products incorporating all substitutable technologies in the market
  - **Where the technology is new and there are as yet no product sales its market share is deemed to be zero**

Case study 2

- Territorial/Customer restrictions
  - **A grants exclusive license of Technology X to B in Territory 1**
  - **A restricts active and passive sales by B into Territory 2**
  - **A and B are not competitors at the time they enter into the license**
  - **A subsequently grants non-exclusive licenses to C and D in Territory 2**
  - **A may no longer prevent B from making active or passive sales into Territory 2**

Case study 3

- Field of use restrictions
  - **2 semiconductor producers decide to cross license**
  - **A has >10% market share in processors and B has equivalent market share in flash memory**
  - **Each manufacture the other product and are therefore competitors**
  - **Each are developing new products in both areas but have the problem of running into patents of the other when doing development work in the area where each is strong**

Case study 3

- Field of use restrictions
  - **The solution is a portfolio license, but clearly A will not want to give B its patents to use in processors and B will not want to give A its patents to use in flash**
  - **The cross-license will therefore only happen if A and B are each permitted to limit the field of use of the license to the technical field in which the other is strong**
  - **Under the Fall 2003 proposals, this would have been a problem; now the Commission have recognised that the license is pro-competitive, allowing each of A and B to innovate without becoming caught up in litigation and the “patent thicket”**
  - **Guidelines allow for reciprocal asymmetrical field of use restrictions (e.g. in “design freedom” portfolio cross-licenses)**

Case study 4

- Royalty obligations
  - **A and B are competitors and enter into a cross-license (design freedom)**
  - **They agree running royalty obligations whereby the reciprocal running royalties per unit increase as each other's output increases**
  - **Legality of royalty obligations will depend degree of market power held by A and B together - if they have too high market shares, Commission or NCA may conclude that royalty obligations have the illegal effect of limiting output**

Case study 5

- Grant backs
  - **A licenses technology X to B on condition that B grant an exclusive license back to A of all improvements (including severable) to the technology**
  - **Grant back will not be covered by positive safe harbour; may be covered by negative safe harbour if sufficient substitutable technologies are available**
  - **If grant-back is made non-exclusive it will be covered by positive safe harbour**

Case study 6

- Protection of know how
  - **A agrees to license Technology X to non-competitor B**
  - **B has an R&D collaboration agreement with C who is a competitor to A**
  - **A imposes a restriction that B may not use Technology X in its R&D efforts with A and enforces this by requiring B to use Technology X in a “clean room” environment subject to regular audits by A**
  - **This arrangement should be lawful provided that any restriction imposed on B is indispensable to preventing disclosure of information regarding Technology X to C**
  - **Clean room restrictions may also be implemented to allow for licensees’ own development of competing technology**

Case study 7

- Patent pool
  - **Following agreement on a new standard for telecommunications, eight manufacturers pool their patents that are essential to producing the standardised products**
  - **An expert is appointed to ensure that all the patents included in the pool are <u>essential</u> (complementary, not substitutable patents, that are required)**
  - **Some licensors have registered their patents in all Member States, some only in the bigger markets in the EU**
  - **The licensors may face pressure from manufacturers in Member States where there is less patent protection to offer partial packages of patents at lower prices**

Case study 8

- Patent ambush
  - **Acme Inc. participates in a standards development organisation to develop a standard for flash memory**
  - **Acme Inc. does not disclose in the SDO proceeding that it has patents that may be infringed by the standardised technology**
  - **The SDO adopts a flash memory standard that incorporates technology that has previously been patented by Acme Inc.**
  - **Many manufacturers implement the new standardised technology in their products such that the new standard becomes the de facto industry standard**
  - **Acme Inc. demands high royalties from manufacturers for licences to patents that are essential to the implementation of the new standardised technology confident in the knowledge that they do not have any realistic commercial alternative (it is too late for the industry to design around its patents)**

Conclusion

- New effects-based regime is more economically sound but offers less legal certainty

- Safe harbours will not replace straightjacket

- Dynamic self-assessment of risk under the Technology Guidelines likely to be the focus of practice under the new regime

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