



European Commission Publishes Second Consultation on Revisions to the Technology Transfer Block Exemption

March 2013

1. On 20 February 2013 the European Commission published its second consultation on revising the Technology Transfer Block Exemption Regulation (“TTBER”).¹ The TTBER applies to bilateral technology transfer licences where the licensor permits the licensee to use the licensed technology to produce goods or services.
2. The TTBER aims to recognise the pro-competitive benefits of intellectual property licensing by providing both competing and non-competing licensors and licensees with a safe harbour within which they can licence their technology. The original proposal to amend the TTBER was instigated by the impending expiry of the current TTBER on 30 April 2014. The Commission first consulted on revising the current TTBER on 6 December 2011. **The deadline for submitting comments to the European Commission for the current consultation is 17 May 2013.**
3. On the whole the changes proposed in the draft TTBER² attempt to clarify the scope of application of the TTBER which is to be applauded. Other more substantive changes appear to suggest the European Commission is taking a slightly stricter approach to agreements between non-competitors and to restrictions on the licensee’s ability to challenge the validity of the licence or obligations on the licensee to grant back an exclusive licence to the licensor.

Summary of key changes

4. Key changes include:
 - a. A clarification of the scope of application of the TTBER which should apply for the purpose of producing goods or services.;
 - b. A clarification and broadening of the definition of technology transfer agreements to include agreements that relate to the purchase of products or the assignment of other

¹ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2004:123:0011:0017:EN:PDF>

² http://ec.europa.eu/competition/consultations/2013_technology_transfer/regulation_en.pdf

intellectual property rights (“IPRs”) provided they are directly related to the production of contract products;

- c. A 20% market share threshold will apply to non-competitors where the licensee holds competing technology which it uses for in-house production and which is substitutable for the licensed technology; and
- d. Exclusive grant-backs and termination by the licensor on a challenge of the validity of the licensed technology will fall outside the TTBER.

Changes in more depth:

Application of the TTBER: new clarifications

- 5. The TTBER will be clarified (albeit in the recitals) to state that it only applies to agreements where the licensor permits the licensee to exploit the licensed technology for the *purpose of producing goods or services*. This means that the TTBER **should not apply to agreements whose purpose is the mere reproduction and distribution of software copyright protected products. Such agreements are more akin to distribution agreements** and therefore may the [Vertical Agreements Block Exemption Regulation](#) may apply.³
- 6. The Commission specifies that the TTBER will only apply if the [Research and Development Block Exemption Regulation](#) or the [Specialisation Block Exemption Regulation](#) does not apply.
- 7. The new TTBER will clarify that, in addition to applying to technology transfer agreements for the purposes of producing contract products by the licensee, it also applies to subcontracting agreements for the production of contract products by the licensee’s sub-contractors.
- 8. The TTBER proposes a new test for determining whether certain provisions (concerning purchases of material or equipment from a licensor or the use of the licensor’s trademark) which are additional to the main technology transfer agreement fall under the TTBER. The determining factor is now whether the provisions are “directly and exclusively related” to what the licensee produces with the licensed technology. As a result, provisions will be exempted under the TTBER even if the input purchased from the licensor is of greater value than the licensed technology.

Scope of the TTBER: revised definitions

- 9. A new definition of “technology” is proposed⁴ which replaces references to numerous different licences at various points in the current TTBER (see for example the old definition of “reciprocal and non-reciprocal agreement”);
- 10. The Commission also proposes a broader definition of “technology transfer agreement”⁵ which is described as a “technology licensing agreement” including any “agreement containing provisions which relate to the purchase of products by the licensee or which relate to the licensing or

³ Recital 7 draft TTBER

⁴ This definition includes know-how and the following rights or combinations of rights including the applications or applications for registration: patents, utility models, design rights, topographies of semiconductor products; supplementary protection certificates for medicinal products or other products for which such protection may be obtained, plant breeder’s certificates and software copyright.

⁵ Article (1)(1)(c) draft TTBER

assignment of other IPRs or know-how to the licensee *provided those provisions are directly and exclusively related to the production of the contract products*” In the current TTBER, the provisions must not “*constitute the primary object of the agreement and [must be] ... directly related to the production of the contract products*”.⁶ The change in wording means that it is no longer necessary to be assured that the ancillary purchases or IPR assignments are of lesser value than or constitute the ‘primary object’ of the contract.

11. The Commission proposes to include new definitions of a) “relevant market”⁷ (product and geographic market) b) “relevant product market” (the contract products and its substitutes; c) “relevant geographic market” (the geographic area where the relevant undertakings are involved in the supply and demand of the licensed technology); and d) “relevant technology market” (licensed technology and its substitutes)”
12. The definition of “competing undertakings on the relevant market *where the technology is licensed*”⁸ has been changed and extended a) to reflect the new definitions of the relevant market and b) to include competitors who license out competing technologies without infringing each other’s IPRs as well as *those who misappropriate each other’s know-how*.
13. Similarly the new definition of “competing undertakings on the relevant market *where the contract products are sold*” is extended to cover both actual *and potential* competitors. These are undertakings who in the absence of the technology transfer agreement *are* both active on the relevant market(s) on which the contract products are sold without infringing each other’s IPRs (actual competitors) or who would not just as a mere theoretical possibility in response to a small but permanent increase in price be likely to enter the market within a short period of time (potential competitors).
14. The definition of a selective distribution system is extended.⁹ It is now defined as a distribution system where the licensor undertakes to license the production of the contract products *either directly or indirectly* only to licensees selected on the basis of specified criteria and where these licensees undertake not to sell the contract products to unauthorised distributors *within the territory reserved by the licensor to operate that system (changes in italics)*.
15. A new definition of exclusive licence¹⁰ will be introduced. It is proposed that an exclusive licence will mean that the licensee is “the only one permitted to produce on the basis of the licensed technology, in general or for a particular use or in a particular territory.”
16. The definition of “exclusive territory” will be clarified to mean the territory in which an undertaking is allowed to sell contract products, not just produce them.

Market Share thresholds

17. While the 20% and 30% market share thresholds for competing and non-competing undertakings respectively will remain the same, the TTBER will also cover situations where the licensor and the licensee are not competing undertakings but the licensee owns a competing technology

⁶ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32004R0772:EN:NOT> Article 1(1) (b) current TTBER. See also para 49 TTBER Guidelines. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2004:101:0002:0042:EN:PDF>

⁷ Article 1(1)(m) draft TTBER

⁸ Article 1(1)(n) draft TTBER

⁹ Article 1(1)(o) draft TTBER

¹⁰ Article 1(1)(p) draft TTBER

which it uses for in-house production and which is substitutable for the licensed technology. In this case the parties will benefit from the block exemption where neither of them exceed a 20% market share threshold. This amendment is designed to address the risk that a licensee could foreclose competition to the downstream market by entering into an exclusive licence with the only company licensing the technology while still benefitting from the higher 30% market share for non-competitors.

18. The TTBER will be clarified to explain that market shares of the licensor should be calculated on the basis of “sales data of the contract products produced by the licensor *and its licensees combined*.”

Hard-core restrictions

19. The hard-core restrictions for *competing undertakings* have remained unchanged.
20. The Commission proposes to remove one of the exceptions to the list of hard core restrictions for *non-competing undertakings*. As a result non-competitors will no longer be able to restrict passive sales into an exclusive territory or exclusive customer group allocated by the licensor to another licensee for the first two years that this other licensee is selling the contract products in that territory or to that customer group.¹¹ The only exception to this will be where such restrictions are objectively necessary for the licensee to penetrate a new market. This amendment is intended to bring the TTBER in line with the Vertical Agreements Block Exemption Regulation.
21. Under the current Article 4(3) of the current TTBER, where non-competing undertakings become competing undertakings the list of hard-core restrictions applicable to non-competing undertakings continues to apply during the life of the agreement unless there is a ‘material amendment’ to the agreement between the parties. Such an ‘amendment’ will now explicitly include the conclusion of a new technology transfer agreement between the parties in relation to the competing technologies which can be used for the production of products competing with the contract products.

Excluded Restrictions

22. The Commission proposes to remove the concept of “severable improvement” currently in Articles 5(1)(a) and (b) of the TTBER such that all exclusive grant-backs will now fall outside the TTBER and require individual assessment. The proposed new wording is as follows: “*any direct or indirect obligation on the licensee to grant an exclusive licence or to assign rights, in whole or in part, to the licensor or to a third party designated by the licensor in respect of its own improvements to or its own applications of the licensed technology*” will be an excluded restriction. This means that the offending clause can be red-lined from the remainder of the agreement without making the whole agreement fall outside the TTBER.
23. The prohibition on any direct or indirect obligation on the licensee not to challenge¹² the validity of the IPRs held by the licensor in the EU will remain under the proposed new TTBER, however, whereas until now, the licensor was able to provide for the termination of technology transfer

¹¹ Article 4(2) (b) (ii), current TTBER

¹² Article 5(1) (c) current TTBER

agreement where the licensee challenges the validity of the IPRs, this will no longer be a permissible exception.

Consultation deadline

24. The deadline for submitting comments on the draft TTBER is **17 May 2013**. The current block exemption will expire on 30 April 2014.
25. The proposed TTBER would enter into force on 1 May 2014 with a one year transitional period to 30 April 2015. During this time agreements already in force on 30 April 2014 will be covered by the current TTBER if they satisfy the conditions of that TTBER.

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