

The New EU Technology Transfer Regime Like a Rolling Stone?

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Abstract: This article discusses the changes made by the new block exemption regulation, Regulation 316/2014, to the analytical framework under EU competition law of technology transfer agreements. The new EU Technology Transfer regime introduces major modifications with respect to the analysis of grant-back provisions, technology pool licenses and provides significantly more powers to licensees to challenge the validity of licensed intellectual property rights. While these changes have been presented as minor modifications, they express significant concerns about patent thickets and licensees with weak bargaining positions and may have profound repercussions for the admissibility and enforceability of provisions included in new and existing licensing agreements.

Key words: EU competition law, licensing, transfer of technology, technology block exemption regulation, patent thicket, grant-back, no-challenge, technology pools.

In many industries the transfer of technology is essential for businesses. It helps disseminate innovation and allows companies to integrate and use complementary technologies to which they may otherwise not have access. Transfer of technology through licensing also enables innovators to seek compensation for successful research and development projects that would in turn maintain investment incentives, taking failed projects into account.

Licensing is one of the common ways of transferring technology. Not surprisingly then, most licence agreements are deemed not to restrict competition and to create pro-competitive efficiencies. However, licensing of technology may not only be beneficial, but might in specific circumstances also produce anti-competitive effects. For instance, technology pools and licensing of the technologies assembled in the pool as a package may reduce transaction costs where licensees need the various technologies in the pool to manufacture the products to which the pool relates, may eliminate double marginalization and may, more generally, lessen concerns associated with patent thickets. However, those same patent pools may

raise anti-competitive concerns if the pool includes substitute technologies, if essential technologies are not licensed on fair, reasonable and non-discriminatory ("FRAND") terms, or if the pool does not allow for independent licensing outside the pool.

This contribution discusses the European Commission's new technology transfer block exemption regulation, Regulation 316/2014 (the "Regulation", "Regulation 316/2014" or "TTBR") and accompanying Guidelines (the "Guidelines").¹ Rather than discussing the new EU technology transfer regime in detail, it focuses on a number of significant changes to the regime as it existed prior to 30 April 2014 and attempts to draw a number of tentative conclusions regarding the new direction of the Commission's enforcement policy in this area. In addition, this article touches upon a number of trends that have at least in part motivated the changes to the legislative framework and appear particularly relevant for the Commission's future treatment of technology licensing agreements.

The new EU technology transfer regime is of significant practical importance to many businesses. Indeed, the Regulation provides for a well-defined safe harbor under Article 101(1) TFEU prohibiting anti-competitive agreements for a large category of agreements, which are on balance presumed to be efficiency-enhancing. Accordingly, the Regulation exempts licensing agreements which may, on a strict interpretation, infringe Article 101(1) TFEU and thus provides legal certainty to the parties to those agreements that their agreements are enforceable and will not attract fines. The individual assessment of licensing agreements under Article 101(1) and (3) TFEU outside the safe harbor of the Regulation is to be conducted on the basis of the Commission's Notice on the application of Article 101(3) TFEU which provides the general analytical framework for the analysis under Article 101(1) and (3) TFEU and the Guidelines that apply specifically to technology transfer agreements. Accordingly, the Guidelines explain the methodology that the Commission applies when assessing the effects of particular types of licensing agreements. The fact that an agreement does

¹ Commission Regulation (EU) No 316/2014 of 21 March 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements ("Regulation") and Communication from the Commission - Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements of 28 March 2014 ("Guidelines").

not infringe Article 101(1) TFEU, or meets the conditions of Article 101(3) TFEU does however not shield it from the application of Article 102 TFEU.²

Despite this general observation on the practical importance of the technology transfer safe harbor, it is obviously unknown how many agreements benefit in reality from the safe harbor of the Regulation. EU innovation statistics suggest however that the impact of the EU technology transfer regime may be significant.³ Those data demonstrate that more than half of all enterprises in the EU-27 Member States (excluding Greece) reported innovation activities. Of these companies, approximately 25% are engaged in cooperation with other companies. In general terms, the larger the companies are, the more likely they are to cooperate. An OECD/EPO study from 2009 confirms that the value and volume of patent licensing has expanded over recent years as a result of increased competition, globalization and a trend towards more open models of innovation based on collaboration and external sourcing of knowledge and provides statistical evidence that approximately 20% of European companies license out intellectual property (PLUVIA ZUNIGA & GUELLEC, 2009). The study also concludes that small and large firms are more likely to license out their patented inventions, as particularly SMEs face obstacles identifying suitable partners.⁴

The changes to the EU technology transfer regime are specifically aimed at facilitating the challenge of the validity of licensed patents by licensees, safeguarding the exploitation of follow-on innovation and protecting small licensors. The new regime will affect the terms and conditions of new licensing agreements and may necessitate modifications of existing agreements. It may also percolate down to national court judgments and enforcement action of national competition agencies in the EU, although in the past ten years technology transfer agreements have given rise to only

² See Case T-51/89 *Tetra Pak v Commission* (1990) ECR II-309, paragraph 25. In contrast to Article 101 TFEU, Article 102 TFEU applies to unilateral conduct of companies holding a dominant position and prohibits the abuse of such dominant position. Article 102 TFEU has been applied on a number of occasions to conduct involving intellectual property rights. The Community Courts have established that the exercise of an exclusive right by its owner may only in exceptional circumstances and absent any objective justification involve abusive conduct, see for instance Case T-201/04 *Microsoft v Commission* (2007) ECR II-3601, paragraph 331.

³ See European Commission, Eurostat, Innovation Statistics: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Innovation_statistics

⁴ Another study commissioned by the European Commission suggests that if SMEs licence out, they tend to licence larger shares of their patent portfolio than larger firms. See RADAUER & DUDENBOSTEL, 2013.

five reported investigations by national competition enforcement agencies and four proceedings in national courts. However, these concerns and, more generally, the increased skepticism towards the validity and value of intellectual property are perhaps most likely to be reflected in the EU Commission's enforcement in the area of unilateral conduct under Article 102 TFEU in the years to come.⁵

■ Trends

Before discussing the changes to the Commission's treatment of technology licensing as laid down in the new Regulation and Guidelines, it is helpful to highlight a number of trends in sectors where innovation and technology licensing is important. Indeed, one may expect the Commission's policy to respond to those trends, either by facilitating certain licensing practices, or by tightening the rules and intervening on the basis of the EU competition rules where it believes that is warranted.

Firstly, especially in the ITC sector, in the past twenty years there has been a significant increase in the number of patent applications and patents actually granted. This trend manifests itself in Europe and the United States, but also in Asia. For example, the number of patent applications in China increased from approximately 50,000 in 2000 to 250,000 in 2007, while the number of European applications increased from 150,000 in 2000 to 250,000 in 2012.⁶ This growth is not only fuelled by changes in patent legislation, but also by the economic growth in Asia and the globalization of the world economy as a result of which companies in more jurisdictions are seeking to obtain patent protection. In this respect, it is also important to note the backlog in the processing of patent applications, which has

⁵ See in this respect in particular Case AT. 39985 - *Motorola - Enforcement of GPRS Standard Essential Patents*, decision of 29 April 2014 and text accompanying footnote 26 below.

⁶ See European Patent Office, Fact and Figures 2013, [www.epo.org/ service-support/publications/general-information/facts-figures/2013.html](http://www.epo.org/service-support/publications/general-information/facts-figures/2013.html). From 2003 to 2012 the total number of patents granted by the world's five largest patent offices almost doubled, rising from 500,000 to 924,000. See BEKKERS *et al.* (2014). Incidentally, approximately 60% of the increase of patent applications is attributed to Chinese, Japanese and Korean companies. Samsung, Sony, LG, Panasonic, Honda, Mitsubishi and Toyota are among the top ten companies filing European patent applications.

increased significantly, in particular in the US, as a result of which the uncertainty regarding the validity of patents has also grown.⁷

Secondly, products are becoming more technically complex and more patent applications per product are being submitted.⁸ This trend can be illustrated by the number of successive generations of products and the number of essential patents involved in the manufacture of these subsequent products. For example, in the mobile telephony sector, approximately 100 essential 'first generation' GSM patents initially existed, but that number has risen to 1,000 3G/UMTS patents and to over 1,500 4G/LTE essential patents. The number of essential CD patents was approximately 100, while for DVD and Blu-ray that number rose to approximately 400 and 2,000 respectively.

In sum, nowadays, in the ICT sector a much larger number of essential patents is in the hands of a larger number of (new) patent holders with varying strategic considerations.⁹ On a price per patent basis, while patents in this sector have lost value, they also function more and more as strategic negotiation tools or 'bargaining chips.' Moreover, companies submit an increasing number of patent applications to maintain their negotiating position. In many ICT sectors, these trends have led to patent clusters or 'patent thickets', a tangle or web of patents through which prospective licensees must navigate to manufacture a product that meets a certain technical standard.¹⁰

The number of patent applications is also rising in the pharmaceutical sector, where patent thickets occur more frequently. The number of European patent applications increased by 40% between 2000 and 2007. The number of patents and patent applications for medicines in Europe is

⁷ The US Patent and Trademark Office estimated that in 2008 there were more applications than patents granted. See also *Intellectual Property Office, Patent backlogs, Inventories and Pendency: an International Framework*, <http://www.ipo.gov.uk/ipresearch-uspatlog-201306.pdf>. The backlog of the European Patent Office is significantly smaller. See MEJER & POTTELSBERGHE DE LA POTTERIE (2011).

⁸ It also appears that more technical standards are developed, that standardization activities are more fragmented and that more parties participate in standardization discussions.

⁹ Nonetheless, in specific sectors, such as the mobile telephony sector, significant patent portfolios are held by a limited number of firms.

¹⁰ See REGIBEAU & ROCKETT (2011). See also GRAEVENITZ, WAGNER & HARHOFF (2013), who identify patent thickets in nine out of thirty complex technology areas. The mere existence of patent thickets does however not necessarily imply social inefficiency or a competitive problem. See in this respect for example Report EPO Economic and Scientific Advisory Board, Workshop on Patent Thickets, 26 September 2012.

estimated at 40,000.¹¹ In this sector there is also an increase of voluntary divisional patent applications, as a result of which the duration of the investigation by patent agencies is extended and publication of the patent is postponed, which may be part of a strategy to restrict competition (OECD, 2009, p. 20).

In its 2009 conclusions following the pharmaceutical sector investigation, the Commission observed that market access of generic medications may be delayed or blocked in a number of ways, which may lead to less competition and higher prices. In this context, the Commission was particularly concerned with the significant number of settlement agreements between originator and generic companies. Such settlement agreements are often the result of patent disputes and frequently limit the possibilities of generic companies to bring their products to the market. In many cases, such settlement agreements are accompanied by a payment or other value transfer from the originator to the generic company. As a result, these 'reverse payment' arrangements are being increasingly attacked by the Commission.

The picture that emerges is that there are now more possibilities to use intellectual property rights strategically than there were 20 years ago, and this phenomenon has increased the potential to restrict competition. This situation has subsequently given rise to discussions, particularly in the US, regarding necessary amendments to intellectual property law, so that patents cannot be obtained as easily or as a result of which the duration of patent protection is limited. So far, however, and in light of the differences between the US and the EU, those discussions have not led to drastic reforms of intellectual property law in the EU.

■ The new block exemption Regulation 316/2014 and Guidelines for technology transfer agreements

The practical importance of the new block exemption is evident. In proceedings before national courts, the parties to technology transfer

¹¹ See European Commission (2009a), p. 161 *cf.* See also European Commission (2009b), p. 11 ["Filing numerous patent applications for the same medicine (forming so called "patent clusters" or "patent thickets") is a common practice. Documents gathered in the course of the inquiry confirm that an important objective of this approach is to delay or block the market entry of generic medicines."].

agreements may rely on the direct effect of Article 101 TFEU and pursuant to Article 101 (2) agreements that infringe Article 101 TFEU are automatically null and void. Moreover, the European Court of Justice has established that Article 101 (1) is of public order and that the provision must be applied *ex officio*. In practical terms, this means that parties to technology transfer agreements, in particular where these agreements involve significant investments, are well advised to ensure that their agreements do not infringe Article 101 (1) TFEU.

Both European competition law and corresponding national regimes of competition law provide for an exemption from the prohibition of Article 101 (1) TFEU (and corresponding provisions of national law). This provision has been laid down in Article 101 (3) TFEU and applies to agreements that in addition to anti-competitive effects also generate pro-competitive effects that outweigh the negative effects generated by the agreement at stake (LUGARD & HANCHER, 2004, p. 410). Over time, the Commission has adopted a number of block exemption regulations that apply to categories of agreements that are generally deemed to meet the conditions of Article 101 (3) TFEU and that are therefore exempt from the prohibition of Article 101 (1) TFEU. These block exemption regulations define in detail the requirements that these types of agreements must meet for the exemption to apply. The technology transfer block exemption regulation is one of those regulations.

Accordingly, the new block exemption for technology transfer agreements, Regulation 316/2014, provides for instance that an exclusive patent licence that allows the licensee to manufacture certain contract products without infringing the intellectual property rights of the owner of those rights, is exempt from Article 101 (1) TFEU, provided the market share of each of the parties to the agreement does not exceed 30% on the affected relevant technology and product market (or, in case the parties are competitors, the combined market share of the parties does not exceed 20% on those markets) on the affected relevant technology and product market and the agreement does not contain any 'hardcore' restrictions of competition as mentioned in Article 4 of the Regulation. If the agreement would impose on the licensee a prohibition to export the products manufactured under the licence, or would include any other hardcore restraint, the entire agreement would no longer benefit from the exemption and it would potentially be void and unenforceable. As a consequence, it is in most cases recommendable to try to structure technology licence agreements in such a way that they meet the requirements of the block exemption regulation.

If an agreement does not fall within the safe harbor of the block exemption regulation, for example because the market shares of the parties to the agreement are too high, or because the agreement includes non-exempted restraints, the agreement does not automatically infringe Article 101 (1) TFEU; whether the agreements infringes Article 101 (1) TFEU depends on whether the non-exempted agreement produces on balance anti-competitive effects, which in turn depends on the specific circumstances of the case. Factors that are particularly relevant in this respect are the nature of the agreement, the market position of the parties, their competitors and buyers on the relevant markets and the nature of the licensed technology. The Guidelines on technology transfer agreements establish the framework of analysis for the individual assessment of technology licence agreements that are not covered by the block exemption regulation.

The following paragraphs discuss the amendments to the block exemption for technology transfer agreements and the accompanying guidelines. Before doing so, we briefly discuss the structure of the new regulation, together with a number of interesting features.

■ The structure of the new block exemption Regulation 316/ 2014

The structure of Regulation 316/2014 is similar to that of the previous block exemption regulation, Regulation 772/2004. Article 1 defines a number of key concepts, including the notion of 'technology transfer agreement.'¹² Article 2 provides that the prohibition of Article 101 (1) TFEU is not applicable to technology transfer agreements that meet the conditions of the block exemption regulation. Article 3 limits the application of the exemption to agreements entered into between parties whose market shares do not exceed 20%, c.q. 30%. These market share thresholds are based on the assumption that agreements between parties with high market shares and corresponding market power are more likely to restrict competition on the affected product and technology markets.

¹² Article 1 Regulation 316 / 2014 defines "technology transfer agreement" as (i) a technology rights licensing agreement entered into between two undertakings for the purpose of the production of contract products by the licensee and/or its sub-contractor(s), (ii) an assignment of technology rights between two undertakings for the purpose of the production of contract products where part of the risk associated with the exploitation of the technology remains with the assignor.

Article 4 lists the hardcore restrictions that cause the entire agreement to lose the benefit of the exemption provided for under the block exemption regulation. This provision distinguishes between licence agreements entered into between competitors (Article 4 (1)) and non-competitors (Article 4 (2)). For example, Article 4 (1) (c) (i) provides that the exemption does not apply to agreements that have as their object the allocation of markets or customers except:

"the obligation on the licensor and/or the licensee, in a non-reciprocal agreement, not to produce with the licensed technology rights within the exclusive territory reserved for the other party and/or not to sell actively and/or passively into the exclusive territory or to the exclusive customer group reserved for the other party."¹³

Article 5 of Regulation 316/2014 lists a number of excluded restrictions. In contrast to the restrictions included in Article 4, the inclusion of Article 5 excluded restrictions does not cause the entire agreement to fall outside the scope of the block exemption, but only makes the exemption not applicable to those specific clauses. For instance, Article 5(2) provides that the exemption does not apply to obligations limiting the licensee's ability to exploit its own technology or limiting the ability of any of the parties to the agreement to carry out research and development, unless the latter restriction is indispensable to prevent the disclosure of the licensed know-how to third parties. Accordingly, an Article 5 obligation is not automatically exempt from the prohibition of Article 101(1) TFEU, but the inclusion of such a provision does not lead to the loss of the exemption for the entire agreement.

The Commission has reported that, based on the public consultation preceding the adoption of the new block exemption regulation, most market participants and other stakeholders are satisfied with the structure and scope of Regulation 772/2004. However, this general and optimistic conclusion merits at least some nuance, as no Commission decisions applying Regulation 772/2004 have been reported during the lifetime of the regulation, and few, if any, national cases have been published. Moreover, the following features can be observed.

First, while the assumption underlying the block exemption regulation is that the transfer of technology improves efficiency and is pro-competitive as

¹³ Regulation 316/2014 provides for five exceptions to the general rule included in Article 4 (1) (c) that market and customer allocation provisions constitute hardcore restraints that cause the entire agreement not to be exempt.

it can reduce duplication of research and development, strengthen the incentive for the initial research and development, spur incremental innovation, facilitate diffusion and generate product market competition, a legitimate question remains whether blacklisting a number of intra-technology and intra-brand restrictions contributes to accomplishing that objective, particularly in relation to agreements between non-competitors.¹⁴ Indeed, the inability to include 'black-listed' intra-brand restrictions in licensing agreements may discourage holders of intellectual property to license their technology in the first place.

Incidentally, the new block exemption regulation introduces a new hardcore, intra-brand restraint for licenses between non-competitors. It no longer allows passive sales restrictions in relation to exclusive territories or customer groups allocated to another licensee during the first two years that this other licensee is selling the contract products in that territory or to that customer group. That restriction was permitted under Article 4(2)(ii) Regulation 772/2004, but has now disappeared.

Second, the provisions of the technology transfer block exemption are in some instances notoriously difficult to apply in practice, which may result in less legal certainty than would be desirable and compliance costs. For instance, both the previous and current block exemption regulation permit the use of field of use restrictions whereby the licence is limited to one or more technical fields of application or one or more product markets or industrial sectors. However, it may be difficult to structure field of use restrictions in such a way that they do not qualify as hardcore customer restrictions within the meaning of Articles 4(1)(c) and 4(2)(b), particularly when a technical field of use restriction may correspond to certain groups of customers within a product market.

Third, and more generally, the block exemption regulation specifically seeks to stimulate incremental and follow-on innovation.¹⁵ As a matter of principle, it is difficult to disagree with the proposition that that type of innovation may create efficiencies. However, one would have expected a discussion, and perhaps further research, on the trade-off between the benefits of follow-on innovation and original innovation, something the

¹⁴ This is because the market share thresholds of the Regulation ensure that the exemption only applies when there is generally sufficient inter-technology competition. It may be argued that blacklisting of intra-brand and intra-technology does not bring about additional welfare gains.

¹⁵ See for example recital 4 to Regulation 316/2014.

Commission has, to my knowledge, so far not undertaken.¹⁶ More generally, the successive block exemption regulations do not appear to be reflective of a comprehensive view on innovation and a corresponding framework of analysis (LUGARD, forthcoming).

■ Relevant changes included in Regulation 316/2014 and the Guidelines

Before discussing the most significant modifications that have been laid down in Regulation 316/2014, it may be helpful to touch upon a number of considerations that underlie the changes incorporated in the new regulation. Those considerations seem to be fuelled in particular by developments on a number of technology markets and recent economic insights. The report by Régibeau and Rockett provides an overview of those developments (REGIBEAU & ROCKETT, 2011). Two of those developments seem to have been of particular importance to the Commission when revising the technology transfer block exemption regulation.

First, the Commission is particularly concerned about the increase of patent thickets discussed above. While patent thickets only occur in specific sectors, the Commission seems to advocate a more general application of the measures that may alleviate the problems associated with patent tickets in specific industry sectors. A problem related to the phenomenon of patent thickets is, according to the Commission, the large number of patents that proves to be invalid. The Commission observes that more than 30% of patent infringement and invalidity actions before courts in France, Germany, Spain, the Netherlands and the United Kingdom result in invalidity findings.¹⁷

Second, the Commission has expressed concerns regarding the position of weaker market participants, for instance small biotech companies, that

¹⁶ For a discussion of the importance of innovation for economic growth as such, see for instance Office for Harmonization in the Internal Market (2013).

¹⁷ See Commission Staff Working Document Impact Assessment Accompanying the document Commission Regulation on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements and Communication from the Commission Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements ("Impact Assessment"), pp. 25-29. However, assuming that 5% of patents granted in these countries are subject to invalidity actions, only 1.5% of all patents granted would be invalid. See also CREMERS *et al.* (2013).

may be put under pressure by larger counterparties to transfer their technology on an exclusive basis.

The changes in Regulation 316/2014 and the accompanying Guidelines relate to three broad issues: (i) retro-licences given by the licensee to the licensor in respect of the licensee's own improvements to, or its own new applications, of the licensed technology ('grant backs'), (ii) termination of licence agreements in the event of a challenge of the validity of the licensed technology, and (iii) technology pools and licences. In addition, the Guidelines include a new section on reverse payment settlements that seeks to clarify the thin line between bona fide patent settlements in the event of one-way or two-way blocking positions, and arrangements that result in delayed or otherwise limited ability for the licensee to launch products and that, potentially, constitute illegal market allocation or market sharing within the meaning of Articles 4(1)(c) and (d). This section is particularly (but not exclusively) relevant for 'pay for delay' arrangements in the pharmaceutical sector, and will not be discussed in detail.¹⁸ Two other changes that will not be discussed in detail are the narrowed scope for permitted territorial protection under Article 4(2)ii mentioned above and the modified definition of 'essential' technology.¹⁹

Exclusive grant-backs

Article 5(1)a of the "old" block exemption provided that the exemption did not apply to

"any direct or indirect obligation on the licensee to assign, in whole or in part, to the licensor or to a third party designated by the licensor, rights to its own severable improvements to or its own new applications of the licensed technology."

The previous block exemption regulation was based on the position that licensees should be allowed to exploit technology that they have developed on the basis of the licensor's technology, if and to the extent that technology could be separated from the originally licensed technology. Exclusive retro-licences with respect to severable inventions prevented such exploitation by the licensee. However, non-exclusive grant-backs regarding severable

¹⁸ See Guidelines, paragraphs 234-243.

¹⁹ See Guidelines, paragraph 252 and compare with Guidelines (old), paragraph 216.

innovations, and both exclusive and non-exclusive grant-backs regarding non-severable innovations, benefitted from the exemption.

Under the new regulation, the distinction between severable and non-severable improvements has disappeared. Article 5(1)a of the new regulation provides that any obligation imposed on the licensee to grant an exclusive licence with respect to its own improvements falls outside the scope of the exemption, regardless of whether the improvements are severable or not. As a result, existing licence agreements that provide for an exclusive grant-back obligation with regard to non-severable improvements are no longer exempt from Article 101(1) TFEU and are potentially void and unenforceable. Whether that is indeed the case, depends on the outcome of an individual assessment under the Guidelines. The Guidelines provide in this respect that it will depend, among other things, on the compensation that the licensee receives, the position of the licensor and the nature and importance of the technology.²⁰

The fact that a grant-back obligation is contrary to Article 5 of the Regulation and, in addition infringes Article 101(1) TFEU, does not necessarily imply that the entire agreement is unenforceable; the sanction of nullity applies only to the provision that is contrary to Article 5 Regulation 316/2014.²¹

The Commission's decision to no longer exempt exclusive grant-back provisions regarding licensees' non-severable improvements is in large part based on the position that (exclusive) grant-back obligations may reduce licensee's incentives to innovate. This also applies to non-severable improvements that the licensee would not be able to exploit itself. Accordingly, the view that (exclusive) retro-licences on improvements do not negatively affect licensee's incentives to innovate, has been abandoned. The Régibeau study mentioned above seems to have been particularly important for the Commission's change of direction.

In their study, Régibeau and Rockett note a number of pro-efficiency arguments in favor of grant-back clauses: grant-back clauses may reduce the threat that licensees use the technology to leapfrog the licensor's technology, thus enabling licensing agreements that would otherwise not

²⁰ See Guidelines, paragraph 130.

²¹ Obviously, the terms of the agreement itself may stipulate the consequences of the nullity of a particular provision of the agreement and may, for example, provide that the invalidity of one provision may under specific circumstances cause the entire agreement to be invalid.

have been entered into. Grant-back obligations also enable licensors to coordinate improvements by collecting and disseminating to all licensees improvements that have been made (REGIBEAU & ROCKETT, 2011, p. 99). However, the study takes an overall negative approach to grant-back provisions and makes the argument that these types of clauses tend to reduce the incentive of licensees to innovate. According to the Commission, this may lead to negative effects on competition and, in the long run, to a reduction of consumer choice and therefore a direct negative impact on consumers.²²

The Régibeau study provides a relatively complex and game-theoretic discussion of licensors' and licensees' innovation incentives in a number of different settings. One main insight is that grant-back clauses imposed on licensees may reduce their incentives to innovate. After all, licensees may be discouraged from undertaking innovation-related activities, knowing that they will have to share, or, in the case of exclusive grant-backs, transfer any future innovations. Régibeau c.s. note that the licensee's innovation incentives could in theory be restored if the licensee would receive adequate compensation for its innovation. However, to be effective, the compensation should be fixed *ex ante*. In practice, it is nearly impossible to agree in advance on an appropriate level of remuneration.²³ This insight applies to both severable and non-severable inventions. The facts that a licensee is unable to commercialize itself non-severable inventions is not decisive: in the absence of the grant-back the licensee may be expected to negotiate at least some return for those (future) inventions.

In addition to providing an analysis of the parties' incentives to licensing agreements that militate in favor of a more-licensee friendly regime of grant-back provisions, Régibeau c.s. are also skeptical that follow-on innovation is triggered by licensing agreements and suggest that intellectual property law does not optimally incentivize follow-on innovation.²⁴ Both arguments support corrective action through changes to the treatment of technology transfer agreements under the EU competition rules.

The Commission's decision to no longer automatically exempt exclusive grant-back provisions for non-severable inventions, is based on the economic insights mentioned above. Licensors will, according to the

²² See Impact Assessment, *supra*, note 17, p. 38.

²³ *Idem*, p. 49.

²⁴ *Idem*, pp. 99 and 100.

Commission, also continue to benefit from licensees' inventions (through non-exclusive grant-backs). No longer differentiating between severable and non-severable improvements - which may be difficult in practice - may in addition reduce compliance costs, especially for less sophisticated licensees such as SMEs. However, in its motivation for its new policy direction, the Commission also notes that:

"by excluding exclusive grant-back obligations from the automatic exemption, it becomes less attractive for licensors to deprive the licensee who made the improvement from using its own innovation. This can be expected to favor in particular smaller licensees as they are generally less able to resist, when negotiating the original license agreement, the requirement to hand over improvements exclusively to the licensor."

With respect, that statement does not appear to be entirely correct: exclusive grant-back obligations for severable innovations were already non-exempt under the old regulation. Moreover, non-severable innovations cannot, by their nature, be exploited by the licensee. Thus, while the underlying economic motivations appear to make sense, at least to some extent, the summary of the reasons for the Commission's change of direction is somewhat less convincing and suggests that the Commission might have been a little too easily swayed by the (perceived) interests of licensees. However, its decision not to add exclusive grant-back obligations to the list of hardcore restrictions of Article 5, makes clear that the Commission recognizes, at least to some extent, that grant-back obligations may also generate efficiencies.²⁵

Termination provisions

Article 5(1)c of Regulation 772/2014 provided that the exemption was not applicable to:

"any direct or indirect obligation on the licensee not to challenge the validity of intellectual property rights which the licensor holds in the common market, without prejudice to the possibility of providing for termination of the technology transfer agreement in the event that the licensee challenges the validity of one or more of the licensed intellectual property rights."

²⁵ For a discussion of the efficiencies associated with grant-back obligations in general, see RÉGIBEAU & ROCKETT, 2011, pp. 51-53. See also Guidelines, paragraph 131 (dissemination of new technology by licensors).

Thus, Regulation 772/2004 provided for the possibility for the licensor to terminate the agreement - and, as a consequence, to deny the licensee the right to use the licensor's technology - in the event that the licensee challenged the validity of the licensed intellectual property rights. This approach was based on the idea that a licensor cannot be expected to offer a license to another party that challenges the validity of that same right; in case the other party takes the position that the intellectual property right is invalid, that party may also choose to manufacture the contract products without a license. The right to terminate the license thus restores the *ex ante quid pro quo*.

Initially, the Commission intended to no longer exempt termination provisions in the event of a challenge of intellectual property rights. The reason was, as mentioned above, to encourage licensees to challenge the validity of potentially invalid intellectual property rights. The importance that the Commission attaches to the licensee's ability to effectively challenge the validity of licensed patents is highlighted by the Commission's recent investigation into Motorola's attempts to enforce its GPRS SEPs.²⁶ However, the Commission reneged on this proposition and decided to only exempt termination provisions coupled with no-challenge provisions in the case of exclusive license agreements.²⁷

The objective of the new rules is to protect the licensee to a larger extent than used to be the case under Regulation 772/2004. Regulation 316/2014 provides that only in the event of an exclusive licence, may the licensor validly agree to terminate the licence in the case the licensee challenges the

²⁶ See Case AT. 39985 - *Motorola - Enforcement of GPRS Standard Essential Patents*, *supra*, note 6. Motorola's insistence on termination rights in the event of a challenge of the validity of licensed patents by Apple was a key element in the Commission's finding that Motorola's attempts to seek and enforce an injunction against Apple before German courts constituted abusive conduct within the meaning of Article 102 TFEU. The Commission observed that no-challenge clauses would produce significant anti-competitive effects. Significantly, these effects include the limitation of the licensee's ability to influence the level of royalties, as well as the possible payment by other potential licensees for invalid intellectual property rights (paragraph 336). Moreover, Apple's reluctance to agree to licensing terms that would *de facto* hinder its ability to challenge the validity of the SEPs at issue, were found to not call into question its willingness to enter into a licence on FRAND terms and conditions (paragraph 440). See in this respect also, the commitments offered by Samsung in Case COMP/C - 3/39.939 *Samsung Electronics - Enforcement of UMTS Standard Essential Patents*.

²⁷ The majority of the parties that responded to the public consultation on the draft text of the Regulation argued against a more restrictive treatment of termination clauses.

validity of the licensed intellectual property rights; termination rights in a non-exclusive licence are no longer exempted.²⁸

The reason why a licensor who provides its technology under an exclusive licence may still agree to terminate the agreement in the event of a challenge of its intellectual property rights without running the risk of the provision being null and void, is grounded in the Commission's wish to protect smaller, potentially vulnerable, licensees. The Commission considers that stronger market participants, including large pharmaceutical companies, have the power to demand exclusive licences from smaller licensors, such as biotech companies. It takes the position that if those licensors would no longer have the right to terminate the licence in the event of a challenge of the intellectual property rights, powerful licensees may, after having obtained the license, use the mere threat of litigation on validity as a means, for example, to renegotiate down the royalties, or to weaken the position of the licensor, while the licensor could not respond by threatening to terminate the license. Licensors who have entered into an exclusive licence are moreover particularly vulnerable, because they would not be able to turn to other licensees, or take up the production of contract products themselves as long as the exclusive licence is not terminated.

In sum, provisions in non-exclusive technology transfer agreements that provide for termination in the event of a challenge of the licensed intellectual property rights are no longer automatically exempt. It may thus be prudent to review termination provisions in existing license agreements and to tailor any new termination clauses to the new regime of Regulation 316/2014.

Technology pools and pool licences

Finally, the Guidelines that accompany the new block exemption regulation provide for a modification with regard to technology pools, i.e., arrangements whereby two or more parties assemble a package of technology which is licensed not only to contributors of a technology pool, but also to third parties. Technology pools enable licensees to easily gain access to technologies that are protected by intellectual property rights and

²⁸ Article 1(p) Regulation 316/2014 defines an exclusive licence as "a licence under which the licensor itself is not permitted to produce on the basis of the licensed technology rights and is not permitted to license the licensed technology rights to third parties, in general or for a particular use or in a particular territory."

owned by multiple parties. As a result, technology pools may result in lower transaction costs and other efficiencies. Technology pools often involve standard essential patents ("SEPs").²⁹ The new Guidelines include a 'soft safe harbor' for the formation and operation of technology pools. As such, this change is welcome as it provides more legal certainty for technology pools.

However, the Guidelines also include new provisions with regard to licensing agreements entered into between the technology pool and its licensees. Under Regulation 772/2004 those licensing agreements were considered to be conventional technology transfer agreements and were eligible for exemption under the regulation. This is no longer the case. In contrast to Regulation 772/2004, the new Regulation 316/2014 explicitly provides that licensing out from the pool is generally a multiparty agreement, taking into account the fact that the contributors commonly determine the conditions for the licensing out. It is therefore not covered by the block exemption.³⁰ In addition, the Guidelines provide for a number of significant requirements for pool licenses. In particular, where the pool has a dominant position on the market, royalties and other licensing terms should be on FRAND-terms, grant-back obligations should be non-exclusive, and non-challenge provisions, including termination clauses, are likely to fall within Article 101(1) TFEU.

The fact that pool licences no longer benefit from the exemption under Regulation 316/2014 implies that pool licenses may only be deemed not to infringe Article 101(1) TFEU after an individual assessment. This change of policy is potentially of greater importance than the changes with respect to exclusive grant-back provisions and termination clauses. Parties to pool licenses are, therefore, well advised to review their pool licenses under the framework of the new Guidelines.³¹

²⁹ A technology is essential if the manufacture of a product according to a technical standard necessarily infringes the intellectual property rights that read on the standard. See Guidelines, paragraph 252.

³⁰ See Guidelines, paragraphs 247 and 266. Compare Guidelines (old), paragraph 212.

³¹ See Guidelines, paragraphs 266-273.

■ Conclusion

The new block exemption regulation, Regulation 316/2014, brings about a number of significant changes to the analysis under EU competition law of provisions included in technology transfer agreements. Those changes are in significant part motivated by the Commission's wish to eliminate invalid intellectual property rights and to strengthen the position of licensees that may have a weak bargaining position vis a vis more powerful counterparties. They relate in particular to exclusive grant-back obligations and termination provisions in combination with no-challenge clauses. These changes are indicative of the existing trend of diminishing deference under EU competition law to the value and validity of intellectual property rights. In addition, pool licences agreed upon between technology pools and licensees no longer automatically benefit from the exemption from Article 101(1) TFEU, and are subject to more stringent requirements. While presented as minor modifications, these changes may have profound repercussions for the admissibility and enforceability of provisions included in new and existing licensing agreements.

The new regulation will remain in force until 30 April 2026 and provides that agreements entered into force before 30 April 2014, which satisfy the conditions for exemption provided for in Regulation 772/2004 will remain valid until 30 April 2015. After that date, the new regulation will apply. Regulation 316/2014 applies as from 30 April 2014 to new technology licensing agreements.

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