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ALERT

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New Licensing Rules from Brussels – Avoid Getting Caught by a Legacy Clause

On May 1, 2014 the European Commission's new Technology Transfer Block Exemption Regulation (TTBER) entered into force, together with the relating guidelines for technology transfer agreements (TT-Guidelines). The TTBER and the TT-Guidelines contains important changes in some instances even tightening the EU antitrust rules applicable to IP license agreements.

The TTBER provides a safe harbor for licensing agreements concluded between competing companies that have a combined market share of 20 percent and for non-competing companies with an individual market share of 30 percent. Some of the most fundamental changes will be discussed below.

One of the major changes is that based on the TTBER and the TT-Guidelines the licensing of software copyright for the purpose of mere reproduction of the protected work – the production of copies for resale – is not to be considered as a "production" in the meaning of the TTBER and is thus not covered by the TTBER, but the European Commission's Regulation and Guidelines on Vertical Restraints. The latter provide, for instance, for more strict conditions on restraints on active sales and a time limit where non-compete obligations are concerned.

Additionally, restrictions on passive sales by licensees into an exclusive territory allocated to another licensee, while normally a hardcore restriction, may fall outside the scope of Article 101(1) of the Treaty on the Functioning of the European Union (EU Treaty) for a duration if the restraints are objectively necessary for the protected licensee to penetrate the new market, for example when the new licensee has to commit to substantial investments in production assets and promotional activities in order to start up and develop a new market. As far as the period of time is concerned, these restrictions on passive sales by other licensees in the territory fall outside of Article 101(1), for the period necessary for the licensee to recoup the investments. Previously such restrictions were permitted up to a period of two years. Under the new TTBER a two year period may exceptionally be justified, but the burden is on the parties to demonstrate that this is legitimate.

Furthermore, exclusive grant backs of non-severable improvements[1] created by the licensee and termination-on-challenge clauses[2] are no longer covered by the safe harbor. Exclusive grant backs may be illegal if the licensee's potential improvements are likely to be a significant source of competition. Termination-on-challenge provisions are likely to be illegal if the licensor has a strong market position and the risk of losing the license creates insuperable pressure not to challenge.

The TTBER currently addresses the functioning of patent pools and settlement agreements. In a patent pool multiple licensors agree to collectively license certain IP rights to third-party licensees. They are considered to constitute pro-competitive effects, in particular in the context of standardization. The TTBER therefore includes a safe harbor for patent pools. These pools remain outside of the TTBER if the following conditions are met:

i. Unrestricted participation in the standard and pool creation process;

ii. Sufficient safeguards against the inclusion of non-essential technologies and anticompetitive information exchange;

iii. Technologies included in the pool are licensed into the pool on a non-exclusive basis;

iv. Pooled technologies are licensed out to third parties on fair, reasonable and non-discriminatory (FRAND) terms;

v. Pool participants are free to challenge the validity and essential-nature of any patents included in the pool; and

vi. Pool participants remain free to develop competing products and technology.

Following the recent *Lundbeck* case[3] the Commission clarified its statement on settlement agreements in the TT-Guidelines. Licensing of technology rights in settlement agreements may serve as a means of settling disputes or avoiding the case of one party exercising its intellectual property rights to prevent the other party from exploiting its own technology rights. These agreements are seen as a legitimate way to find a mutually acceptable compromise to a legal disagreement and is not generally seen as anti-competitive. However, the guidelines indicate that individual terms and conditions of settlement agreements may be illegal. Provisions which are scrutinized include no-challenge clauses where an intellectual property right was granted following the provision of incorrect or misleading information and pay for delay agreements.

A well-known example of a scrutinized pay for delay agreement is the *Lundbeck* case from June 2013. In that case, its first reverse payment settlement decision, the Commission imposed a fine of €93.8 million on Danish pharmaceutical company Lundbeck and fines totalling €52.2 million on several producers of generic medicines. Lundbeck had agreed with each of these companies to delay the market entry of cheaper generic versions of Lundbeck's branded citalopram, a blockbuster antidepressant. At the time,

[1] Improvements which cannot be exploited without the licensor's background IP.
[2] Clauses permitting the licensor to terminate if the licensee disputed the validity of the licensed rights.
[3] Case COMP/AT 39226 Lundbeck, Commission Decision of June 19, 2013.

the Commission expressly made it clear that it does not object to settlement agreements as such, stating that *"the overwhelming majority of such agreements are entirely legitimate as they do not involve any payments by originators to exclude generic companies."* However, those which it sees as anti-competitive will be treated harshly.

Referring to further pharmaceutical sector cases[4], the TT-Guidelines also state that no-challenge clauses in settlement agreements may be caught by EU antitrust law where an intellectual property right was granted following the provision of incorrect or misleading information). Further, it states that scrutiny of such clauses may also be necessary 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 or if the technology rights are a necessary input for the licensee's production.

The revised TTBER and TT-Guidelines apply to licensing agreements from May 1, 2014. Agreements concluded before April 20, 2014 will be covered by the old TTBER and remain exempted from the stricter rules until April 30, 2015.

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[4] For instance Case T-321/05 *AstraZeneca* [2010] ECR II-2805 [not yet published].

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