

*If you have any questions about this Advisory, please contact:*

JOSEPH CASINO  
212.551.2842  
jcasino@wigginc.com

JAMES FARRINGTON, JR.  
203.363.7614  
jfarrington@wigginc.com

ABRAHAM KASDAN  
212.551.2841  
akasdan@wigginc.com

MICHAEL KASDAN  
212.551.2843  
mkasdan@wigginc.com

PATRICIA MELICK  
203.363.7615  
pmelick@wigginc.com

SAPNA PALLA  
212.551.2844  
spalla@wigginc.com

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## Licensing in the European Union: The European Commission Adopts New Regulations and Guidelines for Applying EU Competition Law to Technology Transfer Agreements

The European Commission ("EC") has issued a Technology Transfer Block Exemption Regulation ("TTBER") and related Guidelines, which will become effective on May 1, 2014. The TTBER and Guidelines set forth principles for evaluating technology transfer agreements, including many IP license agreements, under European Union ("EU") competition law. The TTBER provides a safe harbor from EC review for agreements meeting its requirements. The TTBER and Guidelines will be effective through April 30, 2026.

Significant changes to the prior TTBER and Guidelines include:

- Any exclusive grant back to the licensor of improvements made by the licensee is removed from the safe harbor provisions and thus could be subject to EC review of whether such a clause is permissible in the particular circumstances. The prior version only applied to severable improvements.
- Provisions allowing termination of a non-exclusive license agreement when the intellectual property of the licensor is challenged are removed from the safe harbor provisions and thus could be subject to EC review of whether such a clause is permissible in the particular circumstances. Licensors still may terminate exclusivity in response to a

challenge without losing the safe harbor in the TTBER.

- The Guidelines give expanded commentary that is useful for analyzing license provisions that are not explicitly included in the TTBER.

### BACKGROUND

Article 101 of the Treaty on the Functioning of the European Union prohibits "agreements ... and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition." The TTBER and Guidelines apply to such agreements, including license agreements, where patents, know-how, or software copyrights are licensed in the EU.

The accompanying Guidelines provide useful insights into how agreement provisions should be evaluated for pro-competitive and anti-competitive effects. The Guidelines also discuss how the TTBER may apply to other hot topics in the EU, such as efforts by patent owners to use standards-essential patents to obtain injunctions and the rise in pay-for-restriction or pay-for-delay settlements in pharma cases. They also ease concerns about technology pools by emphasizing many pro-competitive effects of such pools.

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### BLOCK EXEMPTIONS

Under the TTBER, certain agreement provisions are exempt from scrutiny under Article 101 by virtue of safe harbor provisions called block exemptions. To qualify for a block exemption, the parties to an agreement that licenses patents, know how, copyrights in software (or some combination of these intellectual property rights) must have market shares that fall below certain thresholds (a combined market share of less than 20% for competitors and up to 30% per party for non-competitors). Further, the agreement must not include any "hardcore restrictions," which are discussed below. Once an agreement qualifies for a block exemption, it will not be scrutinized by the EC for violation of Article 101, unless certain overall market conditions exist relating to parallel networks (i.e., multiple licenses), as set forth in Article 6 of the TTBER.

### HARDCORE RESTRICTIONS

Hardcore restrictions are presumed to violate EU competition law. The hardcore restrictions in TTBER are similar to what was provided in previous versions of the TTBER.

In agreements between competitors, hardcore restrictions include certain restrictions as to price, output controls, market segmentation, the ability of the licensee to carry out research and

development, and the use of the licensee's own technology. In agreements between non-competitors they include certain restrictions pertaining to price fixing, passive (*i.e.*, unsolicited) sales into a market by a licensee, and sales to end-users by a licensee.

### EXCLUDED PROVISIONS

Even if the agreement has a block exemption, certain types of clauses may be excluded from the block exemption and in violation of Article 101. However, such clauses are severable from the remainder of the agreement so even if they are found to be a violation of Article 101, the rest of the agreement may still remain in effect.

The excluded provisions relate to 1) exclusive grant-back rights to the licensor in improvements made by the licensee to the licensed technology; and 2) obligations not to challenge the validity of licensed IP rights in non-exclusive licenses. However, the Guidelines indicate that tailored "no challenge" provisions may be acceptable as part of a settlement agreement. Further, if the parties to the agreement are not competitors, the block exemption will not apply to restrictions that limit a licensee's ability to use its own technology or restrictions that limit research and development by either party (unless necessary to prevent disclosure of know-how to third parties).

### COMMENTS

Provisions in IP licensing and technology transfer agreements in the EU should be carefully considered under the new TTBER and Guidelines. These documents provide insight into how the EC will evaluate clauses in such agreements and provide useful guidance on whether particular provisions may violate Article 101 of EU competition law. Such guidance will be useful for fashioning clauses to avoid allegations by the EC that an agreement is anti-competitive.

If IP rights are being licensed in the EU, no challenge provisions need to be evaluated to see if they are permitted in light of exclusivity, market share and the circumstances surrounding entering into the agreement. A licensor could, alternatively, consider including disincentives to challenge the licensed IP, such as penalty clauses that would be triggered by a licensee's invalidity challenge.

Existing agreements might need review and consideration given to possible amendments to make sure that they will be in compliance with the TTBER and related Guidelines.