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Newsletter

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COMPETITION & INTELLECTUAL PROPERTY

New EU Antitrust Rules for Technology Transfer Agreements – Implications for Swiss Undertakings

On 1 May 2014, new antitrust rules for technology transfer agreements took effect in the European Union. These new rules are relevant for cross-border license agreements. With Swiss authorities and courts partly drawing on those new rules when assessing them, Swiss license agreements should, therefore, also be reviewed within the transition period.

1 BASIS OF THE NEW RULES

Taking effect on **1 May 2014**, the EU revised its antitrust provisions on technology transfer. Besides **licensing**, the notion of **technology transfer** encompasses the **transfer or assignment of property rights** such as software copyrights and rights to patents and designs, and **know-how**, if the licensed or assigned technology is exploited for the purpose of producing goods or services.

"Swiss authorities and courts draw on the TTBER."

The revision affects the Technology Transfer Block Exemption Regulation (TTBER), as well as the corresponding guidelines[1]. Swiss authorities and courts partly draw on these European rules.

[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, OJ 2014 L 93/17 et seqq. and Guidelines on the Application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements, OJ 2014 C 89/3 et seqq.

The former provisions from 2004 have generally proved successful. In particular, the maximum market share thresholds for the exemption have remained **unchanged** in the new rules. The threshold for agreements between competitors is 20% of their common market share. If the contracting parties are not competitors, the threshold is 30% for each party. The provisions were only **modified selectively**. However, the amendments might substantially affect the validity of existing or future contracts. Overall, the modifications result in **stricter** provisions on technology transfer.

Companies have until the end of the transition period on **30 April 2015** to adjust their contracts to the new provisions.

2 MATERIAL MODIFICATIONS

2.1 STRICTER ASSESSMENT OF PASSIVE SALES RESTRICTIONS

Vertical territorial restraints are generally considered hardcore restraints and cannot be exempted under both the previous and new provisions if they include passive sales restrictions. Such clauses ban licensees from selling goods to customers in areas which were not assigned to them.

However, there are several exceptions to this rule. One of these exceptions has been abolished in the new provisions: As in the Block Exemption Regulation on Vertical Restraints (Verticals BER)[2], **passive sales restrictions for a licensee concerning the exclusive territory of another licensee are no longer exempted**, i.e. an individual assessment is necessary. In contrast to the previous provisions, this holds true irrespective of whether the duration of this passive sales restriction is limited.

"Under the new provisions, passive sales restrictions in regard to territories of other licensees are no longer exempted, even if they are limited to maximum two years."

Under the new provisions, such a clause is considered a **hardcore restriction of competition**. As a result, the entire agreement is deprived of the safe harbour of the TTBER-exemption and usually cannot be individually exempted either. Thus, the whole agreement may become invalid. Such clauses might, according to a recent but not yet legally binding precedent of the Swiss Federal Administrative Court[3], fulfil the elements of the legal presumptions in art. 5 (4) CartA. As a consequence, the agreement could be found invalid and its parties sanctioned.

2.2 EXCLUSIVE GRANT BACKS OF IMPROVEMENTS TO THE LICENSOR NO LONGER EXEMPTED

In grant-back obligations, the licensee agrees to grant the licensor a license for any improvements to the licensed subject-matter. The Commission suspects that the licensee's incentives for innovation decrease when such grant-back obligations are designed as exclusive licenses or when the parties even agree on a transfer of such new rights.

According to the Commission, the former distinction between severable and non-severable improvements has proven impracticable. For this reason, **exclusive grant-back obligations and transfers of rights are no longer exempted under the new TTBER**, regardless of the improvement's severability. Only the individual clause (in other words, the exclusive grant-back obligation), not the entire agreement, is not exempted. However, a non-exclusive grant-back obligation on the improvement to the licensor is still exempted below the market share thresholds.

2.3 RIGHT OF TERMINATION WHEN THE INTELLECTUAL PROPERTY RIGHT IS CHALLENGED BY THE LICENSEE REDUCED TO PARTIAL EXEMPTION

The licensor is often interested in restraining the licensee from **challenging the licensed property right**. Already the former TTBER did not exempt such clauses. Nevertheless, the licensor could reserve a specific right of termination in case the licensee challenged the intellectual property right.

Under the revised TTBER, such a right of termination is only exempted if it is stipulated in an exclusive license. A licensor's automatic right of termination in cases where a licensee challenges the validity of the intellectual property right in a non-exclusive license can no longer be exempted. According to the guidelines, this distinction was introduced due to the licensor's greater dependence on the licensee if the license is exclusive.

"A licensor's automatic right of termination in cases where a licensee challenges the validity of the intellectual property right in a non-exclusive license cannot be exempted any longer ."

If such a termination clause was stipulated under the former law and consequently becomes anticompetitive under the revised TTBER, only the individual clause and not the entire agreement is not exempted. However, as the licensor of a non-exclusive license can no longer exercise the stipulated right of termination under the new provisions, renegotiations concerning termination and the respective notice periods of ordinary termination might become necessary.

[2] Commission Regulation (EU) No 330/2010 of 20 April 2010 on the application of article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices, OJ 2010 L 102/1 ff.

[3] FAC of 19 December 2013, B-463 and B-506/2010 of September 19th 2013 i.c. Gaba und Gebro/WEKO.

2.4 DETAILED COVERAGE OF SETTLEMENT AGREEMENTS IN THE GUIDELINES

The EU Commission observes and anticipates developments regarding antitrust rules for technology transfer agreements. These developments, along with judicial practices, are incorporated into the guidelines to the TTBER. With the introduction of the new rules, the Commission has extended the paragraph in the guidelines on antitrust analysis of settlement agreements. The Commission is increasingly directing its attention toward settlement agreements that contain remunerated constraints or delays on market entry ("pay for delay") or non-challenge clauses. And while it remains unclear whether the General Court of the European Union will uphold the Commission's efforts against delays of market entry, undertakings are currently advised to use the Commission guidelines a reference point when settling.

2.5 NEW RULES FOR TECHNOLOGY POOLS

Although the TTBER is not applicable to **technology pools**, the guidelines contain detailed regulations on the matter, including **a safe harbour for pools**. Pooling is permitted if the criteria established in the guidelines are met. The criteria include non-discriminatory access of the right holders, precautions for the exclusive inclusion of essential and therefore complementary technology, the establishment of safeguards to inhibit the exchange of sensitive information, the non-exclusiveness of the licenses granted, licensing in accordance with FRAND-conditions (fair, reasonable and non-discriminatory), the prohibition of non-challenge clauses, and the exclusion of non-compete clauses.

2.6 CLARIFICATION OF THE SCOPE OF APPLICATION

The new provisions define their own **scope of application**. Under the former provisions, the question as to which block exemption regulation shall be applicable led to several demarcation problems. In particular, the relationship between the TTBER and the Block Exemption Regulation for Research & Development Agreements (R&D BER), as well as the relationship between the TTBER and the Block Exemption Regulation for Specialization Agreements (Specialization BER), remained controversial. This issue has been resolved under the new provisions: Within the scope of the R&D BER and the Specialization BER, the TTBER does not apply. By contrast, the distinction between the TTBER and the Verticals BER depends on whether or not contract products can be manufactured under the license. If so, the TTBER applies.

3 SIGNIFICANCE FOR SWISS UNDERTAKINGS

As European law decrees, the antitrust rules for technology transfer agreements are relevant primarily for undertakings whose economic activities **have an effect in the EU**. Nevertheless, **Swiss undertakings** are also affected by the revision. To this day, no specific rules for technology transfer agreements have been established in Switzerland, although the Swiss Federal Council and the Swiss Competition Commission have the legislative power to do so. Therefore, **Swiss courts and agencies draw on the TTBER and its corresponding guidelines**, especially when assessing specific license agreements.

In the "Elmex"-case[4], the Federal Administrative Court carried out **a comparative legal analysis between Swiss and European law** and referred to the TTBER as well. However, the court was far more restrictive with regard to parallel imports and sales restrictions than the TTBER. As a consequence, undertakings in Switzerland shall in principle comply with the European provisions in the TTBER and its corresponding guidelines but must also take into account the additional restrictions of the current Swiss practice concerning parallel imports.

4 CONCLUSION

The new provisions on technology transfer agreements have become stricter. The amendments are relevant for Swiss undertakings because they might be involved in cross-border license agreements, but also because Swiss courts and agencies partly draw on these European rules when interpreting Swiss law. Accordingly, new technology transfer agreements by Swiss undertakings generally should comply with the revised provisions. In that regard, compliance of existing contracts with the new provisions should be assessed and, if necessary, amended by no later than 30 April 2015.

[4] B-463 and B-506/2010 of 19 September 2013 i.c. Gaba and Gebro/WEKO.

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