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Technology transfer agreements

MEDEF

LE CERCLE DE L'INDUSTRIE

European Commission's draft proposal for a revised block exemption for technology transfer agreements and for revised guidelines

Common contribution of MEDEF

(ID Number 43763731235-75)

and Cercle de l'Industrie

(ID Number 60974102057-03)

Analyze

1. MEDEF/Cercle de l'Industrie comments already fully addressed in the drafts: no further change is needed

Draft Guidelines point 45 (See MEDEF/Cercle, page 6)

MEDEF and the Cercle de l'Industrie thank the Commission for accepting our the proposal to confirm that a contractor/licensor's determination of the transfer prices to be applied by subcontractors involved in intermediate manufacturing phases will not be considered illegal resale price maintenance: "Subcontracting agreements whereby the contractor determines the transfer price of the intermediate contract product between subcontractors in a value chain of subcontracting generally also fall outside Article 101(1) provided the contract products are exclusively produced for the contractor."

The new language probably also sufficiently addresses our proposal to exempt explicitly a contractor/licensor's requirement that an intermediate product be supplied by a licensee only to the subcontractor performing the final assembly.

Draft Guidelines point 52 (See MEDEF/Cercle, page 6)

We asked the Commission to clarify the boundary between the application of the TTBER, and of the Vertical Agreements Block Exemption Regulation ("VABER"), to software licenses. We thank the Commission for having done so:

"The TTBER only covers licensing for the purpose of the production of contract products. The licensing of software copyright for the purpose of mere reproduction and distribution of the protected work, that is to say, the production of copies for resale, is not considered to be "production" within the meaning of the TTBER and thus is not covered by the TTBER and these guidelines. Such reproduction for distribution is instead covered by [the VABER]. It is reproduction for distribution where a license is granted to reproduce the software on a carrier, regardless of the technical means by which the software is distributed. [...] On the other hand, it is not mere reproduction but production where the licensed software is incorporated by the licensee in the contract product. For instance, the TTBER and the guidelines cover the licensing of software copyright where the licensee has the right to reproduce the software by incorporating it into a device with which the software interacts."

The clarity of the above distinction will be helpful since the TTBER and VABER have very different rules as well as different market share ceilings.

2. MEDEF/Cercle de l'Industrie comments *not* fully taken into account in the drafts

The following of our proposals were not taken into account, except one provision on which we commented which in our view was modified for the worse.

Draft Guidelines points 46, 61 (See MEDEF/Cercle, page 6)

This statement is in point 43 of the current Guidelines: "The TTBER also applies to agreements whereby the licensee must carry out development work before obtaining a product or a process that is ready for commercial exploitation, provided that a contract product has been identified." We therefore also asked the Commission to explain the boundary between this scenario and the application of the R&D Block Exemption Regulation ("R&DBER") or confirm that either BER could apply.

Although some new text has been added, we believe it does not succeed in answering this question. Draft Guidelines point 46 adds a statement that only the R&DBER applies to a license for the purpose of allowing the licensee to further develop a product arising out of R&D that had been carried out in "various fields" under a prior license. Draft point 61 mentions that the revised R&DBER now covers "paid-for" R&D, i.e., R&D financed by one party and carried out by another. Neither statement appears to fully answer our question.

Draft TTBER Art. 1.1.b (See MEDEF/Cercle, pages 9-10)

The Commission did not expand the definition of "technology" to add "any copyrighted technical work," despite our explanation of the reasons why this would be helpful.

Draft TTBER Art. 3 (See MEDEF/Cercle, page 12)

The market share ceilings of 20% for licenses between competitors and 30% between non-competitors have not been deleted. In the experience of our member companies, calculating market share remains a very imprecise exercise and an inappropriate criterion for determining whether legal security applies.

Draft TTBER Art. 4.2.b and draft Guidelines point 116 (See MEDEF/Cercle, page 12)

We proposed that the Commission extend the two-year period during which a licensor may restrict even "passive" (i.e., unsolicited) sales by a licensee to a territory or customer group reserved to another licensee. Instead of accepting this proposal, in the draft revised TTBER there has been a complete deletion of the provision exempting such restrictions, the subject matter is now dealt with in draft Guidelines point 116 (where it will have a weaker legal effect) and, without extending the two-year period, a condition has been added:

"<u>Where substantial investments by the licensee to start up and develop a new market are necessary</u>, restrictions of passive sales by other licensees into such a territory or to such a customer group which are necessary for the licensee to recoup those investments generally fall outside Article 101(1) for a period of up to two years ...."

Even a right under EU competition law to prohibit for only a temporary period a licensee from making <u>both</u> active and passive sales to a territory or customer group reserved for another party can be important. For example, in an industry in which contracts are awarded after a call for tenders, ordinarily a customer can easily get around a license's prohibition of active sales, simply by inviting the licensee to submit a bid. The Commission's proposal amounts to a further unjustified expropriation of IP rights, and therefore would be a disincentive to innovation.

3. Other changes introduced by the Commission which are opposed by MEDEF and the Cercle de l'Industrie

Draft TTBER Art. 3.2 and draft Guidelines point 73

The Commission has added a provision which states that when the licensee owns a technology which it uses for in-house production only, but which is substitutable for the licensor's technology, the lower 20% market share ceiling for <u>competitors</u> will apply. Yet, draft Guidelines point 73 states that at the same time the list of forbidden "hardcore restrictions" for <u>non-competitors</u> will be applicable. In our view this is not only confusing; it is difficult to imagine scenarios which could justify the proposed change.

Draft Guidelines point 75

Before publication of the current TTBER, in response to widespread industry complaints the Commission announced that if a licensor and licensee eventually became competitors thanks to the technology shared via the license, the list of "hardcore restrictions" for non-competitors would continue to apply. However, nothing was said about whether the market share ceiling for non-competitors would also continue to apply, and it was natural to assume that it would. In draft Guidelines point 75, however, the Commission states for the first time that the competitor market share ceiling would apply once the licensor and licensee start competing with each other using the licensed technology. This is another confusing and unnecessarily restrictive proposal, which would deter dissemination of technology.

Draft TTBER Art. 5.1.b and draft Guidelines point 125

In every version of the TTBER since the patent licensing BER published back in 1984 (Commission Reg. No. 2349/84, Art. 3.1), the Commission has exempted a provision allowing the license to be terminated by the licensor if the licensee challenges the validity of the licensed patent, even though a clause forbidding such challenge is prohibited.

As explained in the current Guidelines (point 113), "the licensor [should not be] forced to continue dealing with a licensee that challenges the very subject matter of the license agreement, implying that upon termination any further use by the licensee of the challenged technology is at the challenger's own risk. [...] The provision thereby ensures that the licensee is in the same position as third parties."

Now after 30 years the Commission proposes to eliminate the exemption of the right to terminate the license in case of challenge. No explanation is given in the draft Guidelines for this policy reversal except speculation that the right to terminate "can" discourage a challenge, "in particular" if the licensee has incurred significant sunk costs for production or is already producing the licensed product. Since no example of a case from the past few decades which justified the Commission's concerns is given, we remain unconvinced that such a policy reversal is merited.

Draft Guidelines point 227

In agreements to settle patent litigation, under draft Guidelines point 227 a no-challenge clause will be considered suspect:

"where the licensor knows or could reasonably be expected to know that the licensed technology does not meet the respective legal criteria to receive intellectual property protection, for example where a patent was granted following the provision of incorrect, misleading or incomplete information. Scrutiny of such clauses is also necessary if the licensor induces, financially or otherwise, the licensee to agree not to challenge the validity of the technology."

The proposed change is inappropriate: by casting doubt on the validity of no-challenge clauses in settlement agreements, settlements will be discouraged and the costs and uncertainties generated by litigation will increase.

Whether a licensor could "reasonably be expected to know" that technology did not deserve to be protected by intellectual property calls for a highly subjective determination. This is especially true because the assessment might involve trying to review the facts as they existed many years in the past.

If, as seems likely, the last sentence referring to financial inducements not to challenge intellectual property is aimed at "pay for delay" agreements in the pharmaceutical industry, we suggest that it should either be specifically limited in scope to that industry, or also deleted along with the first part of the draft paragraph.

Draft Guidelines point 255

Draft Guidelines point 255 proposes to modify current point 229 by disfavouring <u>any</u> right to terminate a license of a patent which is included in a patent pool, in case the licensee challenges the validity of the patent.

In the present text of the Guidelines, a termination clause is acceptable as long as it does not extend to patents in the pool which are owned by other licensors. The Commission has not put forth any justification of the policy change, and the likely result will be that fewer patent pools will be created, thus reducing the opportunities to benefit from the efficiencies such pools provide to licensees and to industry in general.