Intellectual Property Rights, And Competition Law
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Lecture - 29
Technology Transfer Agreements

Hello all. In this module, we are going to discuss about the IP licensing and the European Union competition rules.

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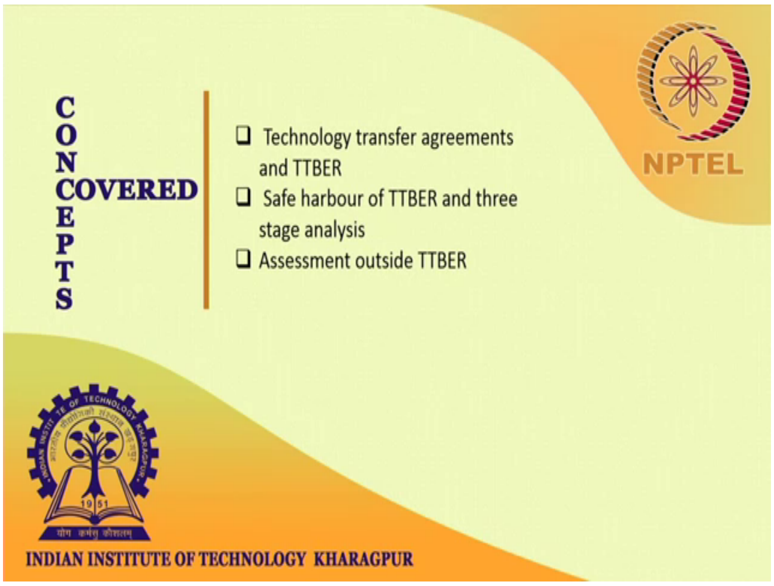

In this module, we will be dealing with the technology transfer agreements and the *Technology Transfer Block Exemption Regulation(TTBER)*, which are in place in the European Union governing various technology transfer agreements and assessment of various technology transfer agreements dealing with intellectual property right. We would also discuss the different steps of analysis of IP licensing regulations assessment for their probable violation of the competition law and we will deal with the assessment outside the scope of TTBER.

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In the earlier modules, we have discussed that intellectual property rights give a monopoly right to the owner, by which the owner is unilaterally, able to control his rights and his innovations from the exploitation by others. It sounds directly opposite to the main principle of European competition law, which tries to maintain a uniform competition in the European market.

Various agreements, which deals with intellectual property, under the European regulation these dealings or these agreements involving intellectual property rights are governed by two sets of regulation. First is the various rules and regulations of the European competition law, specifically, the Article 101 and Article 102 of the treaty of functioning of European Union which we have discussed at great length in the earlier modules.

Article 101 prohibits various anti-competitive agreements and Article 102 restricts the abuse of dominant position. Since IPR is a monopolistic right, it becomes necessary to place certain restrictions so that, the IPR owner can get maximum benefit out of his innovation, but sometimes these restrictions may lead to anti-competitive behaviour.

The competition rules checks whether the agreement is falling under the European competition rules or not. There are certain rules for the free movement of the goods, specifically Article 34 to 36 of the treaty of functioning of the European Union. These Articles prevent the undue restriction placed on the cross border trades. Article 36 allows the member states to enact legislation regarding intellectual property rights. These articles are guided by the principle of free movement of the goods. The exhaustion principle related to IPR is applicable on this rule i.e. once the property or technology or goods has been sold, the intellectual property rights owner cannot restrict the movement or the sale of that good in the secondary market, in the same member state or in different member state.

These are the two set of regulations, which deal with and which regulates the agreements related to intellectual property right within the European Union.

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Intellectual property rights are associated in licensing, exclusive licensing agreement or licensing agreement dealing with intellectual property particularly patents, utility models, software and copyright etcetera. For those cases the European Union and the European Commission has adopted certain guidelines and certain rules for the assessment of technology transfer agreements and these guidelines are known as the *Block Exemption Regulation for Technology Transfer Agreement* or *TTBER*.

The latest revised version of TTBER came into force on 1st May 2014. These guidelines of block exemptions are a safe harbour or safe zone for the firms and companies who are involved in technology transfer agreements.Certain standards have been laid down, if the agreements are falling within those specified blocks, then it is considered to be per-se free from anti-competitive practices, but if it is not falling or not meeting the criteria laid down in the TTBER then assessment can be made to judge whether these are competitive or anti-competitive in nature.

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In order to simplify the assessment of the agreements, the commission has defined certain categories of the agreements which are unproblematic from the competition law point of view, based on its market and case experience. These are set out in the various *Block Exemption Regulation* or *BER*.

If an agreement fulfils all the criteria in the block exemption regulation it is exempted from the prohibition under Article 101 of the treaty of functioning of European Union. Article 101 is all about the prevention of anti-competitive practices. When we talk about the various technology licensing agreement, these are agreements between a licensor and a licensee i.e. agreements between two parties where when one party is giving the license to the second party.

In majority of the cases, these agreements may be in the form of exclusive licensing. If there are any agreements related to IP, the concern under Article 101 is more comparable to Article 102.

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The revised TTBER guidelines have been in place since May 2014. Earlier to the revision TTBER guidelines were in place, by the European Commission. The general structure and most of the provisions of both the versions of TTBER are similar. There are certain changes, in particular regarding the restriction on the passive sales to the territories reserved for new licensee, grant back obligations for non-severable improvements and termination rights provided for a non-exclusive license which may challenge the validity of the licensed IP. We will discuss these later in this section.

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There are certain challenges to the revised regulation. The main challenge is in the form of the applicability of block exemption regulation. They have defined certain hardcore restrictions and specified certain excluded restriction under Article 5.

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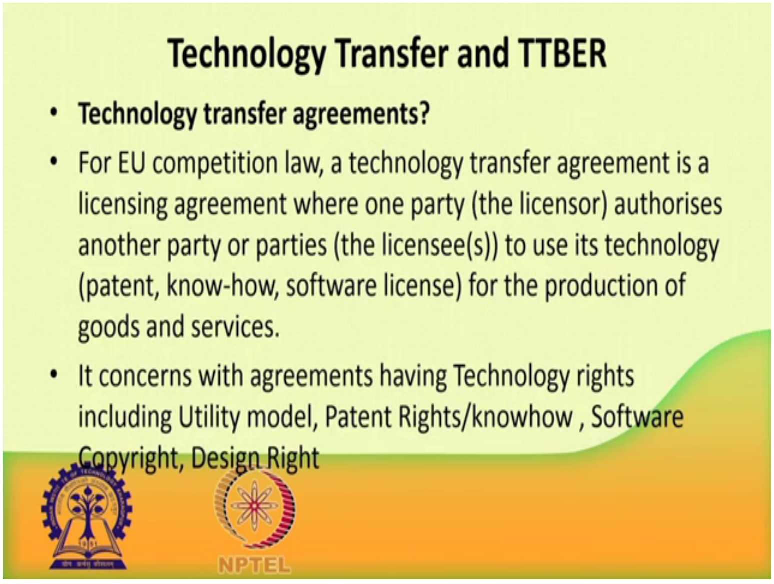

Before discussing the technology transfer and TTBER, first let us understand what is a technology transfer agreement? As per the EU competition law, a technology transfer agreement is a licensing agreement where one party i.e. the licensor, authorises another party i.e. the licensee, to use the technology which may be in the form of patents, know-how's, software or a combination of these, for the production of goods or services.

The technology licensing agreement includes utility models, patent rights, know-how's, software or design rights. Other forms of IPR like trade mark, plant variety protection or geographical indications are not considered under TTBER unless and otherwise they are directly associated with the production of goods or services in question, in line with the technology.

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The technology transfer agreement covers the licensing agreements between two parties, the one who is providing the license i.e. the licensor and the other licensee.

There may be more than one licensee, but generally the technology transfer agreements are between two parties, which is otherwise known as bilateral agreement. It may involve several parties, which is known as patent pools, where all the IPR owners they come together at a place and share their IPRs and cross license with each other, so that there is involvement of more than one parties.

However, the TTBER covers only the bilateral agreements and the guidelines mentioned above mentions about the multi party agreement in the form of patent pool and how to assess those kind of technology transfer agreements, but the block exemptions are only specified for the bilateral agreements.

The technology transfer agreements may be concluded between competitors i.e. those companies which are providing similar goods or technologies, particularly those which are involved in horizontal agreements. In this type of agreement, both the competitors are having similar type of technology and produce similar type of goods or services.

The technology transfer agreement may also take place between non-competitors. Non competitors are those entities which are not having similar intellectual property and they exist in different levels of the supply chain. For example, a manufacturing company and a distributor company for the manufactured goods.

Technology transfer agreements can happen between, two set of companies depending on the nature of the agreement, whether it is happening between a competitor company or a non-competitor company, the block exemption regulations and safe harbours provisions are specified.

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There are three major functions of a technology transfer agreement. First: it involves IPR i.e. it involves either a patent or a utility model or a design right or a know-how or a trade secret or combination of these various forms of intellectual property. It does not involve trade mark or other IPR unless and until it is directly associated with the manufactured product in question.

These agreements are different from assignment. So, what happens in the case of assignment? The patent owner or the intellectual property right owner assigns all of his rights to a second person. The original owner does not retain any liability or any responsibility for the IPR in question. Whereas in the case of technology transfer agreements, in general, the licensor retains certain power over his technology and may regulate the functioning of the IPR, which he has licensed.

The third important feature of the technology transfer agreement is that it may bring about the cross fertilisation of ideas, that means, if a licensee has taken certain technology from a licensor, it may in the due course of practice generate certain new ideas which the licensor may think of licensing to other parties or which the licensee may think of cross licensing to the licensor.

Hence, in the case of a technology transfer agreement, cross fertilisation of ideas is possible. Understanding of the nature of technology transfer agreement is very essential before deciding whether they fall within the purview of Article 101 or Article 102.

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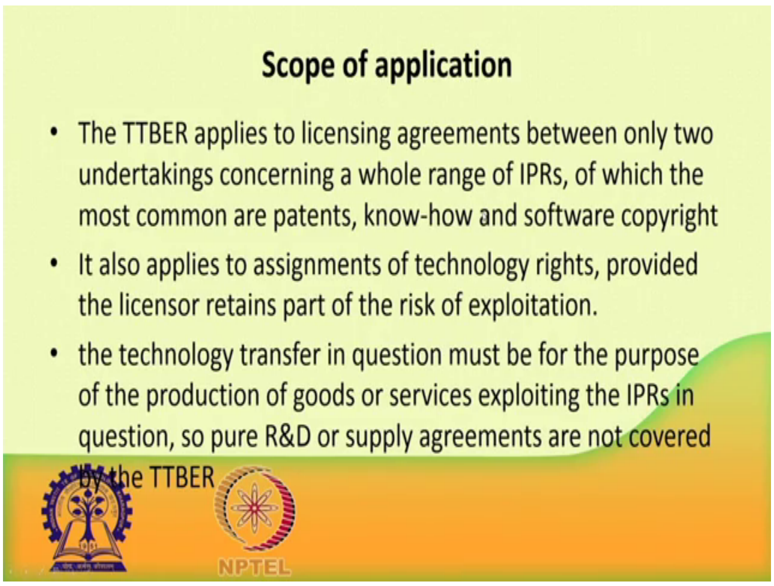

If we look into the scope of technology transfer block exemption regulation, TTBER applies to those licensing agreements that are between two undertakings, concerning a whole range of IPRs of which most commons are patents, know-how's and software copyright. Only the bilateral agreements are covered under the scope of TTBER multilateral agreements. Patent pools are, in general, not covered and the assessment is outside the scope of TTBER. Generally, patents, know-how's and software copyrights are considered to be the main intellectual property rights in question.

Trademarks and other forms of IPR are not under the scope of TTBER unless directly linked with the product or the process in question. It also applies to the assignment of the technology rights, provided the licensor retains part of the risk exploitation i.e. the licensor has not given all the rights to the other party. The technology transfer in question must be for the purpose of production of goods or services.

Only when the technology is used for the production of the goods and services, the block TTBER exemptions are applicable. The use of the technology for R&D purpose or for supply agreements are not covered under the TTBER. So, if a technology is licensed or a technology is given for the mere research and development purpose, for the development of another technology, it is outside the scope of TTBER. If it is only for the supply agreement or other related form, then again it is outside the scope of TTBER. Only when the product or service as mentioned in the technology is being manufactured or produced, then the TTBER exemption guidelines can be applied.

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Trade mark or other related IPRs are concerned, only to the extent that those provisions are directly related to the production and sale of the contracted product. Multiparty agreements are excluded from the scope of TTBER. TTBER, will not normally apply to, patent pool arrangements, but the guidelines sets out that such agreements could be assessed under TTBER guideline on certain conditions, which we will discuss in the later section of this module.

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Now let us understand what are the other provisions in the TTBER? There is an important provision regarding market share threshold, unless and until the competitor companies are having certain percentage of share in the market, they will not be covered under the exemption. So, in order to benefit from the safe harbour provisions provided in the TTBER, the parties must satisfy the relevant market share threshold.

We have already discussed definition of the relevant market, relevant technology market and relevant product market. Relevant technology markets are those where the technology has been licensed and the relevant product markets are those where the manufactured products are being sold. So, both the relevant technology market and relevant product market together makes the relevant market. Before a company can benefit from the safe harbour provision, as mentioned in the TTBER, it must satisfy the relevant market threshold.

When the agreement is between two competing companies i.e. those which are dealing in the same kind of product or services, the TTBER will apply if the parties' combined market share is ***20 percent or less*** in either the relevant product market or the geographical market or in the relevant technology market i.e. taken together both the competing companies' market share should be ***less then 20 percent or at best 20 percent.***

But when the technology licensing agreement is between two non-competitive companies, the TTBER will apply if the parties have a market share of ***30 percent or less individually*** either in the relevant product market or the geographical product market. Hence, for the competitive companies it is 20 percent or less and for the non-competitive companies it is 30 percent or less.

It is very difficult to assess how much market share is there with each company because it is the company's responsibility to assess their relevant market share. One may question how it being decided. As of today, this is the threshold provision as specified in the TTBER.

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Once provisions of the safe harbour or TTBER have been applied to a technology transfer agreement, it is possible that the company's market share may change; it may increase or decrease. And so, the TTBER also allows for a 2 year lag-period for a party exceeding the relevant market share threshold, thereby the agreement losing the protection of TTBER i.e. 2 years lag period is provided within which if there are fluctuations, they can be considered.

A company's market share may wobble around the threshold. It may exceed in a year and again may fall back to within the threshold the next year without losing the benefit of exemptions. These are the salient features of the TTBER regarding market threshold, under which companies can enjoy safe harbour.

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Article 4 of the revised TTBER guidelines specifies certain hard core restriction technology. The transfer of agreements concerning the hard core restriction will not benefit from the safe harbour provisions of the TTBER; i.e. if there are certain hardcore restrictions in the technology licensing agreement then the safe harbour provisions are not applicable to those agreements. Now, let us understand what is a hard core restriction.

The hard core restrictions are defined differently for agreements between competitive companies and for the agreements between non-competitive companies. In relation to the agreements between competitive companies, the TTBER classifies hard core restrictions as first: price fixing or any other restriction on the party's ability to determine its price when selling to a third party or third parties i.e. if there are certain clauses that allow the licensor to define the price or fix the price or place any other restriction such as the cases where the licensee has to take the permission or consent from the licensor to fix the price when he wants to sell the products to third parties, then it would be fall under hard core restrictions.

Second: if there are certain clauses regarding limitations on how much a party may produce and sell. If in an agreement the licensor puts a clause that only such and such amount can be produced or such and such amount can be sold in the market, then it would be considered a hard core restriction.

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Third: any restriction on the territories into which or the customer to which the licensee may sell the contracted goods or services. If the licensor specifies the geographical market or location where the products may be sold or if he defines the list of customers to whom the licensee can sell goods, such are considered as hard core restrictions.

Fourth: any restriction on the licensee's ability to exploit his own technology or restrictions on either party's ability to carry out research and development, are also considered hard core restriction. As we discussed earlier, it is possible that a new technology may be developed during the exploitation of the licensed technology. If the licensor places certain restriction by which licensee is unable to reap benefit from the new technology which he has developed in the due course of license, then it will also be considered as a hard core technology restriction.

If these kind of restrictions are present in technology transfer agreement, then the TTBER does not grant those agreements protection under safe harbour provisions.

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In agreements between non-competitive companies, TTBER classifies hard core restrictions into the following three kinds. First: price fixing other then imposing a maximum price or recommending a retail price.

Second: Any restriction on the territories or to whom the licensee may sell the contracted goods or services, Third: any restriction on the active or passive sales to the end users by licensee including member of a selective distributor system operating at retail or supply level. These are the three kinds of restriction similar to the restriction placed on the competitive agreement between competitive companies.

In case of agreements between non-competitive companies, if any of these three restrictions are put then it would fall under the hard core restrictions.

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Article 5 of the TTBER specifies certain excluded restriction. Excluded restriction means any obligation on the licensee to grant an exclusive license to the licensor or to a third party designated by the licensor in respect of its own improvement or its own new application of the licensed technology.

So, the new technology which was developed in due course by the licensee, if the licensor regulates the transfer of those technologies to himself or to a third party, it is an excluded restriction. Any obligation on a party not to challenge the validity of an IP right, which the other party holds in the European Union, is a kind of excluded restriction.

Sometimes during licensing of the agreement, more than one technology is being transferred and if there is a dispute the licensee generally questions the validity of those IP rights. Before technology transfer, the licensor initially sets a clause that the licensee cannot challenge the validity of the intellectual property right. These kind of restrictions are excluded restrictions.

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The TTBER provisions covers these. In agreements between non-competitors, restrictions on the licensee's ability to exploit its own technology or restrictions on either party's ability to carry out research and development comes under the excluded technology. We have seen the scope of the TTBER, the minimum market threshold which the competitive company or a non-competitive company must retain in order to enjoy the safe harbour provisions, the exception regarding hard core restrictions and the excluded restrictions. TTBER means the Technology Transfer Block Exemption Regulation which gives a safe harbour to the companies entering into a technology licensing agreement.

If the companies meet the criteria, as mentioned in the TTBER or the block exemptions, then they are free from any kind of scrutiny, because an IP licensing agreement involves two parties that are entering into an agreement and it may be looked into whether the agreement is anti-competitive in nature under Article 101 or not. So if the agreement is under the safe harbour provisions then the European commission will not look into it with regard to the anti-competitive practices.

However, if the agreements do not satisfy or if the market threshold is higher or if there are certain excluded restriction or hard core restriction then, in those cases the European commission may undertake separate assessment to determine whether the behaviour is anti-competitive or not.

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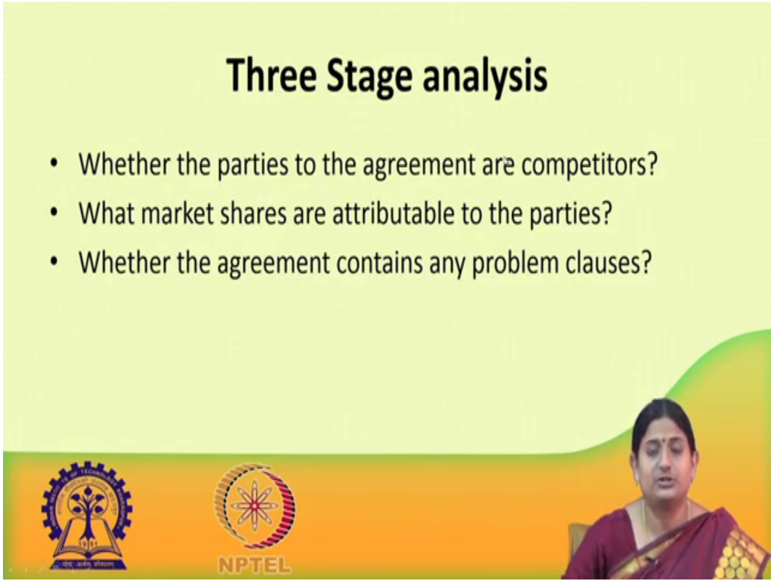

In order to determine, whether these kind of technology transfer agreements are falling under the TTBER exemption or not, the European commission follows a three stage analysis. In the three stage analysis, the European commission first looks into whether the parties to the agreement are competitors or not. There are two kind of competitors; those who are in horizontal agreement i.e. dealing with the same type of product or service or the one that has similar IPR. These are known as competitor companies.

Non-competitors are those which are in vertical agreements i.e. a manufacturer and a supplier. They do not have same kind of intellectual property right or same kind of technology. One needs the licensor to give certain technologies by which he can enter into the market within a small period of time i.e. by acquiring the license within 1 or 2 year, the new company wants to enter into the market and if it has a substantial presence in the relevant market then it will become a competitor afterwards.

First stage of the analysis is to look into whether the parties to the agreement are competitors or not. If they are competitors then the second stage would be to assess how much market share do the competitive company or the non-competitive hold. If they are competitor companies and if their share holding is 20 percent or less ***individually*** or if their share holding is 20 percent or less ***combined*** then they fall under the safe harbour provisions. If the companies are non-competitive in nature, then their share holding should be less than 30 percent ***individually*** so that they can fall under safe harbour. This is the second stage.

In the third stage of analysis it is checked whether the agreement contains any problem clause or not. Suppose there are two competitive companies and their combined share is less than 20 percent which means they have satisfied two requirements. So, the third requirement which the European commission would look into is whether the technology transfer agreement contains any restriction or not.

It may be a hard core restriction or it may be an excluded restriction. Let's suppose there are no hard core restrictions, then it will look into whether there are any excluded restriction or not. If the commission finds that there are certain excluded restrictions then there is a possibility of removing those restrictions so that, it can be a normal technology licensing agreement.

If that is possible then the agreement between the competitive companies will fall under the TTBER or the safe harbour zone and if not then individual assessment has to be made. This is the three stage analysis, which the European commission and the national competition authorities undertake before adjudging, whether the technology transfer agreement containing or involving an element of intellectual property right, can be provided a safe harbour in the European member states or not.

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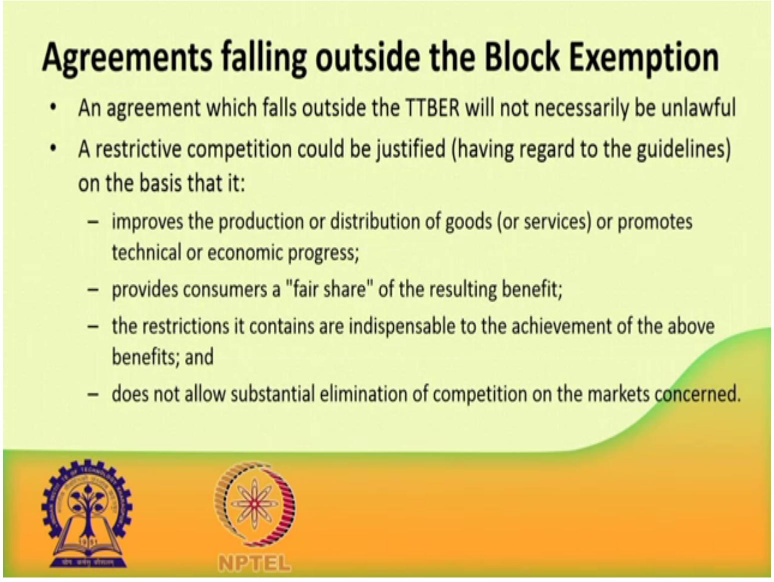

Apart from these there are certain assessment criteria for the agreements falling outside the block exemption regulation. If an agreement falls out of the block exemption regulation, it does not necessarily mean that it is anti-competitive. It means that an individual assessment is to be made.

If it is not anti-competitive then there is no problem, but suppose there are certain elements which seems to be anti-competitive then individual assessments have to be made. Restrictions can be justified on the basis of improved production or improved distribution of goods or services or promotion of technical or economical progress in the European member state or that it has provided a fair share of the resulting benefit to the consumers. Restriction which it contain are indispensable for the achievement of the benefits or that the restrictions do not allow substantial elimination of competition from the market concerned.

If these points can be justified, it may not be considered as anti-competitive. There are other agreements such as the settlement agreement, patent pooling cases and pay for delay cases, which we will be discussing in the next module.

Thank you.