Last Call for Adjustments to Licensing Agreements

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Technology and IP-driven companies doing business in the EU should be aware that the European Commission enacted stricter rules on technology transfer agreements: The new Technology Transfer Block Exemption Regulation (TTBER) with its accompanying Guideline qualifies certain agreements as anti-competitive which were previously within the 'safe harbour'.

All agreements dating after 30 April 2014 must immediately take into account the new rules. As to agreements dating before 30 April 2014, businesses are granted a grace period until 30 April 2015 to adjust the agreements to the new provisions. Thus, immediate action is required to assess the compliance of existing contracts with the new provisions and to negotiate and implement required amendments.

When do the EU competition rules for technology transfer agreements apply?

The TTBER applies to licensing agreements where the licensor permits the licensee to use its technology (including patents, know-how, software copyright and/or design rights) for the production of goods and/or provision of services.

The TTBER exempts some of these licensing agreements from the application of the rules prohibiting anti-competitive agreements. It thus provides a 'safe harbour' in which the validity of the licensing agreement is unlikely to be challenged on competition law grounds.

The application of the TTBER is basically subject to two requirements:

- the market shares of the parties on the relevant markets may not exceed certain specified thresholds (a 20% combined market share for competitors and individual market shares of 30% for non-competitors); and
- the agreement must not contain any 'hardcore' restrictions (such as, for example, resale price maintenance).

Significance for Swiss businesses

The EU competition rules and the provisions of the TTBER are certainly relevant for all Swiss companies that are parties to cross-border license agreements that have an effect on the EU market. But Swiss courts and agencies take the TTBER also into consideration if the parties' agreement only affects the Swiss market. Thus, irrespective of whether or not the undertaking is a party to an EU cross-border license agreement, Swiss companies are well advised to bring their license agreements in compliance with the TTBER.

Stricter provisions on technology transfer

The main changes introduced by the new TTBER are as follows:

- **Passive sales:** Under the new TTBER all restrictions on passive sales between licensees are considered to be 'hardcore' restrictions of competition. As a result, the whole license agreement containing such a clause is deprived of the 'safe harbour' and may become invalid. This is a significant change to the former TTBER which allowed a limited restriction of passive sales. Exceptionally, it is possible for passive sales restrictions to be compatible with competition rules provided they are objectively necessary for a licensee to penetrate a new market.

- **Licensee improvements:** The new TTBER excludes all forms of exclusive grant-back obligations. Under the former TTBER, the parties could agree that the licensee grants to the licensor an exclusive license for any 'non-severable improvements' to the licensed technology ('non-severable improvements' refer to improvements to the technology that could not be used without infringing the original technology).

- **Termination clauses:** The former TTBER allowed the licensor to terminate the license in the event of the licensee challenging the validity of the intellectual property right. The new TTBER now draws a distinction between such termination clauses in exclusive and non-exclusive licenses.

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1 Article 101 of the Treaty on the Functioning of the European Union.
Where a licensor has granted an exclusive license, it is still permissible to include clauses that provide for termination upon challenge by the licensee. On the other hand, in case of non-exclusive licenses, such a termination clause does not benefit from the ‘safe harbour’ and thus requires individual assessment.

**Transition Period until 30 April 2015**

In line with the general trend in anti-trust regulation, the new provisions on technology transfer agreements have become stricter. Because of the wide-ranging significance of the new TTBER and the accompanying Guideline, any technology and IP-driven company doing business in the EU and/or Switzerland should be aware of and in compliance with the new rules.

During the transition period until 30 April 2015, existing agreements which fall under the old TTBER will remain exempted, even if they are not compliant with the revised TTBER. But companies must take immediate action now to ensure that their existing agreements that currently fall within the block exemption are reassessed and, if need be, amended prior to the end of this deadline.

**MME Licensing Qualification:** Since 1999, MME has offered our clients comprehensive legal services in all aspects of innovation development and licensing. This includes the negotiation of distribution, agency, license or franchise contracts – always aligned to the regulatory framework of competition law. Our specialists are also familiar with the whole range of law in the field of transport and logistics, including export and custom measures.

**MME – Independent Attorneys:** MME is fully independent. All team members are qualified Swiss attorneys with either an English law or practice background.

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