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Block Exemption Regulation on technology transfer agreements: no global revolution but greater freedom of innovation to the benefit of licensees

EUROPE

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The immaterial nature of intellectual property (IP) opens vast opportunities for setting up all types of mechanisms to exploit rights. However, because they are, in essence, based on exclusive rights and authorisation/prohibition agreements between interested parties, and even competitors, these agreements, especially technology transfer and licensing agreements, have been 'revamped' by antitrust rules.

For IP practitioners, the 28 March 2014 new European Commission Block Exemption Regulation No 316/2014 regarding technology transfer agreements (the 'Regulation') replacing Block Exemption Regulation No 772/2004 published on 27 April 2004, is therefore of importance and is to be kept in mind when drafting and negotiating such agreements within a European Union (EU) framework.

The aim of the Regulation is to provide some guidelines and visibility to the compliance of agreements with competition law by application of Article 101(3) of the Treaty on the Functioning of the EU. Indeed, the European Commission explicitly sets out in point 9 of the guidelines for the Regulation that 'licensing as such is pro-competitive as it leads to dissemination of technology and promotes innovation by the licensor and licensee(s). In addition, even license agreements that do restrict competition may often give rise to pro-competitive efficiencies'. This is why the Regulation allows for some restrictions to competition, provided they follow the final objective of better regulation and economic efficiency.

The Regulation does not really revolutionise the previous block exemption regulation of 2004. However, among the various adaptations it brought, two major modifications of the Regulation are worth emphasising because they have led to intense discussions between stakeholders, including public research institutes versus industrial actors, before being finally adopted, and because they impact traditional business models of licensors and licensees.

Of course, more could be said about the new Regulation and its impact on the innovation ecosystem; however, within the framework of this article, which intends to remain synthetic and to provide readers with legal practitioners' on-the-field feedback, we therefore choose to highlight the following two issues, lodged in Article 5(1), trusting that this will be of use.

Issue no 1: no more termination of exclusive agreement although the licensee challenges the licensor's IP

The standard no-challenge clause that prevents the licensee from challenging the licensor's IP shall be provided for in a technology transfer agreement only after thorough examination of the facts at stake. Even though such clauses were already prohibited by the previous exemption regulation, and are still under the current Regulation, the licensor previously had the possibility, without risk vis-à-vis competition rules, to terminate the technology transfer agreement (regardless of it being exclusive or non-exclusive) if the licensee challenged its IP.

Article 5 (1)(b) of the Regulation now limits this right for the licensor to terminate the technology transfer agreement when the licensee challenges the licensor's intellectual property, only for non-exclusive agreements.

The European Commission justifies this

modification by stating that

> 'such a termination right can have the same effect as a non-challenge clause in particular where switching away from the licensor's technology would result in a significant loss to the licensee (for example where the licensee has already invested in specific machines or tools which cannot be used for producing with another technology) or where the licensor's technology is a necessary input for the licensee's production' (Guidelines point 136).

Note that the Regulation identifies this non-challenge clause as 'Excluded Restrictions', that is, this type of clause shall be considered as null and void when implemented in technology transfer agreements without jeopardising the whole agreement (Guidelines point 128).

Issue no 2: no more exclusive grant backs to the licensor's benefit on the licensee's improvements or new applications

Regarding grant back clauses (ie, the licensee granting back to the licensor its IP rights on improvements or new applications possibly made out of the licensed or transferred technology), the 27 April 2004 exemption regulation was distinguishing from severable improvements and new applications and non-severable versions: non-severable improvements or new applications could be subject to exclusive grant backs, whereas severable improvements or applications could not.

Under the new Regulation, exclusive grant backs to licensor's benefit – be they by way of a direct or indirect license or assignment – on licensee's improvements or new applications made out of the licensed technology are now completely prohibited within the framework of the block exemption, regardless of whether improvements or new applications are severable or not.

More globally, Article 5 (1) (a) of the Regulation prohibits grant back clauses in technology transfer agreements, arguing that it is 'likely to reduce the licensee's incentive to innovate since it hinders the licensee in exploiting the improvements' (Guidelines point 129). The above prohibition shall not depend on whether or not the licensor pays for the improvement it receives from the licensee by virtue of an exclusive grant back. However, *non-exclusive* grant backs can still be provided in technology transfer agreements, even when they are non-reciprocal (Guidelines point 131).