

Commission Regulation No. 772/2004 (“Commission Block Exemption on Categories of Technology Transfer Agreements “)

A new approach to regulating technology licensing

The **Block Exemption** (which repeals regulation 240/96) effective as of the 1st May 2004, marks a move away from the approach of listing exempted clauses, by placing a greater emphasis on defining the categories of agreements which are exempted (ie they will comply with the competition rules), up to a certain level of market power. Article 2 of the Block Exemption, provides that article 81(1) of the EU Treaty does not apply to agreements which comply with the Block Exemption (the “**article 2 exemption**”).

Vertical Restraints Block Exemption – relationship with

The relationship of the Block Exemption with the **Vertical Restraints Block Exemption** (which essentially sets out what is permissible in distribution agreements) is clarified by recital 19 of the Block Exemption, which provides that **technology transfer agreements are covered** even if conditions are stipulated for more than one level of trade, **by for instance requiring the licensee to set up a particular distribution system and by specifying the obligations the licensee may or may not impose on resellers of the products produced under the licence**. Such conditions and obligations must comply with the competition rules (covering supply and distribution), which in the case of distribution agreements would mean the Vertical Restraints Block Exemption

The types of agreements that are covered

The block exemption provides a safe harbour for compliant technology transfer agreements which are **patent licensing agreements, know-how licensing agreements, software copyright licensing agreements, or mixed patent, know-how or software copyright licensing agreements**. Other conditions such as relating to sale and purchase of products are permitted, provided that those provisions do not constitute the primary object of the agreement and are directly related to the production of the contract products. **Certain assignments are also covered** where in general terms **part of the risk** associated with the exploitation of the technology **remains with the assignor**.

Exemption - how long

The exemption applies **for as long as** the intellectual property right in the licensed technology has not **expired, lapsed or been declared invalid** or in case of **know-how, for as long as the know-how remains secret**, except in the event where the know-how becomes publicly known as a result of action by the licensee, in which case the exemption shall apply for the duration of the agreement.

Market share thresholds

A licensor’s market share on the relevant technology market shall be the combined market share on the relevant product market of the contract products produced by the licensor and its licensees. Market share is calculated on the basis of market sales value data (for the preceding calendar year). If market sales value data are not available, estimates based on other information may be used.

For the block exemption to apply, where the **undertakings are competing undertakings** the **combined market shares of the parties must not exceed 20%** on the **affected relevant technology and product market** (or if it rises above 20%, the exemption applies for a period of two consecutive calendar years, following the year in which the threshold was first exceeded).

Where the undertakings **are not competing undertakings**, the exemption applies on the condition that **the market share of each of the parties does not exceed 30%** on the **affected relevant technology and product market** (or if it rises above 30%, the exemption applies for a period of two consecutive calendar years, following the year in which the threshold was first exceeded).

Competitors – hardcore (impermissible) and permissible restrictions

Where the parties are competing, the exemption does not apply to any agreement which has as its object (a) **the restriction of a party's ability to determine its prices** when selling products to third parties (b) **the limitation of output** (subject to some exceptions) or (c) **the restriction of the licensee's ability to exploit its own technology or the restriction of the ability of any of the parties to the agreement to carry out research and development**, unless such latter restriction is indispensable to prevent the disclosure of the licensed know-how to third parties or (d) **the allocation of markets or customers** except

an obligation on the licensee **to produce only within one or more technical fields of use** or one or more product markets

an obligation on either party or both in a non reciprocal agreement¹ **not to produce with the licensed technology within one or more technical fields of use** or one or more product markets or one or more exclusive territories reserved for the other party.

the obligation on the licensor not to licence the technology to another licensee, in a particular territory

the restriction in a non-reciprocal agreement, of active and passive sales by the licensee and / or the licensor, into the exclusive territory or to the exclusive customer group reserved for the other party

the restriction in a non-reciprocal agreement, of active sales by the licensee into the exclusive territory or to the exclusive customer group allocated by the licensor to another licensee provided the other licensee is not a competing undertaking at the relevant time.

the obligation on the licensee, **to produce the contract products only for its own use**, provided the licensee is **not restricted in selling** the contract products actively and passively **as spare parts for its own products**

the obligation on the licensee in a non reciprocal agreement, to produce the contract products only for a particular customer, where the licence was granted in order to create an alternative source of supply for that customer (**the second source exception**)

Non Competitors – hardcore (impermissible) and permissible restrictions

Where the parties are non competing, the article 2 exemption does not apply to any agreement which has as its object (a) **the restriction of a party's ability to determine its prices** when selling products to third parties (b) **the restriction of active or passive sales to end-users by a licensee which is a member of a selective distribution system** and which operates at the retail level, without prejudice to the possibility of prohibiting a member of the system from operating out of an unauthorised place of establishment (c) **the restriction of the territory into which or of the customers to whom**, the licensee may passively sell the contract products except

the restriction of passive sales into an exclusive territory or to an exclusive customer group reserved for the licensor

the restriction of passive sales into an exclusive territory or to an exclusive customer group allocated by the licensor to another licensee during the first two years that this other licensee is selling the contract products in that territory or to that customer group

the obligation to produce the contract products only for its own use, provided that the licensee is **not restricted in selling** the contract products actively and passively **as spare parts for its own products**

¹ non reciprocal agreement means a technology transfer agreement where one undertaking grants another undertaking a patent licence, a know-how licence, a software copyright licence or a mixed patent, know-how or software copyright licence or where two undertakings grant each other such a licence but where these licences do not concern competing technologies and cannot be used for the production of competing products.

the obligation to produce the contract products only for a particular customer, where the licence was granted in order to create an alternative source of supply for that customer

the restriction of sales to end users by a licensee operating at the wholesale level of trade

the restriction of sales to authorised distributors by the members of a selective distribution system

Non competing undertakings which subsequently become competing

Where the undertakings are not competing at the time of the conclusion of the agreement, but become competing undertakings afterwards, then the impermissible and permissible restrictions applicable to non competing undertakings continue to apply/be allowed, unless the agreement is amended in any material respect.

Restrictions to which the article 2 exemption does not apply

1. The article 2 exemption does not apply to any of the following obligations contained in technology transfer agreements.

any direct or indirect obligation on the licensee to grant an exclusive licence to the licensor or to a third party designated by the licensor, in respect of his own severable improvements to or its own new applications of the licensed technology

any direct or indirect obligation on the licensee to assign, in whole or in part, to the licensor or to any third party designated by the licensor, rights to his own severable improvements to² or its own new applications of the licensed technology

any direct or indirect obligation on the licensee **not to challenge the validity of intellectual property rights which the licensor holds in the common market** without prejudice to the possibility of providing for termination of the technology transfer agreement in the event that the licensee challenges the validity of one or more of the licensed intellectual property rights.

2. Where the undertakings are **not competing**, the article 2 exemption will not apply to **any** direct or indirect **obligation**, limiting the licensee's ability to **exploit its own technology** or limiting the ability of any of the parties **to carry out research and development, unless the latter is indispensable.**

Withdrawal in individual cases and inapplicability

The Commission may (i) **withdraw** the benefit of the regulation **where** (a) **access of third parties technologies to the market is restricted**, for instance by the cumulative effect of parallel networks of similar restrictive agreements prohibiting licensees from using third parties technologies (b) **access of potential licensees to the market is restricted** for instance by the cumulative effect of parallel networks of similar restrictive agreements prohibiting licensors from licensing to other licensees (c) without any objectively valid reason, **the parties do not exploit the technology** or (ii) **declare it inapplicable** where parallel networks of similar technology transfer agreements cover more than **50% of a relevant market and they contain specific restraints relating to that market.**

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² A severable improvement means an improvement that can be exploited without infringing the licensed technology