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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Where Auto And EU Tech Transfer Agreements Collide

Law360, New York (April 18, 2014, 4:56 PM ET) -- The European Commission has just published the definitive text of the new rules on the interface between technology transfer agreements and antitrust law. This article looks at the main changes made by the new law which are likely to have a particular impact on the automotive industry.

On March 28, 2014, following a public consultation process initiated in February 2013, the European Commission published a revised Commission Regulation EU 316/2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements (the so-called Technology Transfer Block Exemption Regulation) with accompanying guidelines. The new rules will enter into force on May 1, 2014, and replace the previous regulation (EC 772/2004) and accompanying guidelines, which will expire on April 30, 2014.

The new regulation will apply not only to new technology transfer agreements entered into from May 1, 2014, onwards but also, as of April 30, 2015, to agreements concluded under the old regime.

The regulation provides a safe harbor under Article 101(3) of the EU Treaty that prevents license agreements being challenged under Article 101(1) of the EU Treaty (the prohibition of anti-competitive agreements). While the main principles underlying the regulation remain the same, certain changes are of particular relevance for the automotive industry.

Market Share

Under both the new and the old regulation, the safe harbor applies where the parties' combined market shares are below 20 percent if they are competitors, and 30 percent if they are not.

Under the new regulation, the basis for calculating the licensor's market share has been clarified: it will now be based on the sales data for the products produced by the licensor and all its licensees combined, in the relevant geographic area.

Passive Sales

Both the old and the new version of the regulation provide that restrictions of the territory in which, or the customers to whom, the licensee may passively sell the contract products are anti-competitive. For this reason they are a hardcore restriction to the exemption granted by the regulation, leading to the entire agreement falling outside the safe harbor. Only a few exceptions to this rule apply.

Under the old regulation, one of the exceptions was the restriction of passive sales into an exclusive

territory or to an exclusive customer allocated by the licensor to another licensee during the first two years of the license agreement. Licenses could contain these restrictions but still fall within the exemption granted by the regulation. The new regulation has abolished this exception and treats this kind of restriction as a hardcore restriction, which takes the whole agreement outside the safe harbor.

Players in the automotive industry should therefore exclude such provisions from all template agreements as well as from agreements already in force, since they too will be subject to the new rules as of April 30, 2015, as indicated in more detail below.

Technology Pools

Technology pools can be used not only to cross-license and make new technology broadly available on the market, but also to support industry standards. In the automotive industry, they are particularly important for sharing technology for the further development of electric vehicles and the required infrastructure (in particular charging stations), autonomous vehicles and car-to-car communication systems. If networks and equipment are to be fully compatible and share connectivity, the automotive industry needs to agree on standards so that it can function efficiently.

The European Commission already recognized, in the old version of the guidelines, that technology pools can play an important role in supporting an industry standard — and this remains unchanged under the new rules.

The new guidelines state that, while technology pools can produce pro-competitive effects, in particular by reducing transaction costs and limiting cumulative royalties, they can also be restrictive of competition. This is the case if the pool is composed of predominantly substitute technologies, since — in the commission's view — it becomes a price-fixing cartel. Moreover, a pool will generally be seen as anti-competitive if its existence results in a reduction of innovation by foreclosing alternative technologies.

To discourage anti-competitive pools, paragraph 261 of the new guidelines lists the conditions under which the creation and operation of the pool generally falls outside Article 101(1), irrespective of the parties' market position. These are only guidelines, not definitive rules exempting technology pools from being declared anti-competitive.

The conditions under which a technology will usually benefit from the safe harbor are:

- participation in the pool creation process is open to all interested technology rights owners;

- sufficient safeguards are adopted to ensure that only essential technologies are pooled. The definition of essential technology is connected to the concepts of substitute and complementary technology, which are the same as in the old guidelines: technologies are complementary when they are both required to produce the product or carry out the process to which the technologies relate, and substitutes when either technology allows the owner to produce the product or carry out the process to which the technologies relate. In the commission's view, for a technology to be essential, it must be complementary as opposed to substitute technology. Moreover, the concept of “essential” technology has been redefined in the guidelines by referring to the inexistence of “viable substitutes (both from a commercial and technical point of view)” for that technology. Finally, for a technology to be considered essential, it must constitute a necessary part of the package of technologies necessary either to produce the

product(s) or carry out the process(-es) to which the pool relates, or to comply with the standard supported by the pool (paragraph 252 of the new guidelines);

- sufficient safeguards are adopted to ensure that exchange of sensitive information (such as pricing and output data) is restricted to what is necessary for the creation and operation of the pool;

- the pooled technologies are licensed into the pool on a non-exclusive basis;

- the pooled technologies are licensed out to all potential licensees on FRAND (fair, reasonable and nondiscriminatory) terms. According to the old guidelines, where the pool had a dominant position on the market, royalties and other licensing terms had to be fair and nondiscriminatory. The new rule adds the requirement of reasonableness and does not take into account the market position of the members and of the pool;

- the parties contributing technology to the pool and the licensees are free to challenge the validity and the essentiality of the pooled technologies. This new prohibition of no-challenge clauses aims to rid technology pools of invalid patents and thereby encourage innovation;

- the parties contributing technology to the pool and the licensees remain free to develop competing products and technology.

Technology pools that do not fulfill these conditions could still be pro-competitive. For example, it may be pro-competitive to include non-essential technologies in the pool where it would be costly to assess whether all of the technologies are essential because of the high number of technologies. Factors that will be taken into account by the commission are listed in paragraph 264 of the new guidelines.

Other Changes

The new regulation and guidelines contain further changes which are not specific to the automotive sector: the exclusion from the safe harbor of exclusive grant-backs on improvements and of no-challenge clauses in license agreements; and new rules on pay for delay and no-challenge clauses included in settlement agreements.

Effective Date

Last but not least, pursuant to Article 10 of the new regulation, it applies not only to agreements concluded after the entry into force of the new regulation (May 1, 2014) but also to agreements already in force on April 30, 2014. If existing agreements satisfy the conditions for exemption of the old regulation but not the conditions of the new regulation, a transitional period is granted until April 30, 2015, during which the prohibition of Article 101(1) of the EU Treaty shall not apply. In other words, parties to license agreements in force on April 30, 2014, have one year in which to make sure their agreements conform to the new rules, or risk having them declared anti-competitive by the competent authorities as of April 30, 2015.

—By Nathalie Jalabert-Doury, Kiran S. Desai, Dr. Ulrich Worm, Julian Ellison, Robert Klotz, Dr. Jens Peter Schmidt, Gillian Sproul, Ana Elisa Bruder and Sarah Byrt, Mayer Brown LLP

Nathalie Jalabert-Doury is partner in Mayer Brown's Paris office. Kiran Desai, Julian Ellison and Robert Klotz are partners in the firm's Brussels office. Dr. Ulrich Worm is a partner in the Frankfurt office. Dr. Jens Peter Schmidt is a partner in the firm's Brussels and Dusseldorf offices. Gillian Sproul is a partner and Sarah Byrt is a consultant in the London office. Ana Elisa Bruder is a professional support lawyer in the Frankfurt office.

Resources

The new regulation and guidelines can be found here:

Commission Regulation (EU) No 316/2014

Official Journal of the European Union, C 89, Volume 57, 28 March 2014

Press releases are available here:

European Commission - MEMO/14/208 - 21/03/2014

European Commission - IP/14/299 - 21/03/2014