Technology Licensing - Competition Law Aspects
Licensing Executives Society - Mini-Seminar

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1. The interface between IPR and Competition Law
   - Competition Law Recap
   - Competition Law and IP law, interplay
2. Technology Licensing and EU Competition Law
3. Technology Block Exemption Regulation
Anti-competitive agreements are prohibited under EU/EEA law as well as national law

- Legal basis: Article 101(1) TFEU /Article 53(1) EEA at a European level with similar provisions at national level (e.g. Konkurranseloven §10 in Norway). Wording an interpretation is essentially identical
- Prohibition covers both agreements that clearly have an anti-competitive object (e.g. price fixing/market sharing) as well as more nuanced practices that produce, or may produce, an anti-competitive effect
- Prohibition applies to agreements between undertakings:
  - operating on the same level of the supply chain (horizontal agreements), i.e. between competitors
  - operating at different levels of the supply chain (vertical agreements), e.g. supplier-distributor
- Application hinges on economic realities rather than formal principles - requires a great degree of interpretation
- Beyond Europe, most major jurisdictions also have similar competition law or “antitrust” provisions
  - ... can pose a compliance hurdle as businesses must adhere to different sets of rules

Competition law also regulates the manner in which dominant firms operate and scrutinises mergers and acquisitions

- Dominant undertakings shall not «abuse» their market position and may, in certain circumstances, be prevented from using methods which are legal if used by a non-dominant company (e.g. refusal to deal and compulsory licensing (Magill and Microsoft))
- Mergers and acquisitions above certain thresholds must be notified to the competent competition authorities for approval prior to their consumption, jurisdiction for this review depends on the involved parties turnover
Sophisticated public enforcement with the potential for high administrative fines and forced structural changes

- The European Commission and the EFTA Surveillance Authority (ESA) are responsible for enforcing competition law on an EU/EEA wide basis
  - The European Commission is an active enforcer and frequently levies fines above EUR 100,000,000
- At national level, national competition authorities (Konkurranstilsynet in Norway) are responsible for the enforcement of national competition rules

Main competition law risks in licensing arrangements

- Fines and administrative sanctions are reserved for more severe infringements
- The main risks of a non-compliant licensing arrangement are:
  - Unenforceability: a licensing agreement that breaches EU competition law is unenforceable and the parties can terminate it at their will
  - Private damages: increased private enforcement of competition law
  - M&A risk: discovery of non-compliant licensing agreements in the course of due diligence will lead to indemnities, warranties and a reduction in price
Competition law and IP: complimentary or conflicting?

- Is there an inherent tension between these sets of norms?
  - IP law confers exclusive rights to act in a particular way
  - Competition law strives to keep markets open

- No, not really
  - Both have the objective of promoting consumer welfare and an efficient allocation of resources
  - Need for innovation in open and competitive markets recognised explicitly by EU regulators
    - Dynamic innovation is not possible without IP protection

- But IP rights can be used to restrict competition
  - Competition law can therefore complement IP law in situations where the way that an IP right is exercised may fall short of promoting consumer welfare

- Striking the right balance is the hard part
  - Subject of numerous academic works
  - Topic of discussion at WIPO, OECD
  - Guidelines issued by the authorities in the EU, Japan, US, Canada ...
Technology Licensing under EU competition law

- Licensing of technology is subject to the prohibition against anti-competitive agreements
  - A majority of licensing agreements are pro-competitive
  - Issues arise when restrictions are placed on the use of the technology
    - Restrictions leading to reduced inter-technology competition, including facilitation of collusion
    - Restrictions leading to foreclosure of competitors
    - Reduction of intra-technology competition

- As such, companies must assess whether their licensing agreements are compatible
  - Striking the “right” balance is far from easy

- In order to facilitate this assessment the Commission has defined certain categories of agreements that are unproblematic from a competition law perspective
  - These agreements are exempted “en bloc” and are set out in the Technology Transfer Block Exemption Regulation (TTBER)
  - Exempts agreements between companies that have limited market power and that fulfil certain conditions
  - If an agreement is not covered by the TTBER, an individual assessment must be made
    - being outside of the block exemption does not mean that an agreement is illegal
Origins and basics of the TTBER

- Current version of the TTBER came into force in 2014 replacing an earlier version from 2004
  - New version was based on extensive analysis and questionnaires sent to major stakeholders in the course of 2011
  - Aim was to create legislation which covered all gaps in a predictable manner
  - TTBER must be read in conjunction with extensive Guidelines
    - Non-binding but very insightful and of practical relevance

- Applies to licensing agreements where the licensor authorises the licensee to use its technology for the production of goods and provisions of services
  - Technology includes, inter alia, the following:
    - know-how, patents, design rights or software copyright, plant breeder’s rights, topographies of semiconductors
    - Definition of know-how in Article 1 (1) (i)
  - Does not apply to patent pools as these are a multiparty agreements

- Four basic steps in the assessment under the TTBER
  - Are the Parties Competitors?
  - What are the Parties’ market shares?
  - Does the agreement contain hardcore restrictions?
  - Does the agreement contain excluded restrictions?
Step 1: are the Parties competitors?

- The Parties’ competitive relationship is the starting point of the analysis

- Determination to be made in relation to the relevant market, both:
  - **The relevant product market** which comprises the contract products (incorporating the licensed technology) and its substitutes
  - **The relevant technology markets** which consist of the licensed technology rights and its substitutes
  - Follow the basic principles of defining a product market and geographic market
  - Must reflect the competitive landscape and the realities of offer and demand

- **Dynamic assessment**
  - What will the situation be in a year or two years time?
  - Could one party easily enter the market of the other?
  - Objective basis for assessment is required
Step 2: The Parties’ must not have significant market power

- **Market share threshold:** TTBER requires that the parties have a limited market share
  - Market share is assessed in relation to both the relevant technology market and relevant product market
  - If the parties are competitors: their combined market share may not exceed 20%
  - If the parties are non-competitors: their individual market share may not exceed 30%

- **Market share assessment is dynamic**
  - TTBER allows for a two year “lag” between the moment when the market share threshold is exceeded and the agreement losing the benefit of the TTBER
  - Continuous assessment of market share levels is therefore necessary from a compliance perspective
Step 3: Agreement must not contain any “hardcore” restrictions

- Hardcore restrictions remove the benefit of the TTBER completely
  - The term covers restrictions that are known to be damaging to competition
  - The protection of the TTBER is lost for the agreement as a whole if a hardcore restriction is included

- Hardcore restrictions for competitors:
  - Resale price maintenance including minimum, maximum and recommended retail prices
  - Reciprocal output limitations/production caps
  - Restricting licensees ability to exploit its own technology
  - Allocation of markets or customers. There are exceptions, notably relating to exclusivity in non-reciprocal agreements:
    - Obligation not to produce with the licensed rights within the exclusive territory reserved to the other party
    - Obligation not to sell (actively or passively) into the exclusive territory reserved to the other party
    - Restriction of active sales by the licensee into the exclusive territory/customer group of another licensee

- Hardcore restrictions for non-competitors:
  - Resale price maintenance except maximum and recommended retail prices
  - Restrictions on sales to end-users in a selective distribution system
  - Restriction on passive sales (there are exceptions), including:
    - Restriction of passive sales into an exclusive territory/customer group reserved for the licensor
    - Restriction of sales to unauthorised distributors by members of a selective distribution system
Step 4: Agreement should not contain any “excluded” restrictions

- The presence of an excluded restriction will remove the benefit of the TTBER from the restriction itself and not from the whole agreement

- Covers several types of restriction
  - Exclusive grant-backs by the licensee of its own improvements
    - *Obligation on the licensee to grant an exclusive license or to assign rights to the licensor or a designated third party in respect of its own improvements*
  - No-challenge clauses
    - *An obligation on the licensee not to challenge the validity of IP rights held by the licensor in the EU without prejudice, for exclusive licences, to the right of the licensor to terminate the license in the event of such a challenge?*
  - Own-use restrictions in an agreement between non-competitors
    - *Obligation limiting the licensee’s ability to exploit its own technology or limiting either of the party’s ability to carry out research and development, unless the latter restriction is indispensable to prevent the disclosure of the licensed know-how to third parties.*
Other relevant aspects to consider under the TTBER

- **Duration**
  - The exemption lasts for only as long as the IP right in the licensed technology has not expired, lapsed or been declared invalid
  - In the case of know-how its lasts only as long as the know-how remains secret
  - Again, this illustrates the need for **dynamic** compliance

- **Ancillary provisions**
  - The TTBER extends to property rights which do not constitute “technology rights” but are directly related to the production of the contract products

- **Other Block Exemptions**
  - TTBER does not apply to licensing arrangements in R&D agreements or specialisation agreements
Outside of the TTBER- individual assessment- Commission Guidelines

- Agreements that fall outside TTBER are subject to individual assessment
  - Does the Agreement restrict competition within the meaning of Article 101(1)?
  - If yes, does it fulfil the conditions for an individual exemption under Article 101(3)?
  - There is no presumption of illegality of agreements that fall outside the scope of the block exemption
    - In particular, there is no presumption that Article 101(1) applies merely because the market share thresholds are exceeded.

- Quasi safe harbour if there are sufficient independently controlled technologies
  - the Commission has taken the view that an agreement is unlikely to breach the prohibition where there are:
    - At least four independently controlled technologies in addition to the technologies controlled by the parties to the agreement, substitutable for the licensed technology at a comparable cost to the user (cf. Guidelines para. 157)

- Individual assessment will closely follow the TTBER
  - The Commission has published extensive guidelines that identify the analytical methods that should be used in various situations