

Key Terms of Licensing Agreements: Issues of Competition Law in Technology Transfer

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PLAN

- Impact of Competition Law on Technology Licensing in Europe
- Real-life case



1 ■ Impact of Competition Law on Technology Licensing

INTRODUCTION

- Objectives of Competition Law
 - Economic efficiency
 - Innovation
 - Consumer welfare

- Characteristics of a competitive market place
 - Open market
 - Freedom to compete
 - General interest of consumers

INTRODUCTION

- Objectives of IP Law (patents)
 - Grant of a monopoly to an operator
 - As an incentive to innovate
 - For a specified period of time

- Characteristics of IP Law
 - Exclusivity
 - Monopoly
 - Private interest of the IPR Owner

INTRODUCTION

- Conflicting characteristics...
- But common final objectives
 - Promotion of innovation
 - Circulation of technological knowledge
 - In view of ultimate consumer welfare
- Both IP Law and Competition Law tend to :
 - fulfill identical objectives
 - with different and potentially conflicting means

INTRODUCTION

- This presentation will focus on:
 - How Competition Law impacts the practice of technology licensing
- No need for negotiators to know competition law in details, but need to recognize potentially problematic issues

BASIC PRINCIPLES

- Most countries prohibit anti-competitive agreements
 - EU Treaty, Article 101§1 prohibits: *All agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and **which have as their object or effect the prevention, restriction or distortion of competition within the internal market***
 - US Sherman Act, Section 1: *Every contract, combination in the form of trust or otherwise, or conspiracy, **in restraint of trade or commerce** among the several States, or with foreign nations, is declared to be illegal.*

BASIC PRINCIPLES

- Most countries recognize that certain apparently anti-competitive agreements should be allowed as they have an overall pro-competitive effect
 - EU Treaty, Article 101§3
- Technology licensing is generally considered pro-competitive as it multiplies the number of users of the technology
- However, negotiators should be aware that certain clauses in licensing agreements might be deemed anti-competitive.

The *per se* approach / the *rule-of-reason* approach

- The *per se* approach:
 - Certain practices are banned *per se* because they are so harmful to competition that no analysis as to their effects is needed.
 - Common examples:
 - Price-fixing practices
 - Market allocation practices...
- The *rule-of-reason* (or *case-by-case*) approach
 - Requires an assessment of the anti-competitive effects in the relevant markets.
 - Depending on circumstances, certain practices may be acceptable in spite of creating restrictions to the competitive environment.
 - These circumstances are generally regarded as relevant:
 - Market share of the parties
 - Parties are competitors (horizontal) or not (vertical)
- A *rule-of-reason* approach is generally preferred over a strict *per se* approach

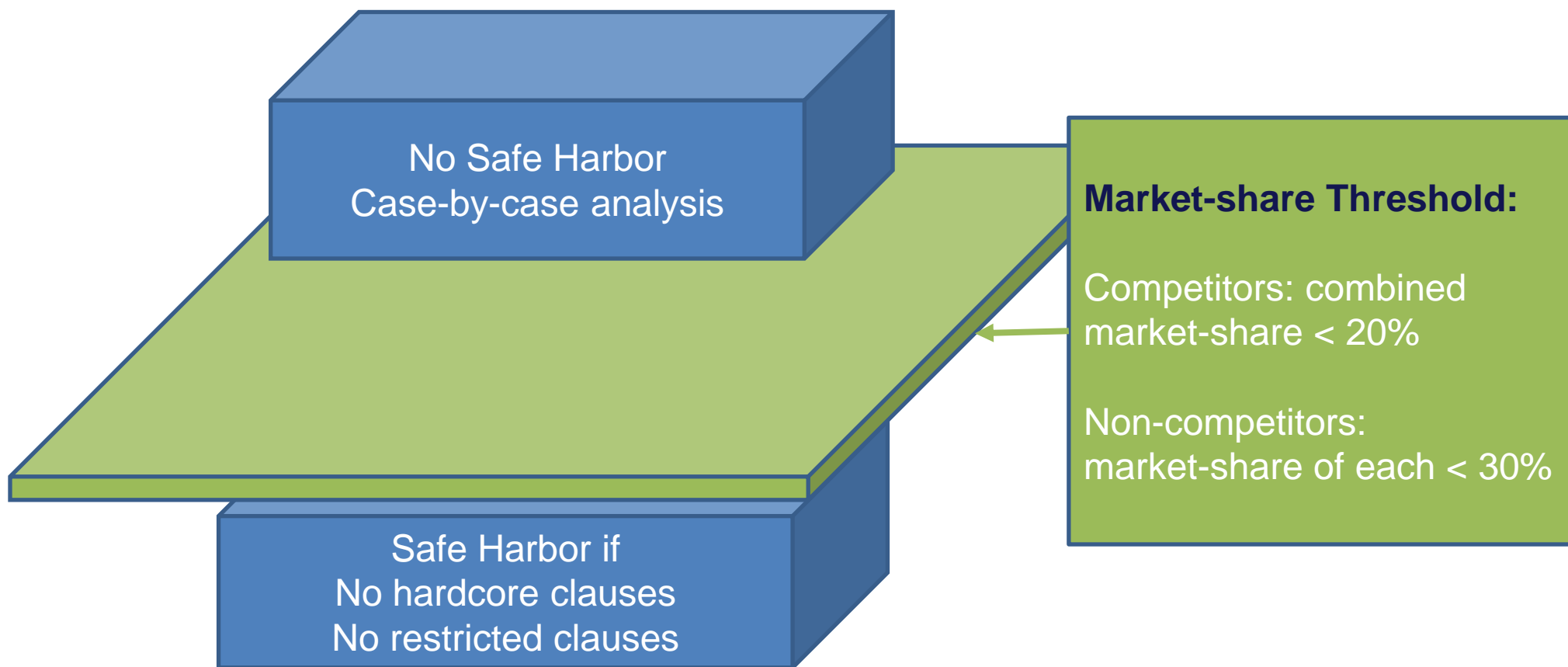
THE EU EXAMPLE

- Block exemption regulations
 - are issued by the EU Commission when a category of agreements is regarded as beneficial to the market and eligible to Article 101§3 of EU Treaty
 - Create safe harbors
 - Outside safe harbor, operators must make a *case-by-case* assessment on whether the agreement is anti-competitive or not
 - Self-analysis (no notification): ex-post control by courts and government authorities

THE EU EXAMPLE

- Technology Transfer Block Exemption Regulation (TTBER)
 - Brand new Regulation (dated 21 March 2014, in force since 1 May 2014)
 - Replaces former Regulations which have succeeded each other since 1965

THE FUNCTIONING OF TTBER



HARDCORE RESTRICTIONS

- Hardcore clauses

- Major anti-competitive restrictions preventing exemption of **whole** license agreement
- Anti-competitive effect is assessed more or less stringently depending on following factors:
 - Parties are competitors or not
 - Agreement is reciprocal or not
- Concerns 4 types of restrictions (cf. behind)

HARDCORE RESTRICTIONS

- Price-fixing
 - Between competitors, any type of price-fixing clause is considered hardcore restriction
 - Between non-competitors, only minimum price-fixing is considered hardcore restriction

HARDCORE RESTRICTIONS

- Restrictions on output (production) or sale
 - Such restrictions between competitors are generally considered as hardcore restrictions

HARDCORE RESTRICTIONS

- Allocation of markets or customers
 - Between competitors, these clauses are considered as hardcore restrictions
 - Notable exceptions (in non-reciprocal agreements):
 - Restriction to produce or sell **in the other party's territory**
 - Restriction of **active sales** by Licensee in other licensees' territory
 - Obligation on Licensee to produce only **for own use**

HARDCORE RESTRICTIONS

- Allocation of markets or customers
 - Between non-competitors, certain restrictions on **passive sales** do not fall under the hardcore qualification:
 - Restriction to sell to unauthorized distributors by the members of a selective distribution system
 - Restriction on Licensee operating at the wholesale level to sell to end-users

HARDCORE RESTRICTIONS

- Restrictions between competitors on technological resources
 - Restrictions on Licensee to use own technology;
 - Restrictions on either party to carry-out R&D except if necessary to ensure non-disclosure to third parties

EXCLUDED CLAUSES

- Excluded clauses
 - Anti-competitive restrictions of lesser gravity, preventing exemption of **clause** containing excluded restriction
 - Grant-back obligation on Licensee with regard to improvements
 - No-challenge clauses or Termination on challenge clauses
 - Restriction on Licensee to use own technology, in the case when parties are non-competitors
 - Restriction on either party to carry-out R&D except if necessary to ensure non-disclosure to third parties, in the case where parties are non-competitors



2. Real-life case

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Thank you for your attention

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