Review of the Technology Transfer Block Exemption Regulation: Grant-Backs and Non-Challenge Clauses

A submission on behalf of QMIPRI with reference to the review by the Competition and Markets Authority (CMA) of the Assimilated Technology Transfer Block Exemption Regulation (TTBER).[1]

The TTBER provides conditions for exemption from the Chapter I prohibition of the Competition Act 1998, which prohibits anti-competitive agreements. Section 9(1) provides that an agreement is exempt from the prohibition if it:

(a) contributes to—
   (i) improving production or distribution, or
   (ii) promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit; but
(b) does not—
   (i) impose on the undertakings concerned restrictions which are not indispensable to the attainment of those objectives; or
   (ii) afford the undertakings concerned the possibility of eliminating competition in respect of a substantial part of the products in question.[2]

In elaborating Section 9, two 'excluded restrictions' listed in Article 5 TTBER[3] are:

(a) exclusive grant-back obligations on the licensee to grant an exclusive licence or to assign rights to the licensor in respect of its own improvements to the licensed technology and;

(b) an obligation on the licensee not to challenge the validity of the licensed patent held by the licensor in the European Union (EU), without prejudice to the right of the licensor, in the case of an exclusive licence, to terminate the licence in the event of such a challenge.

According to Recital 15, the reason for restricting grant-backs and non-challenge clauses from the block exemption, is the need 'to protect incentives to innovate.'[4] The following

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[1] The assimilated Technology Transfer Block Exemption Regulation (TTBER) provides conditions for exemption from the Chapter I prohibition of the Competition Act 1998: see Commission Regulation 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, which is due to expire on 30 April 2026. Technology transfer agreements concern the licensing of technology rights where the licensor permits the licensee to exploit the licensed technology rights for the production of goods or services, as defined in Art.1(1)(c) of Regulation 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 TTBER') OJ L 93, 28.3.2014. p. 17.
[2] The drafting of s. 9 is almost identical to Article 101(3). In applying section 9(1) the CMA has regard to the European Commission's Guidelines on the application of Article 101(3) TFEU. On how to produce empirical evidence in satisfaction of Art.101(3) as a matter of self-assessment, see Sainsbury's Supermarkets Ltd v Visa Europe Services LLC [2020] UKSC 24 [116 - 128].
[3] TTBER Art.5(1)(a) and (b).
[4] TTBER, Recital 15. Nevertheless, the inclusion of one of the restrictions in Art.5 would not prevent the application of the block exemption to the remaining terms of the contract, so long as they are 'severable' from the excluded restriction. European Commission, Guidelines on the application of Article 101 of the Treaty on

submission argues that Art.5 of the TTBER of 2004 provided the more flexible framework for excluding from a block exemption (1) certain grant-backs of improvements and (2) non-challenge clauses.

1. Grant-backs of improvements

If a licensee invents an improvement that overshadows the originally licensed invention, it goes without saying that a licensee may overcome its licensor as a skilled competitor.[5] Thus, to maintain its relative competitiveness, a licensor may seek to include in the patent licence a 'grant-back' clause, that is a clause granting back improvements. For the licensor a grant-back clause may be necessary to secure the transfer of technology, since patent law does not vest in the original patent holder any right to improvements in inventions. If a separate patent issues to the licensee for an improvement to an invention, such improvement cannot be exercised without a licence. In short, without contractual intervention, the original patent holder would be prevented from practicing the improvement. Therefore, in justification of requiring the licensee to convey rights to patentable improvements, a licensor would argue that if it were not for the grant of the licensed technology, the licensee would not have been able to develop improvements to the original invention.

However, a clause that is so broadly drafted as to require an assignment or an exclusive grant-back[6] of patentable improvements to the original patentee, risks infringing competition law. So far as an exclusive grant-back clause may reduce the licensee's opportunities to exploit the technology, including its ability to license third parties, questions of anti-competitiveness are likely to arise. Accordingly, Article 5(1)(a) TTBER removes the block exemption with respect to an obligation on the licensee to grant an exclusive licence to the licensor in respect of its own improvements.[7] Following removal of the block exemption, in undertaking an individual analysis of an exclusive grant-back, the TTBER Guidelines indicate that the factors relevant to a breach of Art. 101 include:

(a) The amount, if any, of royalties payable by the licensor.: grant-backs to the licensor risk breaching Art. 101 when they require a return licence for the use of an improvement, without the licensee receiving payment of a royalty or other means of consideration.[8]

the Functioning of the European Union to technology transfer agreements (TTBER Guidelines) (2023/C 259/01) para.128.

[5] The TTBER does not define 'improvement'. According to Lord Hoffmann, the term 'improvement' should be defined according to its context within a licensing agreement. Generally, it should be given a broad commercial interpretation rather than a narrow technological meaning. E.g. a machine part might be considered an improvement if it renders the invention less expensive or more valuable commercially: Buchanan v. Alba Diagnostics Ltd [2004] UKHL 5 [29 -30].

[6] 'Exclusive licence' is defined as 'a licence under which the licensor itself is not permitted to produce on the basis of the licensed technology rights and is not permitted to license the licensed technology rights to third parties…': TTBER Art.1(1)(p). Note: in this section the term grant-back will also include an assignment to the licensor of improvements.

[7] Furthermore, the block exemption is removed not only where an improvement concerns the same application as the licensed technology, but also where the licensee has developed new applications of the licensed technology: Art.5(1)(a). See also TTBER Guidelines para.129.

[8] In principle, the application of Article 5(1)(a) does not depend on whether the licensor pays consideration in return for acquiring the improvement or for obtaining an exclusive licence. Nonetheless,

(b) The market position of the licensor within the relevant technology market: at a maximum, a one-way grant of improvements to a licensor might help establish a licensor in a dominant market position. Therefore, the stronger the position of the licensor, the more likely it is that an exclusive grant-back obligation will have restrictive effects on competition.

(c) The anti-competitive effects of an exclusive grant-back are likely to be all the greater and the likelihood of infringement thereby increased in case of parallel networks of licence agreements issued by a small number of licensors containing exclusive grant-backs to a single technology.[9]

The TTBER of 2014 makes a distinction between exclusive and non-exclusive grant-backs of improvements in assessing potential anti-competitiveness. Non-exclusive grant-back obligations are included in the block exemption of the TTBER, assuming the market share threshold requirements are met.[10] A non-exclusive grant-back is not contentious since in principle at least, it does not foreclose the licensee's future opportunities for commercialization.[11]

Nevertheless, the TTBER Guidelines recognise that non-exclusive grant-back obligations may have negative effects on innovation, where they constitute a direct obligation between competitors. In the case of cross licensing between competitors, if there is a grant-back obligation on the counter-parties combined with an obligation to share improvements of its technology with the other party, anti-competitive effects may result.

The potential for anti-competitive effects is not considered to arise where grant-backs are occurring indirectly between licensees, who are downstream competitors. This is the case even where they are non-reciprocal, that is, where the licensee is obligated by contract to convey its improvements, but the licensor is entitled to feed-on or pass on those improvements to other licensees. According to the TTBER Guidelines, in this way, a non-reciprocal grant-back obligation may promote innovation by permitting the licensor to decide whether to pass on its own improvements to its licensees.

In sum, the TTBER allows licensors to contractually restrict licensees with non-reciprocal grant-backs that enable licensors to disseminate the licensees' technology. However, under the TTBER of 2014 it is not clear as to whether such a restriction would apply if the licensee's technology had applications that were independent of the originally licensed technology. The TTBER of 2004 distinguished between severable and non-severable improvements.[12] A 'severable improvement' was defined as an improvement that can be exploited without infringing the licensed technology.[13] If an improvement was indeed severable then it might be freely exploited by the licensee independently of the contract. In that event, a contractual restriction obliging the licensee to give an exclusive licence of such an improvement to the

[9] TTBER Guidelines paras 129-130.
[10] TTBER Art.3; and Guidelines paras 79-83.
[11] Exclusive grant-backs and obligations to assign non-severable improvements are not restrictive of competition within the meaning of Article 101(1) since non-severable improvements cannot be exploited by the licensee without the licensor's permission: TTBER Guidelines 2004 para. 109.
[12] Art. 5(1)(a) Regulation 772/2004 TTBER 2004.
[13] TTBER Guidelines 2004 para. 109.

licensor, might well be anti-competitive within the meaning of the Chapter I prohibition and therefore denied the benefit of the block exemption.[14]

Arguably therefore, the scope of the current exemption might be considered overly broad, so far as it removes the exemption from all exclusive grant-backs, regardless of whether they concern severable or non-severable improvements. So far as exclusive grant-backs afford an incentive to licensors to consider the wider dissemination of technology, in removing the block exemption from all exclusive grant-backs, the TTBER increases uncertainty in the licensing of intellectual property.[15] Whether the TTBER of 2026 will retain the provision on improvements unchanged remains to be seen. At the very least if the current text of Art.5(1)(a) is maintained, in the event a licensing agreement falls outside the scope of the TTBER, an obligation on the licensee to grant-back improvements, even on a non-exclusive basis, should be carefully scrutinized, if it applies to improvements which could have other applications beyond the originally licensed field of use.

2. Non-challenge clauses

An obligation not to challenge the validity of the licensed patent is frequently employed by patentees as a means of securing it from strategic attack by the licensee. The TTBER of 2014 provides for the differential treatment of non-challenge and termination clauses depending on whether the type of licence granted is non-exclusive or exclusive.[16] Art.5(1)(b) removes non-challenge clauses[17] in non-exclusive patent licences from the block exemption, as follows:

> The exemption provided for in Article 2 shall not apply to …any direct or indirect obligation on a party not to challenge the validity of intellectual property rights which the other party holds in the Union…[18]

As a result, having been excluded from the block exemption, non-challenge clauses in the majority of technology licences for the production of goods, have to be assessed for possible infringement of competition law under Article 101(1).[19] Such an assessment imposes more

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[14] Likewise, the same reasoning would apply in the event the licensee's improvement becomes severable during the term of a licence agreement due to the expiration of the originally licensed technology: TTBER Guidelines 2004 para. 109.

[15] See, for example: 'Draft Proposal For A Revised Block Exemption For Technology Transfer Agreements And Guidelines', Policy Paper PP05/13 paras. 8 – 11: 'The IP Federation takes the view that agreements containing clauses permitting exclusive grant-backs and assignments of non-severable improvements should remain block exempted; and the Licensing Executives Society Deutsche Landesgruppe Germany (LESI), Evaluation of Technology Transfer Block Exemption Regulation and Guidelines, 2023 at 3, point 4: We propose to return to the 2004 rules as the current rules are not practicable and ignore the fact that the exclusionary effect of valid IP rights are not subject to competition law rules, i.e. do not fall within the scope of Art. 101 (1) TFEU.

[16] The UK Patents Act 1977 s.130(1) defines an exclusive patent license as a licence from the patent's proprietor or applicant that gives the licensee the right to the invention, excluding everyone else, including the proprietor or applicant. The licensee can work the patent within the agreed scope and can bring patent infringement proceedings in its own name. The TTBER also depends on the context in which the licence is signed, in particular, as part of a settlement agreement or not.

[17] Article 5(1)(b) TTBER also excludes termination clauses in non-exclusive patent licences from the block exemption on the basis that a licensor's right of termination can have the same effect as a non-challenge clause: TTBER Guidelines para.136.

[18] TTBER Art.5(1)(b): also expressly states that where a non-challenge or termination the clause is included in an exclusive licensing agreement, the clause will be automatically exempted. See the factors relevant to a breach of Art. 101 at 2 of this submission.

[19] UK Chapter I prohibition. Note that where such a restriction such as a non-challenge or grant-back clause is included in a licence agreement only the restriction in question would be excluded from the benefit of the

onerous requirements, apart from demonstrating that there would be no adverse impact on competition, it requires empirical evidence of efficiencies in the form of a contribution to technical and economic progress, as well as benefits to consumers.[20]

However, the TTBER states that a terminate-on-challenge clause is entitled to the safe harbour in exclusive licences providing that the parties satisfy the TTBER market share thresholds.[21] Thus, Art.5(1)(b) states that in the case of exclusive licences, the removal of the exemption is without prejudice to the possibility 'of providing for termination of the technology transfer agreement in the event that the licensee challenges the validity of any of the licensed technology rights.' The current scope of the exemption is based on the reasoning that a terminate-on-challenge clause in an exclusive licence is less likely to have anti-competitive effects.[22] Reflective of this approach, early Commission decisions concluded that exclusive licensing did not infringe Article 101(1) TFEU or alternatively were entitled to an exemption under Art.101(3)[23] Congruous with earlier decisions, the Commission Guidelines state that during the term of the agreement the exclusive licensor is likely to be in 'a situation of dependency' in relation to the licensee, so far as the income from royalties is concerned, especially, if the licensor were to be locked into an agreement with an exclusive licensee who no longer made a genuine effort to develop, produce or market the product.[24]

On the other hand, the fact that one party would be able to terminate the agreement on challenge to the validity of the licensed patent, might arguably allow the licensee an unfair advantage.[25] By comparison, the TTBER of 2004[26] permitted terminate-on-challenge clauses with respect to both exclusive and non-exclusive licences. While absolute non-challenge provisions were not automatically exempt, the TTBER of 2004 exempted terminate-on-challenge clauses, which at least allowed for the possibility of the licensor being able to terminate the agreement in the event the licensee challenged the patent's validity.[27] Therefore in practice, the inclusion of a non-challenge clause should be evaluated in relation to the particulars of each transaction. As the position stands, the partial removal of the block exemption for non-challenge clauses tilts the balance of bargaining power in favour of licensees, providing them with a possible instrument to use against licensors during the term

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block exemption: TTBER, Recital 15.

[20] Article 101(3) is based on the notion that notwithstanding the existence of a restriction on competition, efficiencies and benefits arising from the conduct which gave rise to the restriction may, nevertheless, justify exemption from the prohibition in article 101(1): Sainsbury's Supermarkets Ltd v Visa Europe Services LLC & Ors [2020] UKSC 24 [116].

[21] TTBER Art.3.

[22] C.f. the case of non-exclusive licences, where Article 5(1)(b) TTBER excludes from the safe harbour the right for the licensor to terminate the agreement, in the event that the licensee challenges the validity of the patent, since such a termination right can have the same effect as a non-challenge clause: TTBER Guidelines para.136.

[23] Commission Decision of 13 October 1988 relating to a proceeding under Article 85 of the EEC Treaty (IV/31.498 - Delta Chemie/DDD) 88/563/EEC: OJ L 309 15/11/1988 P. 0034 – 0043.

[24] TTBER Guidelines para.139.

[25] In submissions to the European Commission, stakeholders stressed the potential prejudice to licensors in the case of patent portfolio licensing arguing that affording limited protection against a challenge to the validity of the patent in situations where the licensee has been able to inspect the licensor's patent portfolio may constitute a disincentive to license: See Nokia Additional Comments on European Commission TTBER Consultation Questionnaire, Non-challenge and termination clauses, Ref. Ares(2023)5592508, 14/08/2023 Item 11.2: https://competition-policy.ec.europa.eu/public-consultations/2023-technology-transfer_en.

[26] The TTBER replaces Regulation 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements (OJ L 123, 27.4.2004, p. 11).

[27] Art.5(1)(c) Regulation 772/2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements (TTBER 2004); and Commission Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements (2004/C 101/02) (TTBER Guidelines 2004).

of the agreement.

Nevertheless, despite the removal of the block exemption and the risk that such a clause may be found void under Art.101(1), a licensor is more likely to favour the inclusion of a non-challenge on termination clause, as lending the transaction greater security. On balance of the parties' mutual interest in the licensed patent, a non-challenge clause might indeed provide a disincentive for a licensee to invalidate the patent. However, at a later point in the term of the contract, a licensee may decide that having assessed the possible financial loss, its enterprise has the resilience to risk challenging the validity of the patent and terminating the agreement. If a non-exclusive licensee is making such as assessment, then its knowledge that a non-challenge clause will not enjoy the benefit of the block exemption, is likely to be an important factor, not least in providing a possible basis for a complaint under competition law or given the termination of the licence, a defence to an action for patent infringement.

Of course, whether the TTBER of 2026 will retain the current differential position to non-challenge clauses or revert to the former approach, remains to be seen. Following the consultation with stakeholders, most likely non-exclusive patent licences will remain without the benefit of the block exemption, exposing them to possible claims under Art.101 TFEU.[28] At the very least, the exclusion of non-challenge and termination clauses from the TTBER risks creating a disincentive for right holders to license and thereby disseminate their technology. Arguably, the removal of the block exemption from non-challenge clauses sets small to medium business at a disadvantage. Consider for example, an SME[29] would-be licensor contemplating licensing to a major company whose substantial market presence makes it an indispensable business partner for the SME to obtain the maximum dissemination of its technology. If the licensor knows that, having granted a licence, it may be faced with a challenge from a licensee who is stronger financially and therefore well placed to invalidate the patent, the licensor may reluctant to grant a licence in the first place.

Moreover, the case of standard essential patents (SEPs) presents the parties with more complex considerations as to the inclusion and drafting of non-challenge clauses. Where the licensor's technology has a dominant market position, the disincentive to challenge the licensed patent may be high, all the more so if the licensee needs to find or is unable to find alternative technology. Where licensees must have the use of all patents reading those particular standards,[30] the decision whether to include a non-challenge clause in the licence will depend on such factors as the size of the patent portfolio, its territorial scope, the

[28] 'Regarding the exclusion from the block exemption of termination clauses in non-exclusive technology transfer agreements, 10 respondents expressed the view that that change had achieved its objectives, while 2 respondents answered negatively … One business organization which answered negatively was of the view that the current regime is too restrictive and damages licensors, while the 2004 version of the TTBER had struck a better balance between allowing parties to challenge invalid patents and protecting good faith in licensing negotiations': European Commission, 'Factual summary of the feedback to the public consultation on the evaluation of the Block Exemption Regulation on Technology Transfer Agreements and the accompanying Guidelines' at 8 – 9: https://competition-policy.ec.europa.eu/public-consultations/2023-technology-transfer_en.
[29] For a definition of small to medium enterprise (SME) see: https://www.eusmecentre.org.cn › uploads › 2022/12.
[30] Each generation of mobile technology, starting with second generation (2G), has brought further innovation in network standards. Most of the UK has access to either 4G or 5G mobile coverage. ETSI IPR Policy (November, 2022), clause 15(6) defines 'essential' as applied to a standard essential patent to refer to the fact that 'it is not possible on technical …grounds…to make, sell, lease, otherwise dispose of, repair, use or operate Equipment or Methods which comply with a standard without infringing that [patent]:' https://www.etsi.org/intellectual-property-rights.

remaining duration of patent protection and the pace of change in the field of technology. On the one hand, in view of the market dominance of the SEP holder, it may be advisable to permit the licensee to challenge any patent within the licensed patent portfolio, thereby minimizing the risk of infringing competition law and providing licensees with an incentive to accept the terms on offer.[31] On the other hand, should the licence include a non-challenge clause, in the event the licensee decides to challenge the validity of the SEPs, the parties risk a continuation of litigation.[32] In sum, it is not possible to draw a bright line when evaluating the inclusion of a non-challenge clause in FRAND-encumbered patent licences.[33]

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[31] See the Settled Licence, annexed to the judgment of the High Court which allowed the licensee to challenge patents’ validity: Unwired Planet International Ltd v Huawei Technologies Co Ltd & Anor [2017] EWHC 1304 (Pat) (remedies judgment). Of the contrary view see S. Lawrance ‘The Competition Law Treatment Of No-Challenge Clauses In Licence Agreements: An Unfortunate Revolution? (JIPLP Vol. 9 (10) 2014, at 810 - 811 arguing that in a non-exclusive FRAND patent licence if licensors are unable to include a non-challenge clause, it risks the perpetual continuation of the smartphone litigation, even after a settlement has apparently been reached.

[32] Ibid at 811.

[33] Further see GE Evans ‘Negotiating FRAND Encumbered Patent Licences' (JIPLP Vol.16 (10) 2021, 1091-1108).