Draft European Commission Block Exemption Regulation on Research and Development Agreements

An item in the December 2010 issue of *Trends and Events* (pages 6-8) reviewed block exemption regulations (BERs) under Article 101(3) of the Treaty on the Functioning of the European Union (TFEU),[1] and in particular the two BERs then most relevant to Federation members, namely Regulation 772/2004 on technology transfer agreements and Regulation 2659/2000 on research and development (R&D) agreements. The second of these was due to expire at the end of the month; and the item also set out the two key points in the Federation's submission on the Commission's draft replacement for 2659/2000.

It can now be reported that the replacement for 2659/2000 was indeed published by the Commission later in December 2010 (1217/2010), and came into force on 1 January 2011. Moreover, *the text did take full account of the Federation's two key points:-*

(i) 2659/2000 had explicitly stated that technical field of use restrictions between non-competitors were compatible with block exemption of an agreement containing them. In their draft of the replacement BER, the Commission had omitted any such statement. The Federation expressed concern at this, noting that such a restriction was permitted even between competitors under 772/2004. *The final text 1217/2010 permits field of use restrictions between both non-competitors and competitors (recital (15) and Article 1(o)).*

(ii) The Commission's draft of the replacement BER had introduced a quite new condition for exemption:

> "The parties must agree that prior to starting the research and development all the parties will disclose all their existing and pending intellectual property rights in as far as they are relevant for the exploitation of the results by the other parties."

It can be speculated that the Commission was concerned by the possibilities of "patent ambush" in R&D cooperation analogous to "patent ambush" in standards organisations. However, the Federation argued that any such analogy was invalid legally, and that the proposed condition would render the BER unworkable. *The offending condition was removed in 1217/2010.*

Despite these substantial improvements over the draft (and in respect (i) over the predecessor BER), 1217/2010 will frequently be difficult for many companies to use *directly*: as with the predecessor BER, the exemption and its duration depend on whether the parties are "competing undertakings" and, if they are, on a ≤ 25 % combined market share test (Article 4). However, the above improvements in the BER will make it easier to draft an agreement so that it falls within the BER save only in respect of Article 4, and later (if and when necessary) to obtain from a national Court or a competition authority a decision that the agreement is lawful under Article 101. (Such a decision may be on the basis that the agreement falls outside the prohibition of Article 101(1), or else on the basis that it does fall within Article 101(1) but is *individually exempted*, rather than block exempted, under Article 101(3). An exemption decision – though made at the time the matter arises,

[1] Article 101 of the TFEU corresponds to Article 85, later renumbered as 81, of the Treaty of Rome, which the TFEU supersedes.

for instance by a Court in the course of litigation concerning the agreement – has retrospective effect.)

It is suggested that if one wishes to maximise the chance that a national Court or a competition authority will find an agreement lawful, then the “hardcore” restrictions in Article 5 should be studied carefully and avoided if at all possible. These are mostly familiar: for instance, it is a hardcore restriction in an agreement to restrict a party in his choice of R&D collaborators (a) in fields unconnected with the R&D to be performed under the agreement, and/or (b) after the R&D under the agreement is complete; and, equally familiarly, restrictions on *passive* sales are hardcore.

However, Article 5(e) defines a noteworthy, new, and rather obscure hardcore restriction as follows:

> “the requirement not to make any, or to limit, active sales of the contract products or contract technologies into territories or to customers which have not been exclusively allocated to one of the parties by way of specialisation in exploitation.”

One may illustrate what seems to be the effect of Article 5(e) by the following specific example. Suppose two parties A and B, at the outset of an R&D cooperation, agree to allocate active rights to exploit the eventual results of the R&D so that A has rights in UK, France, and Germany and B in the rest of the world. This is apparently compatible with Article 5(e). *But*, if there is any territory where *neither* by A *nor* B has been allocated active rights, then –

(1) active sale by B in the unallocated territory risks infringement by B of A’s intellectual property rights, and *vice-versa*; and

(2) consequently (it is suggested), this is a hardcore restriction under Article 5(e), so long as (a) the unallocated territory is within the European Economic Area (EEA) or (b) the unallocated territory is outside the EEA but its non-allocation is intended to, or does, affect trade within the EEA.

Mike Jewess, 12 December 2011