North American Information Technology

Client Alert

North America | Baker & McKenzie

July 2004

New Competition Rules for Technology License Agreements in Europe

Effective May 1, 2004, the European Community ("EC") has enacted new competition rules for technology license agreements. The rules apply to any agreements which impact trade between countries within the European Economic Area, including patent and know-how license agreements, software license agreements, OEM agreements, and many other forms of license agreements. The rules include even global agreements between two U.S. companies, through which patents, know-how and/or software are licensed primarily for the purposes of production. The guidelines state that, although not specifically covered by the regulation, similar principles should be applied to master-licensing (where master media is supplied to a reseller who distributes and sub-licenses copies) and copyright licensing agreements (other than software copyright which is expressly covered).

At a minimum, licensors and licensees should determine as soon as possible whether any of their agreements contain any clauses that qualify as "hardcore restraints" under the new rules - such as certain forms of territory and customer allocations, resale restrictions, resale pricing requirements and limitations on independent development and output. Because of the EC's market integration agenda, the limitations imposed on territorial and customer group restrictions permitted by the new rules should be carefully observed. U.S. companies also often find that their agreements on joint development, grant backs and covenants not to compete do not comply with EC laws.

Restrictions other than those blacklisted in the new rules are automatically exempted within the market share safe harbors of 20% combined market share in the case of an agreement between competitors, and 30% market share with respect to each party in the case of non-competitors. The hardcore list is considerably more burdensome for agreements between competitors than non-competitors, reflecting the potentially greater risk to competition of the former. Outside of these safe harbors, each agreement requires assessment in its economic context.

Companies that have entered into agreements that violate EC competition laws (in particular, agreements containing "hardcore restraints") are subject to investigations, fines and injunctions by government authorities as well as private action by competitors, competition watchdog organizations and others. Unlawful restrictions are invalid.

The new rules apply immediately to all agreements being drafted as well as to all agreements that are already in effect. Only agreements which were exempt under the prior regime continue to be exempt until March 31, 2006. At this time, agreements will have to be brought in line with the new regulation. As the prior regime was very complicated and narrow in scope, this transitional exemption will often not be available to U.S. companies.

Even though the industry has criticized the new rules, most agree that the rules are a step in the right direction. For more indepth information, one can view the EC's published Regulation 772/2004 on the Application of Article 81(3) to Technology Transfer Agreements, along with accompanying official guidelines and background information at http://www.europa.eu.int/comm/competition/antitrust/legislation/entente3_en.html#technology.

For more information, please contact the following Baker & McKenzie Lawyers: Lothar Determann in San Francisco (lothar.determann@bakernet.com); Robbie Downing (robbie.downing@bakernet.com) and Bill Batchelor (bill.batchelor@bakernet.com) in London; or Joerg-Martin Schultze (joerg-martin.schultze@bakernet.com) and Stephanie Pautke (stephanie.pautke@bakernet.com) in Frankfurt.