



## TRANSFER OF TECHNOLOGY AGREEMENTS AND COMPETITION LAW

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### I. INTRODUCTION

The following text deals with the transfer of technology agreements. The report is divided into three parts. First, addressing the concerns as to relating the meaning of transfer of technology agreements and how they relate to the competition laws. Second, the problems that arise due to improper transfer of technology agreements. Materially dealing with concepts of patent pooling, exclusive licencing and restrictive clauses in these agreements causing the market foreclosure effect. Thirdly the regulations relating to the same internationally and suggesting the similar regulation for India.

### II. Meaning of Transfer of Technology Agreements

The technology and skills of individuals in society together combine the basis for successful economy, technology transfers are of great significance in the world economy. Society is abstract in nature and the needs of the people changes with the changes in time. Also, modernisation being the factor of

significance every nation, irrespective of it being developing or developed, needs new technology. According to the advancing needs of their own society. Leading to the need of acquiring and assigning the technologies internationally and domestically.<sup>1</sup>

With the advancements in the economies globally and the process of modernisation. The concept of technology transfer and technology diffusion has evolved in various sectors of the economy. Thereafter, the United Nations Conference on Trade and Development drafted regulations on the “Code of Conduct for Transfer of Technology Agreements”, which defined transfer of technology as “the transfer of systematic knowledge for the manufacture of a product, for the application of a process or for the rendering of a service and does not extend to the mere sale or lease of goods”.<sup>2</sup>

#### **Ways of Technology Transfer**

There are namely five ways through which technology can be transferred:

1. The assignment, sale and licensing of all forms of industrial property, except for trademarks, service marks and trade names when they are not part of technology transfer transactions;
2. The provision of know-how and technical expertise in the form of feasibility studies, plans, diagrams, models, instructions, guides, formulae, basic or detailed engineering designs, specifications and equipment for training, services involving technical advisory and managerial personnel, and personnel training;

<sup>1</sup> Fikentscher Wolfgang, Kunz-Hallstein Hans Peter, International transfer of technology: A perspective on the roles of antitrust, competition law, and trade, Delaware Law Review, 9(2006) 37.

<sup>2</sup> See, UNCTAD, Code of Conduct for Transfer of Technology Agreements, Available at <https://unctad.org/en/Docs/psiteitd28.en.pdf> [Last Accessed on 19<sup>th</sup> July 2019]



3. The provision of technological knowledge necessary for the installation, operation and functioning of plant and equipment, and turnkey projects;
4. The provision of technological knowledge necessary to acquire, install and use machinery, equipment, intermediate goods and/or raw materials which have been acquired by purchase, lease or other means;
5. The provision of technological contents of industrial and technical cooperation arrangements.<sup>3</sup>

It must also be material in this discussion that the concepts of technology diffusion and transfer are different. The prior, implies to the progressive adoption of the technology that may or may not be purposeful and without enforcement of agreements. The latter is a purposeful adoption of technology through enforcement of agreement.<sup>4</sup>

### Features of Technology Transfer

Technology transfer agreements have a number of special features:

- they involve the licensing of IPRs, usually in return for the payment of royalties (e.g. on a per unit or lump sum basis). The licensee acquires the right to manufacture the goods or otherwise use the licensor's technology. The licensor therefore needs to exercise a certain amount of continuing

control over the licensee to safeguard its IPRs;

- they differ from true assignments of IPRs, under which ownership is transferred completely to another party (often in exchange for a single upfront payment).<sup>5</sup> An assignor or vendor of IPRs generally has less scope to restrict the purchaser's use of the rights transferred; and
- they can bring about a cross-fertilisation of ideas, insofar as the licensee may further develop the technology. This can result in the parties subsequently cross-licensing their respective IPRs and possibly granting licences to third parties.

It could also be inferred that the transfer of technology helps to boost the R&D and in turn the economy of the country. The technology can be transferred from various sectors of the economy from the agriculture to assignment of software licences. Thus, the technology transfer of agreements holds an essential position in economies. The clauses and way these agreements are executed have the impact upon the market. Certain unreasonable conditions that could be imposed by the transferors may adversely affect the market or cause market foreclosure.

The underlying philosophy of the approach is that technology transfer agreements are

<sup>3</sup> See, UNCTAD, TRANSFER OF TECHNOLOGY AND KNOWLEDGE SHARING FOR DEVELOPMENT Science, technology and innovation issues for developing countries, Available at: <https://unctad.org/en/docs/psiteiitd28.en.pdf>

<sup>4</sup> *Ibid* at 3;

<sup>5</sup> Slaughter and May, The EU competition rules on intellectual property licensing: A guide to the European

Commission's Technology Transfer Block Exemption Regulation and competition issues relating to IP licensing and enforcement, Available at: <https://www.slaughterandmay.com/media/2536585/the-eu-competition-rules-on-intellectual-property-licensing.pdf> [Last Accessed:23 July 2019].

<sup>6</sup> European Union, Technology Transfer Guidelines, para. 261.



generally good for society, because they foster innovation and normally bring about short and long-term benefits for consumers. Nonetheless, these agreements may entail anti-competitive effects: for example, exclusive agreements may restrict competition; or grant-back clauses – under which the licensee has to disclose and transfer all improvements to the licensor – may reduce the incentive for innovation by reducing the expected reward for risky investments. Under certain conditions, agreements between competitors can also foster collusion or generally determine an increase in the price paid by end consumers.<sup>7</sup>

### III. Technology Transfers And Its Conflicts with Competition Law

This part deals with the how the transfer of technology agreements raises competition concerns. Transfer of Technology agreements may contain clauses that might affect the competition. As a result, most of the literature in licensing contracts relates to the possible clauses and conflicts with antitrust policy and law.<sup>8</sup> Some instances may include conditions restraining the licensee from competing in the unrelated market, the illegal tying in agreements in forms of licenses and cases of patent pooling in competing technology in order to form cartels.<sup>9</sup>

Technology transfer may impose vertical restraints or horizontal restraints. Vertical restraints refer to the limitations imposed between different levels of the market, for example, those imposed by a manufacturer on a dealer. Horizontal restraints, on the other hand refers to a restraint by one competition to another at the level of the market. For example, those imposed by one producer of the product A on another producer of product A. Horizontal restraints appears to be more restrictive trade practise.<sup>10</sup>

These agreements may include:

#### **Patent Pooling**

A 'patent pool' refers to licensing arrangements wherein two or more patent holders license their patents to each other or co-license their patents to a third-party.<sup>11</sup> It must be obvious that these agreements may raise competition concerns. By pooling amounting to horizontal agreements, jointly monopolising the market by exclusive license or refuse to licence by preventing the competitor in relevant market.

#### **Licensing Practices**

In general, there are authorities and legislation different from the competition law concerns dealing with the 'reasonability' of the clauses in the licensing agreements. But there are certain agreements in this parlance that lead to the territorial restrictions, non-compete clauses or the clauses that so adversely affect the market. These are the clauses in such agreements that raise the

<sup>7</sup> MARIO MARINIELLO AND MARCO ANTONIELLI, The new competition rules for technology transfer agreements, Available at: <https://bruegel.org/2013/05/the-new-competition-rules-for-technology-transfer-agreements/>, [ Last Accessed 22th July 2019].

<sup>8</sup> Aditya A. Kutty and Sindhura Chakravarty, The Competition-IP Dictomy: Challenges in Technology

Transfer Licenses, Available at <http://nopr.niscair.res.in/bitstream/123456789/11976/1/JIPR%2016%283%29%20258-266.pdf> [ Last Accessed 22th July 2019].

<sup>9</sup> *Ibid* at 1;

<sup>10</sup> Pearlstein Debra J, ABA Section of Antitrust Law: Antitrust law developments, Vol. 1, 5<sup>th</sup> edition, 2002.

<sup>11</sup> *Ibid* at 1;



competition law concerns. Thus it is apparent that on imposition of certain requirement or clauses, technology transfer licenses may result in severe restraints on the competition prevalent in market. These licenses are therefore ought to be governed by the competition laws.<sup>12</sup>

#### **IP and tying in agreements**

Under Such agreements the licensee required to procure certain goods from the patentee, thus foreclosing market opportunities for other producers. Generally linking multiple intellectual property products and offering them as a license to the users.<sup>13</sup> It could be the case where the sale of patented product is subject to the sale of unpatented product. In some cases, there could be a technological tie up, where the tying and the tied products are bundled together physically or produced in such a way that they are compatible with each other.<sup>14</sup>

Abovementioned conditions are possible so as to affect the market equilibrium. Further, these are the primary concern on which this report is based on. The implications of these concerns are not trivial, rather, they have an impact on the economy.

This section of the report deals with the legislations on competition law governing the transfers of technology agreements.

#### **IV. Transfer of Technology Block Chain Regulations in European Union**

The principal rules of EU competition law relating to technology licensing are set out in the European Commission's Technology Transfer Block Exemption Regulation ("TTBER") and Guidelines on Technology Transfer Agreements ("Guidelines") (collectively, the "TTBER and Guidelines"). The TTBER provides a "block exemption" that shields certain types of agreements from EU antitrust scrutiny, while the Guidelines explain the TTBER and provide additional guidance on the EU competition law analysis of technology transfer agreements that do not fall within the scope of the TTBER. Agreements not falling within the block exemption are:

- (i) subject to a case-by-case analysis of their competitive effects using the analytical methodology set forth in the Guidelines or
- (ii) presumed to be a violation if they fall within the "hardcore" restrictive provisions identified in the TTBER.<sup>15</sup>

These block chain exemptions are applicable to only a category of agreements. The TTBER is only available for technology transfer agreements between two parties. The Technology Transfer

<sup>12</sup> *Ibid* at 6;

<sup>13</sup> *Ibid* at 6;

<sup>14</sup> Kathleen A. Dorton, Intellectual Property Tying Arrangements: Has the Market Power Presumption Reached the End of Its Rope, DePaul Law Review, Volume 57 Issue 2 Winter 2008: Symposium - Challenges to the Attorney-Client Relationship: Threats to Sound Advice?, Available at: <https://via.library.depaul.edu/cgi/viewcontent.cgi?referer=https://www.google.com/&httpsredir=1&article=1263&context=law-review> [ Last Accessed 22th July 2019].

<sup>15</sup> Commission Regulation (EU) No .../..of XXX on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements; Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements.



Guidelines do, however, provide guidance for the appraisal of multi-party agreements. For example, while the TTBER does not apply to agreements setting up technology pools nor to licensing out from these pools,<sup>16</sup> the Guidelines provide a ‘safe harbour’ so that the creation and operation of such pools should fall outside of Article 101(1) if they fulfil certain conditions.

The TTBER only applies to licence agreements entered into for the purpose of producing the contract products. Where the parties do not exploit the licensed technology (for example, if the intention is simply to block the development of a competing technology), the agreement will not be covered by the TTBER. Furthermore, when competing parties fail to exploit the licensed technology, this could arouse suspicions of disguised anti-competitive conduct.<sup>17</sup>

### MEANING OF ‘SAFE HARBOUR’

The TTBER is consistent with the approach in other block exemption regulations, seeking to apply an economic effects approach to analysing agreements rather than concentrating on legal form.<sup>18</sup> It is primarily concerned with prohibiting ‘hardcore’ restrictions such as price fixing, output or sales restrictions and market sharing. Any restriction not expressly prohibited by the TTBER is permitted,

the agreement satisfies the TTBER ‘safe harbour’ criteria. This requires an analysis of the competitive position of the parties and technology in the relevant markets.

Consistent with its more economic and effects-based approach towards vertical agreements and horizontal cooperation, the Commission is more inclined to accept that technology licences between non-competitors, even if exclusive, generally do not restrict competition.<sup>19</sup>

The TTBER provides a blanket exemption or ‘safe harbour’ for all technology transfer agreements falling within its scope and meeting certain criteria. The following could be considered as the factors of ascertainment.

- i. whether the parties to the agreement are competitors;
- ii. what market shares are attributable to each party; and
- iii. whether the agreement contains any problem clauses (hardcore or excluded restrictions).

<sup>16</sup> Technology Transfer Guidelines, para. 247. Licensing out from the pool is considered to be a multi-party agreement as the contributors commonly determine the conditions for licensing the technology package.

<sup>17</sup> Slaughter and May, *The EU competition rules on intellectual property licensing: A guide to the European Commission’s Technology Transfer Block Exemption Regulation and competition issues relating to IP licensing*

and enforcement, Available at: <https://www.slaughterandmay.com/media/2536585/the-eu-competition-rules-on-intellectual-property-licensing.pdf> [Last Accessed: 23 July 2019].

<sup>18</sup> *Ibid* at 17;

<sup>19</sup> Slaughter and May, *The EU competition rules on vertical agreements*.



## V. Section 3(5) of Competition Act

The Competition Commission of India under the Competition Act, 2002 aims to regulate the market. Also, to keep a check for the anti-competitive practices. The section 3(5) of said Act deals with such agreements. Further, from the interpretation we may infer that, the clauses which promote monopoly could be considered as reasonable. But, on the other hand, the clause which adversely affect the market or cause market foreclosure are not 'reasonable' thus void.

It must also be noted that the ambit of reasonableness is not reasonable. As different thresholds of reasonability may be present by different interpretations.

Some of arrangements described above in technology transfer agreements are likely to affect adversely the prices, quantities, quality or varieties of goods and services will fall within the contours of competition law as long as they are not in reasonable; juxtaposition with the bundle of rights that go with intellectual property rights. Therefore, the unreasonable conditions are not covered under the protection given by Section 3 (5) of the Competition Act 2002 and therefore Competition Commission of India may be called upon take note of anti-competitive agreement under Section 19 of the Competition Act 2002 and such agreements can be declared void.<sup>20</sup>

Although, the ambit of the Act is defined to the Commission. But the law in current scenario does not provide 'safe harbour' conditions for the effortless transfer of technology. If the conditions in the market promote the effortless transfer of technology that would result in the boost the economy in hands with modernisation.

## VI. CONCLUSION

The report dealt with the meaning of transfer of technology agreements and their interplay with competition law. Firstly, explaining the technology and how it impacts the lives of the people. Also, how technology transfer gradually leads to technology diffusion. The meaning and implications of transfer of technology agreements. Essential features of these agreements and the procedure of forming them.

Secondly, the interaction of transfer of technology agreements with the competition law. The ways and already established practices liked patent pooling, licensing clauses etc that cause the market foreclosure effect. The ways and means by which the competition of the market is affected. Further, the clauses being restrictive in nature cause.

Therefore, these agreements may restrain the market economy. The Commission has the

<sup>20</sup> See, Prashant Kumar, Technology Transfer Agreement: Intellectual Property Rights And Competition Law, Available at: <http://www.mondaq.com/india/x/382680/Trademark/Technology+Transfer+Agreement+Intellectual+Property+Rights+And+Competition+Law> [ Last Accessed:23 July 2019].



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duty and the power to regulate market. Through the it is put in the light the, these agreements must be regulated on the condition or clauses prohibiting competition in the market. Such regulation is essential for the overall growth, benefit and development of the society. The diffusion is technology essential for the improvement of resource and development in the society in an economy. If through regulation the such technological transfer becomes effortless, it would eventually lead to the technology diffusion and development of domestic infrastructure.

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