L.N. 176 of 2002

COMPETITION ACT
(CAP. 379)

Technology Transfer Agreements (Block Exemption) Regulations, 2002

IN exercise of the powers conferred by subarticle (1) of article 8 of the Competition Act, the Minister for Economic Services, after consultation with the Director of the Office for Fair Competition, has made the following regulations:-

Citation and commencement.

1. (1) The title of these regulations is the Technology Transfer Agreements (Block Exemption) Regulations, 2002.

(2) These regulations shall come into force on the 1st July, 2002 and shall have effect until the 30th June, 2006.

Scope.

2. These regulations specify the block exemption subject to such conditions and limitations and as applicable to categories of technology transfer agreements in terms of subarticle (1) of article 5 of the Act.

Interpretation.

3. (1) In these regulations, unless the context otherwise requires -

"Act" means the Competition Act, which regulates competition and provides for fair trading in Malta;

"ancillary provisions" are provisions relating to the exploitation of intellectual property rights other than patents, which contain no obligations restrictive of competition other than those also attached to the licensed know-how or patents and exempted under these regulations;

"Commission" means the Commission for Fair Trading as provided for under the Act;

"competing manufacturers" or manufacturers of "competing products" means manufacturers who sell products which, in view of their characteristics, price and intended use, are considered by users to be interchangeable or substitutable for the licensed products;

"connected undertakings" means -

(a) undertakings in which a party to the agreement, directly or indirectly -

- owns more than half the capital or business assets, or

- has the power to exercise more than half the voting rights, or

- has the power to appoint more than half the members of the supervisory board, board of directors or bodies legally representing the undertaking, or

- has the right to manage the affairs of the undertaking;

(b) undertakings which, directly or indirectly, have in or over a party to the agreement the rights or powers listed in (a);

(c) undertakings in which an undertaking referred to in (b), directly or indirectly, has the rights or powers listed in (a);(d) undertakings in which the parties to the agreement or undertakings connected with them jointly have the rights or powers listed in (a): such jointly controlled undertakings are considered to be connected with each of the parties to the agreement;

"Director" means the director of the Office for Fair Competition as provided for under the Act;

"exploitation" refers to any use of the licensed technology in particular in the production, active or passive sales in Malta even if not coupled with manufacture, or leasing of the licensed products;

"intellectual property rights" includes industrial property rights, copyright and neighbouring rights;

"know-how" means a body of technical information that is secret, substantial and identified in any appropriate form; "secret" means that the know-how package as a body or in the precise configuration and assembly of its components is not generally known or easily accessible; "substantial" means that the know-how includes information which must be useful, that is which can

reasonably be expected at the date of conclusion of the agreement to be capable of improving the competitive position of the licensee; "identified" means that the know-how is described or recorded in such a manner as to make it possible to verify that it satisfies the criteria of secrecy and substantiality and to ensure that the licensee is not unduly restricted in his exploitation of his own technology;

"the licensed products" are goods or services the production or provision of which requires the use of the licensed technology;

"licensed technology" means the initial manufacturing know-how or the necessary product and process patents, or both, existing at the time the first licensing agreement is concluded, and improvements subsequently made to the know-how or patents, irrespective of whether and to what extent they are exploited by the parties or by other licensees;

"the licensed territory" is the territory covering all or part of Malta where the licensee is entitled to exploit the licensed technology;

"the licensee's market share" means the proportion which the licensed products and other goods or services provided by the licensee, which are considered by users to be interchangeable or substitutable for the licensed products in view of their characteristics, price and intended use, represent the entire market for the licensed products and all other interchangeable or substitutable goods and services in Malta or part thereof;

"obligation" means a contractual obligation or a concerted practice;

"territory of the licensor" means territories in Malta in which the licensor has not granted any licences for patents and/or know-how covered by the licensing agreement.

Block Exemption.

4. (1) Subject to the provisions of these regulations, there shall be exempted from the provisions of subarticle (1) of article 5 of the Act technology transfer agreements to which only two undertakings are party and whereby one party (the "licensor") permits the other party (the "licensee") to exploit an invention which is protected by a patent within the meaning of the Patents Act, and know-how, together or separately (hereinafter "pure patent or pure know-how or mixed licensing agreements"), including those agreements containing ancillary provisions relating to intellectual property rights other than patents, and which include one or more of the following obligations –

(a) an obligation on the licensor not to license other undertakings to exploit the licensed technology in the licensed territory;

(b) an obligation on the licensor not to exploit the licensed technology in the licensed territory himself;

(c) an obligation on the licensee not to exploit the licensed technology in the territory of the licensor;

(d) an obligation on the licensee not to manufacture or use the licensed product, or use the licensed process, in territories which are licensed to other licensees;

(e) an obligation on the licensee not to pursue an active policy of putting the licensed product on the market in the territories which are licensed to other licensees, and in particular not to engage in advertising specifically aimed at those territories or to establish any branch or maintain a distribution depot there;

(f) an obligation on the licensee not to put the licensed product on the market in the territories licensed to other licensees in response to unsolicited orders;

(g) an obligation on the licensee to use only the licensor's trademark or get up to distinguish the licensed product during the term of the agreement, provided that the licensee is not prevented from identifying himself as the manufacturer of the licensed products;

(h) an obligation on the licensee to limit his production of the licensed product to the quantities he requires in manufacturing his own products and to sell the licensed product only as an integral part of or a replacement part for his own products or otherwise in connection with the sale of his own products, provided that such quantities are freely determined by the licensee.

(2) The block exemption shall apply to licensing agreements as follows -

(a) in respect of licences for patents, until the end of the term of validity of the patent;

(b) in respect of know-how licences -

- the obligations contained in paragraphs (a) to (e), both inclusive, of subregulation (1) shall be exempted for a period not exceeding ten years from the date when the licensed product is first put on the market in Malta by one of the licensees;

- the obligation contained in paragraph (f) shall be exempted for a period not exceeding five years from the date when the licensed product is first put on the market in Malta by one of the licensees;

- the obligations contained in paragraphs (g) and (h) shall be exempted during the lifetime of the agreement:

Provided that in each case the know-how remains secret and substantial.

(3) The block exemption shall also apply to pure patent or know-how licensing agreements or to mixed agreements whose initial duration is automatically prolonged by the inclusion of any new improvements, whether patented or not, communicated by the licensor, provided that the licensee has the right to refuse such improvements or each party has the right to terminate the agreement at the expiry of the initial term of an agreement and at least every three years thereafter.

Applicability of the Block Exemption.

5. (1) The block exemption shall apply notwithstanding the inclusion of any of the following obligations in a licensing agreement -

(a) an obligation on the licensee not to divulge the know-how communicated by the licensor; the licensee may be held to this obligation after the agreement has expired;

(b) an obligation on the licensee not to grant sublicences or assign the licence;

(c) an obligation on the licensee not to exploit the licensed know-how or patents after termination of the agreement in so far and as long as the know-how is still secret or the patents are still in force;

(d) an obligation on the licensee to grant to the licensor a licence in respect of his own improvements to or his new applications of the licensed technology, provided that -

- in the case of severable improvements, such a licence is not exclusive, so that the licensee is free to use his own improvements or to license them to third parties, in so far as that does not involve disclosure of the know-how communicated by the licensor that is still secret; and - the

licensor undertakes to grant an exclusive or non-exclusive licence of his own improvements to the licensee;

(e) an obligation on the licensee to observe minimum quality specifications, including technical specifications, for the licensed product or to procure goods or services from the licensor or from an undertaking designated by the licensor, in so far as these quality specifications, products or services are necessary for -

- a technically proper exploitation of the licensed technology; or

- ensuring that the product of the licensee conforms to the minimum quality specifications that are applicable to the licensor and other licensees;and to allow the licensor to carry out related checks;

(f) obligations to inform the licensor of misappropriation of the know-how or of infringements of the licensed patents or to take or to assist the licensor in taking legal action against such misappropriation or infringements;

(g) an obligation on the licensee to continue paying the royalties:

- until the end of the agreement in the amounts, for the periods and according to the methods freely determined by the parties, in the event of the know-how becoming publicly known other than by action of the licensor, without prejudice to the payment of any additional damages in the event of the know-how becoming publicly known by the action of the licensee in breach of the agreement;

- over a period going beyond the duration of the licensed patents, in order to facilitate payment;

(h) an obligation on the licensee to restrict his exploitation of the licensed technology to one or more technical fields of application covered by the licensed technology or to one or more product markets;

(i) an obligation on the licensee to pay a minimum royalty or to produce a minimum quantity of the licensed product or to carry out a minimum number of operations exploiting the licensed technology;

(j) an obligation on the licensor to grant the licensee more favourable terms than the licensor may grant to another undertaking after the agreement is entered into;

(k) an obligation on the licensee to mark the licensed product with an indication of the licensor's name or of the licensed patent;

(l) an obligation on the licensee not to use the licensor's technology to construct facilities for third parties; this is without prejudice to the right of the licensee to increase the capacity of his facilities or to set up additional facilities for his own use on normal commercial terms, including the payment of additional royalties;

(m) an obligation on the licensee to supply only a limited quantity of the licensed product to a particular customer, where the licence was granted so that the customer might have a second source of supply inside the licensed territory; this provision shall also apply where the customer is the licensee, and the licence which was granted in order to provide a second source of supply provides that the customer is himself to manufacture the licensed products or to have them manufactured by a subcontractor;

(n) a reservation by the licensor of the right to exercise the rights conferred by a patent to oppose the exploitation of the technology by the licensee outside the licensed territory;

(o) a reservation by the licensor of the right to terminate the agreement if the licensee contests the secret or substantial nature of the licensed know-how or challenges the validity of licensed patents within Malta belonging to the licensor or undertakings connected with him;

(p) a reservation by the licensor of the right to terminate the licence agreement of a patent if the licensee raises the claim that such a patent is not necessary;

(q) an obligation on the licensee to use his best endeavours to manufacture and market the licensed product;

(r) a reservation by the licensor of the right to terminate the exclusivity granted to the licensee and to stop licensing improvements to him when the licensee enters into competition with the licensor, with undertakings connected with the licensor or with other undertakings in respect of research and development, production, use or distribution of competing products, and to require the licensee to prove that the licensed know-how is not being used

for the production of products and the provision of services other than those licensed.

(2) The block exemption shall further apply to –

(a) agreements where the licensor is not the holder of the know-how or the patentee, but is authorised by the holder or the patentee to grant a licence;

(b) assignments of know-how, patents or both where the risk associated with exploitation remains with the assignor, in particular where the sum payable in consideration of the assignment is dependent on the turnover obtained by the assignee in respect of products made using the know-how or the patents, the quantity of such products manufactured or the number of operations carried out employing the know-how or the patents;

(c) licensing agreements in which the rights or obligations of the licensor or the licensee are assumed by undertakings connected with them.

Non-applicability of Block Exemption.

6. (1) The exemptions contained in regulation 4(1) and regulation 5 shall not apply where –

(a) one party is restricted in the determination of prices, components of prices or discounts for the licensed products;

(b) one party is restricted from competing with the other party, with undertakings connected with the other party or with other undertakings in respect of research and development, production, use or distribution of competing products without prejudice to the provisions of regulation 5(1)(q) and (r);

(c) one or both of the parties are required without any objectively justified reason:

- to refuse to meet orders from users or resellers in their respective territories who would market products in other territories within Malta; - to make it difficult for users or resellers to obtain the products from other resellers within Malta, and in particular to exercise intellectual property rights or take measures so as to prevent users or resellers from obtaining outside, or from putting on the market in the licensed territory products which have been lawfully put on the market in Malta by the licensor or with his consent;or do so as a result of a concerted practice between them;

(d) the parties were already competing manufacturers before the grant of the licence and one of them is restricted, within the same technical field of use or within the same product market, as to the customers he may serve, in particular by being prohibited from supplying certain classes of user, employing certain forms of distribution or, with the aim of sharing customers, using certain types of packaging for the products, except as provided in regulation 4(1)(g) and regulation 5(1)(m);

(e) the quantity of the licensed products one party may manufacture or sell or the number of operations exploiting the licensed technology he may carry out are subject to limitations, except as provided in regulation 4(1)(h) and regulation 5(1)(m);

(f) the licensee is obliged to assign in whole or in part to the licensor rights to improvements to or new applications of the licensed technology;

(g) the licensor is required, albeit in separate agreements or through automatic prolongation of the initial duration of the agreement by the inclusion of any new improvements, for a period exceeding that contained in regulation 4(2) and (3) not to license other undertakings to exploit the licensed technology in the licensed territory, or a party is required for a period exceeding that contained in regulation 4(2) and (3) not to exploit the licensed technology in the territory of the other party or of other licensees.

(2) The block exemption shall further not apply to -

(a) agreements between members of a patent or know-how pool which relate to the pooled technologies;

(b) licensing agreements between competing undertakings which hold interests in a joint venture, or between one of them and the joint venture, if the licensing agreements relate to the activities of the joint venture;

(c) agreements under which one party grants the other a patent and/or know-how licence and in exchange the other party, albeit in separate agreements or through connected undertakings, grants the first party a patent, trademark or know-how licence or exclusive sales rights, where the parties are competitors in relation to the products covered by those agreements;

(d) licensing agreements containing provisions relating to intellectual property rights other than patents which are not ancillary;

(e) agreements entered into solely for the purpose of sale.

Withdrawal by Commission.

7. The Commission is hereby granted the power to withdraw the benefit of this block exemption when it finds in a particular case, on a request by the Director, that any agreement which is exempted by these regulations nevertheless has effects which are incompatible with the conditions provided for in subarticle (1) of article 7 of the Act, and in particular where -

(a) the effect of the agreement is to prevent the licensed products from being exposed to effective competition in the licensed territory from identical goods or services or from goods or services considered by users as interchangeable or substitutable in view of their characteristics, price and intended use, which may in particular occur where the licensee's market share exceeds forty per centum;

(b) without prejudice to regulation 4 (1)(f), the licensee refuses, without any objectively justified reason, to meet unsolicited orders from users or resellers in the territory of other licensees;

(c) the parties, without any objectively justified reason, refuse to meet orders from users or resellers in their respective territories who would market the products in other territories within Malta; or make it difficult for users or resellers to obtain the products from other resellers, and in particular where they exercise intellectual property rights or take measures so as to prevent resellers or users from obtaining outside, or from putting on the market in the licensed territory products which have been lawfully put on the market by the licensor or with his consent;

(d) the parties were competing manufacturers at the date of the grant of the licence and obligations on the licensee to produce a minimum quantity or to use his best endeavours as referred to in regulation 5(1) (i) and (q) respectively have the effect of preventing the licensee from using competing technologies.

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