

DRAFT REGULATION
ON TECHNOLOGY TRANSFER AGREEMENTS EXEMPT FROM THE
PROHIBITION

Subject matter

Article 1

This Regulation shall regulate categories of technology transfer agreements and more closely stipulate special conditions under which those agreements may be exempt from the prohibition.

Provisions of this Regulation shall not apply to research and development agreements and to specialization agreements.

Meaning of terms

Article 2

For the purposes of this Regulation, the following terms within the given meaning shall apply:

1) **‘technology’** means know-how and following rights, or a combination thereof: patent, petty patent, industrial design, topographies of semiconductor products, supplementary protection certificates for medicinal products or plant health products, plant breeder’s certificates and software copyrights, including applications for or applications for registration of those rights;

2) **‘technology transfer agreement’** means agreement entered into between two undertakings on:

a) **a technology rights licensing agreement (license agreement)** for the purpose of the production of contract products by the licensee and/or its sub-contractor(s);

b) **an assignment of technology rights** for the purpose of the production of contract products where part of the risk associated with the exploitation of the technology remains with the assignor;

3) **‘reciprocal agreement’** means a technology transfer agreement where two undertakings grant each other, in the same or separate contracts, a technology rights license (license agreement), and where those licenses concern competing technologies or can be used for the production of competing products;

4) **‘non-reciprocal agreement’** means a technology transfer agreement where one undertaking grants another undertaking a technology rights license, or where two undertakings grant each other such a license but where those licenses do not concern competing technologies or cannot be used for the production of competing products;

5) **‘product’** means goods or a service, including both intermediary goods and services and final goods and services;

6) **‘contract product’** means a product produced, directly or indirectly, on the basis of the

licensed technology rights;

7) **'intellectual property rights'** includes industrial property rights, in particular patents and trademarks, copyright and neighboring rights;

8) **'know-how'** means a package of practical non-patent knowledge and practical information resulting from experience and testing, which are secret (not generally known or easily accessible), substantial (significant and useful for the production of the contract products or implementation of contract process) and identified (described in a sufficiently comprehensive manner so as to make it possible to verify that it fulfils the criteria of secrecy and substantiality);

9) **'relevant product market'** means the market for the contract products and their substitutes, that is to say all those products which are regarded as interchangeable or substitutable by the buyer, by reason of the products' characteristics, their prices and their intended use;

10) **'relevant technology market'** means the market for the licensed technology rights and their substitutes, that is to say all those technology rights which are regarded as interchangeable or substitutable by the licensee, by reason of the technology rights' characteristics, the royalties payable in respect of those rights and their intended use;

11) **'relevant geographic market'** means the area in which the undertakings concerned are involved in the supply of and demand for products or the licensing of technology rights, in which the conditions of competition are sufficiently homogeneous and which can be distinguished from neighboring areas because the conditions of competition are appreciably different in those areas;

12) **'relevant market'** means the combination of the relevant product or technology market with the relevant geographic market;

13) **'competing undertakings'** means undertakings which compete on the same relevant market, that is to say:

a) **competing undertakings on the relevant market where the technology rights are licensed**, that is to say, undertakings which license out competing technology rights (actual competitors on the relevant market);

b) **competing undertakings on the relevant market where the contract products are sold**, that is to say, undertakings which, in the absence of the technology transfer agreement, would both be active on the relevant market(s) on which the contract products are sold (actual competitors on the relevant market) or which, in the absence of the technology transfer agreement would in response to a small and permanent increase in relative prices, be likely to undertake, within a short period of time, the necessary additional investments or other necessary switching costs to enter the relevant market(s) (potential competitors on the relevant market);

14) **'horizontal technology transfer agreements'** means agreements entered into between competitors;

15) **'vertical technology transfer agreements'** means agreements entered into between non-competitors;

16) **'selective distribution system'** means a distribution system where the licensor undertakes to license the production of the contract products, either directly or indirectly, only to licensees selected on the basis of specified criteria and where those licensees undertake not to sell the contract products to unauthorized distributors within the territory reserved by the licensor to operate

that system;

17) **‘exclusive license’** means a license under which the licensee acquires exclusive licensed technology rights, whereas 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, in general or for a particular use or in a particular territory;

18) **‘exclusive territory’** means a given territory within which only one undertaking as a licensee is allowed to produce the contract products, but where it is nevertheless possible to allow another licensee to produce the contract products within that territory only for a particular customer where the second license was granted in order to create an alternative source of supply for that customer;

19) **‘exclusive customer group’** means a group of customers to which only one party to the technology transfer agreement is allowed to actively sell the contract products produced with the licensed technology;

20) **‘active sales’** means the allocation of markets and actively approaching individual customers or specific group of consumers inside another distributor’s exclusive territory and acting toward selling products to those customers by, for instance, direct mail and email or visits, through advertisement in the media or other promotions specifically targeted at that customer group or customers in that territory, or by establishing subsidiaries, branches or organizational units in another distributor’s exclusive territory on the objective of approaching customers and organization of sales, as well as entering into individual agreements with those consumers;

21) **‘passive sales’** means sales in response to unsolicited requests from individual customers including delivery of goods or services to such customers reserved for other distributor(s) as party to the agreement, including sales generated by general advertising or promotion in media or on the Internet that reaches customers in other distributors’ exclusive territories or customer groups, whereas the said is the result of free and unlimited access to advertised message on the part of every customer or group of customers.

Agreements exempt from the prohibition

Article 3

Technology transfer agreements are exempt from the prohibition owing to fulfilment of the conditions stipulated in this Regulation and if do not contain restrictions listed herein.

The exemption provided for in Paragraph 1 hereof shall apply for as long as the licensed technology rights have not expired, lapsed or been declared invalid pursuant to special regulations.

If the subject of the technology transfer agreements is know-how, the exemption provided for in Paragraph 1 hereof shall apply for as long as the know-how remains secret. However, where know-how becomes publicly known as a result of action by the licensee, the exemption shall apply for the duration of the agreement.

The exemption provided for in Paragraph 1 hereof shall also apply to all provisions in technology transfer agreements which relate to the purchase of products by the licensee, or which relate to the licensing of other intellectual property rights or assignment of know-how to the licensee,

if, and to the extent that, those provisions are directly related to the production or sale of the contract products.

Market-share thresholds

Article 4

The exemption provided for in Article 3 herein shall apply to horizontal technology transfer agreements on condition that the combined market share of the parties to the agreement does not exceed 20% on the relevant market(s).

The exemption provided for in Article 3 herein shall apply to vertical agreements on condition that the market share of each of the parties to the agreement does not exceed 25% on the relevant market(s).

For the purposes of applying the market-share thresholds, the market share shall be foremost calculated on the basis of generated revenue relating to the preceding financial year, while if relevant revenue generated on the relevant market are not available, market share of the undertaking concerned shall be determined on the basis of generated turnover, whereby these values shall also include generated value or turnover volume of all affiliated parties of parties to the agreement.

The market share of a licensor on a relevant market for the licensed technology rights shall be calculated on the basis of the presence of the licensed technology rights on the relevant market(s) (that is the product market(s) and the geographic market(s)) where the contract products are sold, that is on the basis of the sales data relating to the contract products produced by the licensor and its licensees combined on the relevant geographic market(s) and relevant product market(s).

If the market share of parties to the agreement is initially not more than determined maximum, but subsequently rises above those levels due to increase of revenue or turnover volume laid down in Paragraphs 1 and 2 hereof, the exemption provided for in Article 3 herein shall continue to apply for a period of two consecutive calendar years following the year in which the 20% threshold or 25% threshold was first exceeded.

Non-applicability of exemption to horizontal agreements

Article 5

The exemption shall not apply to horizontal technology transfer agreements that directly or indirectly, in isolation or in combination with other factors under the control of the parties to the agreement contain restrictions that as their object have any of the following:

- 1) the restriction of a party's ability to determine its prices when selling products to third parties;
- 2) the limitation of output and sales of contract products, except limitations on the output and sales of contract products imposed on the licensee in a non-reciprocal agreement or imposed on only one of the licensees in a reciprocal agreement;
- 3) the allocation of markets or customers;
- 4) the restriction of the licensee's ability to exploit its own technology rights or the restriction of the ability of any of the parties to the agreement to carry out research and development, unless such

latter restriction is indispensable to prevent the disclosure of the licensed know-how to third parties.

Technology transfer agreement from Paragraph 1, Item 3 hereof, if considered as a non-reciprocal agreement, shall not have as its object allocation of markets or customers, in case of any of the following:

1) the obligation of a licensee or licensor not to produce the contract products by exploiting the licensed technology rights in an exclusive territory of other contractual party and/or not to actively and/or passively sell within an exclusive territory or to an exclusive customer group reserved for the other contractual party;

2) the restriction of a licensee to actively sell in an exclusive territory or to an exclusive customer group reserved for the other licensee on the part of licensor and provided that licensee was not a competitor to the licensor at the time of licensing;

3) the obligation of a licensee to produce the contract products for its own use only, provided that the licensee is not restricted in selling the contract products actively and passively as spare parts for its own products;

4) the obligation of a licensee to produce the contract products only for a particular customer, where the license was assigned in order to create an alternative source of supply for that customer.

Non-applicability of exemption to vertical agreements

Article 6

The exemption shall not apply to vertical technology transfer agreements that directly or indirectly, in isolation or in combination with other factors under the control of the parties to the agreement contain restrictions that as their object have any of the following:

1) the restriction of a party's ability to determine its prices when selling products to third parties, without prejudice to the possibility of imposing a maximum sale price or recommending a sale price, provided that it does not amount to a fixed or minimum sale price as a result of pressure from, or incentives offered by, any of the parties;

2) the restriction of the territory into which, or of the customers to whom, the licensee may passively sell the contract products;

3) the restriction of active or passive sales to end-users by a licensee which is a member of a selective distribution system and which operates at the retail level, without prejudice to the possibility of prohibiting a member of the system from operating out of an unauthorized place of establishment.

Technology transfer agreement from Paragraph 1, Item 2 hereof, if considered as a non-reciprocal agreement, shall not have as its object the restriction of the territory into which, or of the customers to whom, the licensee may passively sell the contract products, in case of any of the following:

1) the restriction of a licensee to perform passive sales into an exclusive territory or to an exclusive customer group reserved for the licensor;

2) the obligation of a licensee to produce the contract products for its own use only, provided that the licensee is not restricted in selling the contract products actively and passively as spare parts for its own products;

3) the obligation of a licensee to produce the contract products only for a particular customer, where the license was granted in order to create an alternative source of supply for that customer;

4) the restriction of a licensee to perform sales to end-users by a licensee operating at the wholesale level of trade;

5) the restriction of sales to unauthorized distributors by the members of a selective distribution system.

Where the undertakings party to the agreement are not competing undertakings at the time of the conclusion of the agreement but become competing undertakings afterwards, provisions of Article 5 herein and Paragraphs 1 and 2 hereof shall apply for the full life of the agreement unless the agreement is subsequently amended in any material respect. Such an amendment includes the conclusion of a new technology transfer agreement between the parties concerning competing technology rights.

Hardcore excluded restrictions

Article 7

The exemption shall not apply to any of the following obligations contained in technology transfer agreements:

1) any direct or indirect obligation on the licensee to grant an exclusive license or to assign rights, in whole or in part, to the licensor or to a third party designated by the licensor in respect of its own improvements to, or its own new applications of, the licensed technology; or

2) any direct or indirect obligation on a party not to challenge the validity of intellectual property rights which the other party holds in the Republic of Serbia, without prejudice to the possibility, in the case of an exclusive license, of providing for termination of the technology transfer agreement in the event that the licensee challenges the validity of any of the granted (licensed) technology rights.

The exemption provided for in Article 3 herein shall not apply to vertical agreements in case of any direct or indirect obligation limiting the licensee's ability to exploit its own technology rights or limiting the ability of any of the parties to the agreement to carry out research and development, unless such latter restriction is indispensable to prevent the disclosure of the licensed know-how to third parties.

Transitional and final provisions

Article 8

Technology transfer agreements subject to this Regulation which have been concluded before this Regulation enters into force must be brought in compliance with the provisions of this Regulation within three months from the entry into force of the Regulation.

For technology transfer agreements concluded before this Regulation enters into force and brought in compliance within the deadline stipulated in Paragraph 1 hereof, market share shall be calculated on the basis of generated revenue relating to the preceding financial year to the entry into

force of the Regulation.

Entry into force

Article 9

This Regulation shall enter into force on the eighth day following the day of its publication in the “Official Gazette of the Republic of Serbia”.

RATIONALE

I Statutory grounds for the enactment of the Regulation

The legal basis for the enactment of this Regulation is contained in Article 13(3) of the Law on Protection of Competition (“Official Gazette of the RS”, nos. 51/09 and 95/2013) and Article 42(1) of the Law on Government (“Official Gazette of the RS”, nos. 55/05, 71/05-correction, 101/07, 65/08, 16/11, 68/12-CC, 72/12, 7/14-CC and 44/14).

II Statement of reasons for the enactment of the Regulation

The provision of Article 13 of the Law stipulates the possibility of exemption of certain categories of restrictive agreements from prohibition, whereby it is not necessary that such agreements which fulfill conditions from this article be submitted to the Commission for the exemption. Paragraph 3 of this article regulates that the Government determines the categories of agreements and more closely prescribes special conditions for the exemption referred to in this article.

In the Republic of Serbia thus far has not been enacted a special regulation that would prescribe conditions for the exemption of technology transfer agreements from prohibition, while the current regulations do not regulate the exemption from prohibition of this kind of agreements. Thus is necessary to consolidate legislation of the Republic of Serbia against the EU *acquis*, as stipulated in the provisions of Article 72 of the Stabilization and Association Agreement concluded between the Republic of Serbia of the one part, and the European Union (European communities and their member states) of the other part.

In regard to technology transfer agreements, the European Commission implements the Regulation no. 316/2014 of March 21, 2014 on application of Article 101(3) of the Treaty on the Functioning of the EU to categories of technology transfer agreements, which, *inter alia*, determines agreements subject to the exemption, conditions for possible exemption from the prohibition, as well as types of agreements where the non-applicability of exemption applies. This Regulation more closely regulates permitted relation between intellectual property rights and interests governing the competition policy. In addition to the Regulation 316/2014, the EC has enacted the Guidelines to technology transfer agreements, facilitating implementation of this EC Regulation and contributing to the legal certainty and predictability of business transactions between undertakings. In accordance with the mentioned, the enactment of the Regulation drafted by the Commission for Protection of Competition implies not only the fulfilment of commitment of the Republic of Serbia to align its legislation against the EU *acquis*, but also to secure legal certainty for undertakings when entering into technology transfer agreements.

This Regulation should secure the protection of competition and legal certainty for undertakings. The technology transfer agreements improve economic efficiency and are pro-competitive as they can reduce duplication of research and development, strengthen the incentive for the initial research and development, spur incremental innovation, facilitate diffusion and generate product market competition.

III Contents of the proposed provisions

Article 1

Prescribes categories of agreements subject to this Regulation, as well as special conditions under which those agreements may be exempt from the prohibition pursuant to Article 10 of the Law on Protection of Competition. In addition, provisions of this article exclude implementation of this Regulation to research and development agreements and to specialization agreements, which corresponds to the EC Regulation 316/2014. Namely, these categories of agreements, as well as special conditions for their exemption are stipulated in the Regulation on research and development agreements between undertakings operating on the same level of production or distribution chain exempted from the prohibition (“Official Gazette of the RS”, no. 11/2010) and the Regulation on agreements on specialization between undertakings operating on the same level of production or distribution chain exempted from the prohibition (“Official Gazette of the RS”, no. 11/2010).

Article 2

Proposal of solutions for this Regulation is modeled against corresponding solutions from the Regulation 316/2014, while the terminology used is aligned to the Law on Protection of Competition and regulations governing intellectual property rights.

At the very beginning, the Regulation stipulates the definition of technology, that is, defines the scope of technology. Namely, technology represents an integral part of products or production processes. In that respect, technology rights affect competition in various markets. For instance, reciprocal technology transfer agreement where two undertakings that sell competing products grant each other a technology rights license that is considered important for production of such products, may restrict competition on the goods or services market.

Definition of technology transfer agreements initiates from the concept set in the Regulation 316/2014, meaning that technology should be transferred, flowing from one to another undertaking. To that end, the usual manner of transfer is by granting of technology rights by concluding license agreements, and always between two parties only. This Regulation does not relate to agreements with more than two parties involved. In addition, it shall be implied that undertakings have entered into technology transfer agreements even when technology rights are not granted but assigned, in a manner where part of the risk associated with the exploitation of the technology remains with the assignor.

For the purpose of this Regulation, the legislator has provided definitions of horizontal and vertical agreements on technology transfer. Accordingly, horizontal technology transfer agreements are agreements entered into between competitors, that is, undertakings operating on the same relevant technology market or relevant product market, while vertical technology transfer agreements are agreements entered into between undertakings not operating on the same relevant market (non-competitors).

Article 3

Determines that technology transfer agreements are exempt from the prohibition owing to fulfilment of the conditions stipulated in this Regulation and if do not contain restrictions listed herein. It further stipulates that the exemption shall apply for as long as the licensed technology rights have not expired, lapsed or been declared invalid pursuant to special regulations. The exemption provided for agreements where the subject of the technology transfer agreements is know-how applies for as long as the know-how remains secret. However, where know-how becomes publicly known the exemption shall apply for the duration of the agreement.

Article 4

The exemption shall apply to agreements on condition that the combined market share of the parties to the horizontal agreement does not exceed 20%, that is, if the market share of each of the parties to vertical agreements does not exceed 25% on the relevant market(s). The specificity of calculating the market share of licensor on the relevant technology market(s) derived from the difficulties in practical implementation concerning related calculation based on the contractual compensations. Thus, the legislator has taken an approach where the market share of a licensor on a relevant market for the licensed technology rights shall be calculated on the basis of the presence of the licensed technology rights on the relevant market(s), due to the influence of the technology affecting related products reflected on the position of such technology on the relevant market(s).

Article 5

Prescribes cases that represent the so-called 'hardcore' restrictions in horizontal agreements, which as per their objective represent the most severe form of competition infringement. If such restrictions are contained in technology transfer agreements, such agreements could not be exempt from the prohibition pursuant to this Regulation. However, technology transfer agreements, if representing a form of non-reciprocal agreements, which as their object have an allocation of markets or customers, shall be exempt from the prohibition only if contain explicitly prescribed limitations and obligations.

Article 6

Prescribes cases that represent the so-called 'hardcore' restrictions in vertical agreements, which as per their objective represent the most severe form of competition infringement. If such restrictions are contained in technology transfer agreements, such agreements could not be exempt from the prohibition pursuant to this Regulation. However, technology transfer agreements, if representing a form of non-reciprocal agreements, which although as their object have a restriction of the territory into which, or of the customers to whom, the licensee may passively sell the contract products, shall be exempt pursuant to this Regulation only if contain explicitly prescribed limitations and obligations.

Article 7

Prescribes two type of hardcore excluded restrictions, which if contained in technology transfer agreements exclude the possibility of exemption pursuant to this Regulation.

Articles 8 and 9

Envisage transitional and final provisions, as well as the entry into force.

IV Funds required for the implementation of the regulation

For the implementation of this Regulation is not necessary to allocate funds from the Budget of the Republic of Serbia.