

**Regulatory and Legal Basis for the Creation of a Technology Transfer  
Network in Germany and Ukraine**

**Date:** September 3<sup>rd</sup>, 2008

**Time:** 11:40 – 12:00

**Location:** TBI Kharkov Technologies, Small Conference Hall, Institute for  
Single Crystals, 60 Lenina av.

- A. Introduction
- B. Technology Transfer Networks in Germany
  - I. Singularity of German Technology Transfer Networks in Germany
  - II. German innovation and technology policy
    - 1. High-tech strategy
    - 2. Cluster policy
  - III. Commercial relevance of Technology Transfer Agreements
  - IV. Legal Basis for Technology Transfer Agreements in Germany
    - 1. Overview
    - 2. Requirements in detail
      - a) Respective contract a Technology Transfer Agreement?
      - b) Competitors on a relevant technology and products market?
      - c) Extent of Market share?
      - d) Hard-core restraints or provisions that are not exempt?
- C. Technology Transfer Networks in Ukraine
  - I. Current situation on Technology Transfer Networks in Ukraine
  - II. Overview on the legislation of Ukraine in the sphere of technology transfer
  - III. Legal encouragement of Technology Transfer Networks in Ukraine
  - IV. Legal basis for Technology Transfer Agreements in Ukraine
    - 1. Subject of technology transfer
    - 2. Restrictions in respect of Technology Transfer Agreements
- D. Comparison and Conclusion

## **A. Introduction**

Dear Ladies and Gentlemen,

First of all, I would like to introduce myself: My name is Wolfgang Tiede. I am a German lawyer. I have already been engaged as a legal expert in several EU-projects in Ukraine, Russia, Serbia and other states of the former Soviet Union. Currently, I am working as a legal expert for Innovation, Regulatory Environment Funding and Financial Services within the EU-Project „Support to Research and Innovation in Ukraine“.

Today, I would like to introduce to you the regulatory and legal basis for the creation of a Technology Transfer Network both in Germany und Ukraine.

First of all, I will present the current situation on Technology Transfer Networks in Germany. Initially, I will focus on the corresponding German research and development policy. Then, I will give you a short overview on Technology Transfer Agreements. Basically, these are contracts concerning the conveyance of – among others – patents, licenses of computer software or know-how licenses. Thereafter, I will take a closer look at the current situation in Ukraine concerning Technology Transfer Networks and the conditions of Technology Transfer Agreements. Finally, I will sum up the differences and commonalities of both countries.

## **B. Technology Transfer Networks in Germany**

At first, I will illustrate the main features of Technology Transfer Networks including their indispensable Technology Transfer Agreements.

## **I. Singularity of Technology Transfer Networks in Germany**<sup>1</sup>

In Germany, a broad variety of research institutions that arbitrate between industry and universities concerning their research and development activities exists.

Well-known institutions of great importance are the Helmholtz Centers, the Fraunhofer Society and the Max Planck Society.

It is remarkable that the form of participation of non-commercial research institutions like universities in technology transfer to industry varies heavily: For instance, German universities cooperate with the industry not only through collaborative and contract research but also through consultancy, informal contracts, conferences or the provision of qualified personnel.

In the following, I will point out the conditions for Technology Transfer Networks in Germany and efforts of the Government to strengthen the German innovation and technology policy.

## **II. German innovation and technology policy**

The German Government, especially its Federal Ministry of Economics and Technology, has recognized the importance to connect economic and technology policy with the policy of education. For this reason, the German Government pursues several strategies to strengthen the innovation dynamic and the exchange of technologies:

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<sup>1</sup> H. Norman Abramson, Jose Encarnacao, Proctor P. Reid, and Ulrich Schmoch, Editors, Fraunhofer Institute for Systems and Innovation Research, National Academy of Engineering: Technology Transfer Systems in the United States and Germany: Lessons and Perspectives, p. 243.

## **1. High-Tech Strategy**

The first remarkable approach is Germany’s High-Tech Strategy. Here, the government has developed a national overall – including all departments – strategy for the improvement of Germany’s innovation activity. Thereby, three percent of the gross domestic product shall be invested in research and development. This means for the current legislative period that additional six billion Euros are provided for it.

## **2. Cluster Policy**

Although the Government cannot dictate the creation of clusters or Technology Transfer Networks, it is able to encourage their creation by improving the exchange between economy and science. For that reason, the Government has enacted several provisions in the course of its Cluster Policy that range from specific technology approaches to the support of high-performance networks.

The initiative "Kompetenznetze Deutschland“ (Competence Networks) of the Federal Ministry of Economics and Technology even goes a step further: It combines outstanding innovation networks in Germany. Through this, the member networks of this initiative are able to present themselves to potential investors or partners and to exchange information.

## **III. Commercial relevance of Technology Transfer Agreements**

Now that we have got an overview of Technology Transfer Networks in Germany in general, I will point out the commercial relevance for

Technology Transfer Agreements in Germany, that necessarily accompany the creation of Technology Transfer Networks. Technology Transfer Agreements are of particular economic importance:

Concerning the licensing of technologies, they can promote competition, since they strengthen the incentive for initial research and development. Yet, these agreements can sometimes harm the improvement of economic efficiency, in case some competitors agree to share out markets between themselves or where an important licence holder excludes connecting technologies from the market.

In order to balance between the protection of competition and the protection of intellectual property rights, states have enacted several regulations and laws concerning the creation of networks working with such Technology Transfer Agreements.

Therefore, I will now illustrate the relevant legislation concerning such Technology Transfer Agreements.

#### **IV. Legal Basis for Technology Transfer Agreements in Germany**

In Germany, the European Law determines the regulations for Technology Transfer Agreements. The European Block Exemption Regulation on Technology Transfer is the basis for the creation of a Technology Transfer Network. It applies according to § 2 section 2 of the German Competition Law.

Now, we take a closer look at the requirements of this Regulation for the exemption of Technology Transfer Agreements.

## **1. Overview**

According to Article 2, the Block Exemption for Technology Transfer<sup>2</sup> basically exempts “technology transfer agreements entered into between two undertakings permitting the production of contract products“. This means that provisions, that are regarded as incompatible with the common market according to Article 81 section 1 EC Treaty, may be exempt from it according to section 3, if they meet the conditions of a block exemption like the one concerning Technology Transfer Agreements.

The Block Exemption for Technology Transfer covers not only patents and know-how licensing, but also licences of computer software and of designs. Solely the provisions that are listed as hard-core restrictions or as excluded restrictions are forbidden. This supports legal certainty, since as long as the agreement corresponds to a block exemption, it is compatible with the common market despite the regulation of Article 81 section 1 EC Treaty.

However, the application of this Regulation is limited to certain market thresholds. Only when these are exceeded, the Regulation interferes with the concluded Technology Transfer Agreement. The Regulation distinguishes between agreements of competitors and non-competitors: They are subject to different market share thresholds, hardcore restrictions and excluded restrictions. In order to apply the Regulation, two markets must be considered: The technology market, which consists of the licensed technology and its substitutes, and the product or service market, which consists of the market for the product or service incorporating the licensed technology.

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<sup>2</sup> Regulation 772/04 (OJ 2004, L 123/11).

## **2. Requirements in detail**

In order to assess whether the relevant provision is exempt or not by the Regulation, it is advisable to proceed as follows:

### **a) Respective contract a Technology Transfer Agreement?**

Initially, the respective contract between the parties has to be a Technology Transfer Agreement in the sense of the Regulation. According to Article 1 Number 1 letter (b), a wide range of agreements is included, for example a patent licensing agreement, a know-how-licensing agreement, a software copyright licensing agreement or any such comparable agreement.

Pursuant to Article 2, Article 81 section 1 of the EC Treaty, which determines whether a provision is incompatible with the common market, shall not apply to these Technology Transfer Agreements.

### **b) Competitors on a relevant products and technology market?**

On the next step, you need to determine whether the parties of the agreement are competitors or non-competitors. As I already mentioned earlier, the Regulation provides different provisions for them. According to Article 1 Number 1 letter (j), the eventual competition must take place on the relevant technology market and/or the relevant product market.

### **c) Extent of market share?**

The determination whether the parties are competitors or not, leads us to the next requirement. Article 3 states that the exemption of Article 2 shall apply

on the condition that the combined market share of competing parties does not exceed 20 percent on the affected markets, while the non-competing parties' combined market share is not allowed to exceed 30 percent.

**d) Hard-core restraints or provisions that are not exempt?**

Finally, the agreement is not allowed to include hard-core restraints that are mentioned in Article 4, such as the restriction of a party's ability to determine its prices when selling products to third parties. In addition, excluded restrictions according to Article 5, such as any direct or indirect obligation on the licensee to grant an exclusive licence to the licensor, are not permitted.

The difference between the two restrictions is the following one: An agreement with a hard-core restraint is not covered by the Regulation at all. That means that the whole agreement cannot be considered according to the Block Exemption. By contrast, an excluded restriction of an agreement only leads to its own invalidity. Still, the rest of the agreement can be assessed by the regulations of the Block Exemption.

**C. Technology Transfer Networks in Ukraine**

Now I would like to continue with the analysis of the regulatory and legal basis for the creation of Technology Transfer Networks in Ukraine.

**I. Current Situation on Technology Transfer Networks in Ukraine**

Currently, the establishment and the activity of technology transfer agencies and networks in Ukraine are still developable: In 2007, there were only eight legal entities and two citizens, who received a certificate of the state

accreditation of the right to conduct a brokerage activity in the sphere of technology transfer.

One existing Technology Transfer Center is the Institute of Paton. Another Technology Transfer Agency was established at the Ternopil State Ivan Puluj Technical University.

## **II. Overview on the Legislation of Ukraine in the sphere of technology transfer**

Let me now proceed with an overview of the current technology transfer legislation in Ukraine:

The major piece of legislation - focussing directly on technology transfer - is the Law on the State Regulation of Activity in the Sphere of Technology Transfer.

The Law defines legal, economic, organisational and financial principles of the state activity regulation in the sphere of technology transfer and is primarily aimed at providing effective usage of scientific-technical and intellectual potential in Ukraine.

The goal of the Law is to describe procedures of technology transfer. The necessary agreement should conclude a number of standard positions, which have to reflect all aspects of a technology transfer.

The Law determines that Ukraine will act according to international regulations regarding technology transfer. The state prevents the transfer of dangerous technologies to Ukraine and the transfer of military related technologies to third countries, if they are banned or restricted by international regulations.

The Law establishes general terms for royalty payments and assigns the

Cabinet of Ministries of Ukraine to establish the size of payments for different types of technologies, their parts, patents, trade marks, utility models, etc. The Law encourages state organisations, which are ‘promising’ inventions, to apply for state financial support in order to find an opportunity to obtain patents abroad.

Together with the State Department on Innovation and Technology Transfer of the Ministry of Education and Science, the Ukrainian Institution on Scientific Technical and Economical Information promotes the implementation of this Law.

### **III. Legal encouragement of Technology Transfer Networks in Ukraine**

Regarding the low activity in the non-governmental sector of technology transfer, an important issue remains the legal encouragement of this activity.

The Law stipulates several measures to support the development of Ukrainian technology transfer:

It sets minimal rates of royalties to the inventors of technologies and persons that conduct their transfer.<sup>3</sup> Furthermore, it provides the enterprises belonging to the sphere of management of state bodies and producing products for state orders with state guarantees of repayment of loans of commercial banks issued for acquisition of technologies.<sup>4</sup> In addition, it subsidizes the transfer of technologies that belong to the priority directions of innovation activity on the state level.<sup>5</sup>

### **IV. Legal Basis for Technology Transfer Agreements in Ukraine**

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<sup>3</sup> Article. 19 Para. 5.

<sup>4</sup> Article 21 of the law.

Part four of the Law on the State Regulation of Activity in the Sphere of Technology Transfer determines the regulations for Technology Transfer Agreements in Ukraine.

### **1. Subject of technology transfer**

According to Article 1 Term 13 of the Law, technology transfer means according to the Law the transfer of property rights and responsibilities, accompanied by the conclusion of the corresponding agreement between natural persons and legal entities. In compliance with Article 1 Term 6 of the Law, the definition of the subject of technology consists of two levels: The first level considers the results of scientific and scientific technical activities and the subjects of intellectual property rights. Secondly, these subjects shall reflect the terms, enumeration, procedure, consistency of technological operations, production, sale and storage of goods.

### **2. Restrictions in respect of Technology Transfer Agreements**

Article 18 of the Law lists several restrictions on Technology Transfer Agreements. For example, these agreements may not include a buy price that exceeds the value of the specific technology. Another example is the forbiddance to restrict the other party in using similar or advanced technologies. In principle, these restrictions are comparable with the Block Exemption’s hard-core restraints that I have outlined earlier.

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<sup>5</sup> Article 22 of the law.

#### **D. Comparison and Conclusion**

Now that we have taken a closer look at Technology Transfer Networks in both countries, we can conclude as follows:

With the enactment of the Law on the State Regulation of Activity in the Sphere of Technology Transfer, Ukraine has done an essential step towards the increase of the country's innovation activity. With its legislation on technology transfer, Ukraine has successfully adapted European Law.

In Germany, there is no comparable piece of legislation. Most regulations are administered by the European Community.

Apparently, neither Germany nor Ukraine has detailed regulations how such a Technology Transfer Network has to be created. However, both countries facilitate the conditions for its creation by giving financial aid and other subsidies.

Still, both countries need to intensify their efforts in the future, in order to keep up with other forthcoming countries on the field of Technology Transfer.

Thank you for your attention!