

# CJEU decision of 7 July 2016 C-567/14 Genentech v. Hoechst and Sanofi Aventis

EU competition law does not prevent the licensor from requiring royalties for the duration of the agreement even if the patent is revoked or not used by the licensee

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& ASSOCIÉS  
A V O C A T S

Paris ■ Lyon



1/1/1991 to 27/8/2008

Licence agreement in force

6/8/1992

Licence agreement between Behringwerke (Hoechst, Sanofi) and Genentech on EP 0 173 177 US 5 849 522 US 6 218 140

26/11/1997

FDA approval for rituximab Rituxan™ (Swiss marketing authorization on 27/11/1997)



12/1/1999

EP 0 173 177 revoked by the EPO



30/6/2008

and 15/07/08 Letters from Sanofi to Genentech claiming Genentech's product Rituxan infringes the licenced patents

27/8/2008

Genentech notifies Sanofi of termination of the licence

1991 1992 1997 1999 2008 2009 2010 2011 2012 2013 2014 2015 2016

<b>27/10/2008</b> Genentech's action for declaratory judgement of invalidity and non-infringement (USDC Northern District of California)	<b>11/3/2011</b> USDC Northern District of California (before which proceedings were consolidated) finds non-infringement of US 5 849 522 US 6 218 140 (and stays on invalidity)	<b>22/3/2012</b> Fed. Circ. dismisses the appeal lodged against the non-infringement judgement of USDC Northern District of California	<b>10/5/2013</b> Fed. Circ. dismisses the appeal against a decision of the Northern DC of California dismissing Genentech anti-suit action aiming at terminating the ICC arbitration
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<b>24/10/2008</b> Hoechst commences arbitration proceedings before the ICC for the payment of royalties	<b>26/6/2010</b> ICC award № 1 rejecting Genentech's claims of <i>lis alibi pendens</i> and non-arbitrability	<b>9/6/2011</b> ICC award №2 stating that Rituxan is produced "with the help of" the patents in suit (no decision on liability)	<b>5/9/2012</b> ICC award № 3 holding Genentech liable for the payment of royalties	<b>25/2/2013</b> ICC award № 4 ordering Genentech to pay Hoechst € 108,322,850
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<b>10/12/2012</b> Genentech's recourse before the Paris <i>cour d'appel</i> against ICC's awards	<b>23/9/2014</b> Decision of the Paris <i>cour d'appel</i> to refer a question to the CJEU
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<b>7/7/2016</b>  CJEU opinion
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# Timeline

## Genentech v. Hoechst, Sanofi

## Documents

- 22 March 2012 Federal Circuit dismisses appeal against judgment 11 March 2011 USDC Northern District of California finds non-infringement of US 5 849 522 & US 6 218 140 (and stays on invalidity)  
<http://www.cafc.uscourts.gov/sites/default/files/opinions-orders/11-1397.pdf>
- 23 September 2014 Decision of the Paris *cour d'appel* to refer a question to the CJEU  
FR <http://www.frenchpatentcaselaw.info/affiche.asp?num=29&quer=zedate>  
EN <http://www.frenchpatentcaselaw.info/affiche.asp?num=28&quer=zedate>
- 17 March 2016 [Opinion of Advocate General Wathelet](#)
- 7 July 2016 [Judgment of the Court \(1<sup>st</sup> Chamber\)](#)  
(C.G. Fernlund, Rapporteur)

## Facts (1/4)

- Licence agreement 6 August 1992 between Behringwerke, the licensor, (= Sanofi-Aventis, Hoechst) and Genentech, the licensee.
- Use of enhancers for eukaryotic expression systems in human cytomegalovirus, the subject-matter of European patent N° 0 173 177, US patent N° 5,849,522 and US patent N° 6,218,140.

## Facts (2/4)

- The 1992 licence agreement specified that in exchange for **fixed annual payments**, Genentech could practice the patents **for research purposes**; Genentech made corresponding payments from 1992 to 2008.
- In addition, the 1992 license agreement required that Genentech pay an **additional 0.5% running royalty on the sale of commercially marketable goods** incorporating a "Licensed Product", being defined as *"materials (including organisms), the manufacture, use or sale of **which would, in the absence of this Agreement, infringe** one or more unexpired issued claims of the Licensed Patent Rights."*
- This additional running royalty has never been paid by Genentech.

## Facts (3/4)

- The licence agreement was governed by German law and required that disputes be settled by arbitration in accordance with the rules of the International Chamber of Commerce (“ICC”).
- On 12 January 1999, European patent N° 0 173 177 is definitely revoked by the European patent Office (decision T 0070/95).

## Facts (4/4)

- Arguing that the development, manufacturing and sales of the top-selling drug Rituxan™ by Roche (Swiss group to which Genentech became a member in March 2009), for the treatment of rheumatoid arthritis, chronic lymphocytic leukaemia and non Hodgkin's lymphoma, known in Europe under the name MabThera™, implement the technology the subject-matter of the license agreement, Sanofi asked for the payment of the additional royalty by letter of 30 June 2008.
- Shortly thereafter, on 27 August 2008, Genentech notified Sanofi of its intent to terminate the Agreement on 27 October 2008.

## Proceedings (1/6)

- On 24 October 2008, Hoechst started ICC arbitration proceedings (with a sole arbitrator) for the payment of royalties, pursuant to the license agreement.
- Three days later, Genentech filed a complaint for a declaratory judgment of invalidity and non-infringement in the United States District Court for the Northern District of California and the same day Sanofi filed an infringement complaint in the United States District Court for the Eastern District of Texas.
- The two U.S. court actions were consolidated in the Northern District of California, which granted a summary judgment of non-infringement on 11 March 2011, confirmed by the Court of Appeal for the Federal Circuit on 22 March 2012.



## Proceedings (2/6)

- After having dismissed in a first arbitral award Genentech's claims as to the suspension of the arbitration, the non-arbitrability of the case and the nullity of the arbitration agreement, the **arbitrator** appointed by the ICC stated that Rituxan "*is produced with the help of the [patents in suit]*" and granted the request by Hoechst for communication of the financial reports relating to Rituxan in a second partial award of 9 June 2011
- In a third partial award made in Paris on 5 September 2012, subject to the invalidation action brought before the *cour d'appel* de Paris, the arbitrator held Genentech liable with regard to Rituxan and the other products having the same properties and reserved the decisions relating to the evaluation of the quantum.

## Proceedings (3/6)

- According to the decision of the *cour d'appel de Paris*, **the arbitrator considered the commercial object of the agreement**, interpreted according to Article 242 of the German Civil Code, which **was to avoid any lawsuit** on the validity of the U.S. patents during the period of validity of the licence agreement, and considered, consequently, that the parties had foreseen that *"while the licence agreement is in force, running royalties are due based on the manufacture of Rituxan even if, in the country of manufacture, the patent for manufacture of Rituxan were subsequently found to be invalid, and therefore if the manufacture of Rituxan were found not to have infringed the local patent in the sense of the right to patents in the country of grant and of manufacture"*.

## Proceedings (4/6)

- As a consequence, in a fourth final award made in Paris on 25 February 2013 (and an addendum of 22 May 2013), also subject to the invalidation actions brought before the *cour d'appel de Paris*, **the arbitrator ordered Genentech to pay to Hoescht €108,322,850** plus interests from 1998, as well as the costs for arbitration.

## Proceedings (5/6)

- Genentech requested the *cour d'appel de Paris* to set aside the last three arbitration awards (handed down on 5 September 2012, 25 February 2013 and 22 May 2013) on the grounds that the recognition or enforcement of the award is contrary to international public policy according to Article 1520 of the French Civil Procedure Code.
- According to Genentech, the decision of the arbitrator, who finds a breach of the licence agreement without finding any patent infringement, is contrary to Article 101 of the Treaty on the Functioning of the European Union, considering that the payment of unjustified royalties for the development and sales of rituximab in the territory of the European Union (Germany, France, Italy), is contrary to the principle of free competition and has a direct effect on the flow of trade between the Member States.

## Proceedings (6/6)

The *cour d'appel* de Paris decided to refer to the Court of Justice of the European Union the following question:

*"Should the provisions of Article 81 of the Treaty, now Article 101 of the Treaty on the Functioning of the European Union, be interpreted as an obstacle to giving effect, in case of invalidation of the patents, to a licence agreement which imposes on the licensee royalties for the sole use of the rights attached to the patents under licence?"*

# CJEU decision of 7 July 2016 C-567/14

- 17 March 2016 Opinion of Advocate General Wathelet
- 7 July 2016 Judgment of the Court (1<sup>st</sup> Chamber) (C.G. Fernlund, Rapporteur)

## CJEU's caveat

*"¶ 38 ... as the Advocate General observed in point 75 of his Opinion, that **it is not for the Court**, in the context of the preliminary ruling procedure, **to review the findings of the sole arbitrator** or his interpretation of the licence agreement carried out **in the light of German law**, according to which **Genentech is required to pay the running royalty fee notwithstanding the revocation or non-infringement of the patents at issue in the main proceedings**"*

## CJEU's refers to its case law

“¶ 39 It should further be recalled that **the Court has already ruled**, in the context of an exclusive licence agreement, **that the obligation to pay a royalty, even after the expiry of the period of validity of the licensed patent, may reflect a commercial assessment of the value to be attributed to the possibilities of exploitation granted by the licence agreement**, especially when that obligation to pay was embodied in a licence agreement entered into before the patent was granted (judgment of 12 May 1989 in Ottung, 320/87, ECR, EU:C:1989:195, paragraph 11). In such circumstances, **where the licensee may freely terminate the agreement** by giving reasonable notice, **an obligation to pay a royalty throughout the validity of the agreement cannot come within the scope of the prohibition set out in Article 101(1) TFEU** (judgment of 12 May 1989 in Ottung, 320/87, EU:C:1989:195, paragraph 13).”



## CJEU's explains its case law

*"¶ 40 It thus follows from the judgment of 12 May 1989 in Ottung (320/87, EU:C:1989:195), that **Article 101(1) TFEU does not prohibit the imposition of a contractual requirement providing for payment of a royalty for the exclusive use of a technology that is no longer covered by a patent, on condition that the licensee is free to terminate the contract.** That assessment is based on the finding that that royalty is the price to be paid for commercial exploitation of the licensed technology with the guarantee that the licensor will not exercise its industrial-property rights. As long as the licence agreement at issue is still valid and can be freely terminated by the licensee, the royalty payment is due, even if the industrial-property rights derived from patents which are granted exclusively cannot be used against the licensee due to the fact that the period of their validity has expired. In the light of such circumstances, in particular the fact that the licence may be freely terminated by the licensee, the contention may be rejected that the payment of a royalty undermines competition by restricting the freedom of action of the licensee or by causing market foreclosure effects."*

## CJEU's applies its case law

*"¶ 41 That solution, stemming from the judgment of 12 May 1989 in Ottung (320/87, EU:C:1989:195), applies a fortiori in a situation such as that at issue in the main proceedings. If, during the period in which a licence agreement is in effect, the payment of the royalty is still due even after the expiration of industrial property rights, the same applies, a fortiori, before the validity of those rights has expired."*

## CJEU's justifies its decision

*"¶ 42 The fact that the courts of the State issuing the patents at issue in the main proceedings have held, following the termination of the licence agreement, that Genentech's use of the licensed technology did not infringe the rights derived from those patents has, according to the information provided by the referring court on the German law applicable to that agreement, no effect on the enforceability of the royalty for the period prior to that termination. As a result, since Genentech was free to terminate the agreement at any time, the obligation to pay the royalty during the period in when that agreement was in effect, during which the rights derived from the licensed patents which had been granted were in force, does not constitute a restriction of competition within the meaning of Article 101(1) TFEU."*

## CJEU's ruling

**“Article 101(1) TFEU must be interpreted as not precluding the imposition on the licensee, under a licence agreement such as that at issue in the main proceedings, of a requirement to pay a royalty for the use of a patented technology for the entire period in which that agreement was in effect, in the event of the revocation or non-infringement of a licenced patent, provided that the licensee was able freely to terminate that agreement by giving reasonable notice. ”**

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Thank you

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