Genentech Inc. v Hoechst GmbH and Sanofi-Aventis Deutschland GmbH
(Court of Justice, Case C-567/14, 2016)

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Summary

The Court of Justice of the European Union (hereinafter "the Court") confirmed its position that a contractual obligation to pay royalties for a licensed intellectual property (IP) right does not depend on the validity of the licensed IP right. Such contractual obligation in the Court's view is compatible with competition law provided the licensee has the right to terminate the licensing agreement. The Court interpreted Article 101 of Treaty on the Functioning of the European Union (TFEU), which is comparable to Article 40.1 and 2 of the TRIPS Agreement.

> TFEU: Article 101:1. The following shall be prohibited as incompatible with the internal market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the internal market, and in particular those which:
> (a) directly or indirectly fix purchase or selling prices or any other trading conditions;
> (b) limit or control production, markets, technical development, or investment;
> (c) share markets or sources of supply;
> (d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
> (e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

The Facts

The claimant, Genentech, was granted a worldwide non-exclusive license for the use of a human cytomegalovirus enhancer ('the HCMV enhancer') for production of a medical product in 1992, and the claimant marketed a medical product produced using the HCMV technology. This technology was the subject of European Patent No EP 0173 177 53, issued on 22 April 1992 and revoked on 12 January 1999, as well as of two patents, US 522 and US 140, issued in the United States on 15 December 1998 and 17 April 2001, respectively. The claimant, under the patent license agreement, had to pay a one-off fee, a fixed annual research fee, and a running royalty equivalent to 0.5% of the net sales of the finished products. The "finished products" were defined in the license agreement as "commercially marketable goods incorporating a licensed product, sold in a form enabling them to be administered to patients for therapeutic purposes or to be used in a diagnostic procedure, and which are not intended or marketed for reformulation, processing, repackaging or relabeling before use".[1] The claimant paid the one-off and the annual fees included in the agreement but never paid the running royalty. In 2008 Sanofi-Aventis Deutschland GmbH, the subsidiary of Hoechst, requested Genentech to provide information regarding its commercial use of the technology. In response, Genentech provided a two-month notice terminating the license agreement. Genentech also secured a judgment from a U.S. court that its products did not infringe the patents of the licensor that are maintained in the United States. Following an arbitral award, the claimant was ordered to pay the running royalty. According to the Arbitrator, Genentech entered into the license

[1] P.2, para 7 of the Judgment

agreement to avert litigation for the duration of the agreement. Payments under the agreement remained due, regardless of the status of the patent and whether an infringement is asserted, including where the technology was not present in the product marketed. In response, the claimant brought an action before the *Cour d'Appel de Paris* seeking an annulment of the award.

The Legal Issues

The *Cour d'Appel de Paris* was uncertain as to whether the license agreement was compatible with Article 101 TFEU as it required the licensee to pay royalties for an invalid patent and whether it places the licensee at a 'competitive disadvantage'.[2] Thus, the *Cour d'Appel de Paris* decided to stay the proceedings and referred the following question to the Court of Justice of the European Union for a preliminary ruling:

> *"Must the provisions of Article 101 TFEU be interpreted as precluding effect being given, where patents are revoked, to a license agreement which requires the licensee to pay royalties for the sole use of the rights attached to the licensed patent?"*

In its ruling, the Court recalled its earlier decision that the obligation to pay a royalty even after the expiry of the validity period of a licensed patent may reflect a commercial assessment of the value pertaining to the possibilities of utilizing the technology granted by the license agreement.[3] The Court confirmed that an obligation to pay the running royalties beyond the validity period of a patent does not violate EU competition law[4], provided that the licensee can freely terminate the agreement by giving reasonable notice. The Court construed Article 101 (1) TFEU as not prohibiting the imposition of a contractual requirement providing for payment of royalties for the exclusive use of a technology that is no longer covered by a patent, on the condition that the licensee is free to terminate the contract. The Court also found that the obligation to pay the royalties under a license agreement does not derive from the assumption that the licensed technology is protected by a patent. Instead it is based on the finding that a royalty is the price to be paid for the commercial benefits of the licensee, i.e. the commercial exploitation of the licensed technology with the guarantee that the licensor will not sue the licensee for any alleged infringement of the licensed IP. The judges made clear that the licensee's commercial interests in being protected from the risks of patent litigation when using the patented technology during the validity period of the agreement is independent of the validity of the patent.

The Court further affirmed that the approach taken in the previous decisions applies *a fortiori* in the present situation and that the payment of the royalty is still due even after the expiration of validity of industrial property rights. Similarly, a finding that the product marketed by the licensee does not infringe the patent under the license agreement has no effect on the enforceability of the royalty for the period prior to the termination of that agreement. Since Genentech was free to terminate the agreement at any time, the obligation to pay the royalty when that agreement was in effect does not constitute a restriction of competition.

Therefore, the Court concluded that Article 101 (1) TFEU must be interpreted as not precluding the imposition on the licensee 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

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[2] P.3, para 18 of the Judgment
[3] Judgment of 12 May 1989 in *Ottung*, 320/87, EU:C:1989:195, para.11
[4] *Ibid*., para.13

non-infringement of a licensed patent, provided that the licensee was able to freely terminate that agreement by giving reasonable notice.[5]

Points of Significance

- Article 40 of TRIPS Agreement allows countries to adopt measures to prevent or control licensing practices or conditions pertaining to intellectual property rights which restrain competition, which corresponds to Article 101 TFEU.
- In this case the royalty payment under a patent license was understood as the price the licensee agreed to pay for a commercial benefit, i.e. the guarantee that the licensor will abstain from involving the licensee in any infringement litigation. This finding was based on the condition that the licensee can freely terminate the agreement. The Court's assessment of competition law might thus be different if the license agreement does not provide for such an option. Hence, the ruling in this case can have an impact on the structure and content of license agreements, and the structures and terms of the royalty payments. It is for the parties to agree on deviating provisions where appropriate e.g., by clearly defining that royalties are only due where the product falls within the scope of protection of the patent.

Key Words

License agreement, non-exclusive license agreement, contract law, royalty payment, revocation of patent, termination of license agreements, competition law, Article 40 TRIPS, Article 101 TFEU, non-infringement.

Decision available at: https://ipcuria.eu/case?reference=C-567/14

[5] P7, para 42-43 of the Judgment