

Sanofi-Aventis Deutschland GmbH v. Genentech, Inc.: Freedom to Choose

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In a judgment dated 10 May 2013 (*Sanofi-Aventis Deutschland GmbH v. Genentech, Inc.*, Appeal No 2012-1454) the United States Court of Appeals for the Federal Circuit (the 'CAFC') affirmed a first-instance decision refusing the grant of an injunction preventing Sanofi-Aventis Deutschland GmbH ('Sanofi') from continuing to participate in an ICC arbitration where issues of infringement of US patents had been decided under German law. The CAFC's judgment supports the conclusion that parties to international arbitration agreements have freedom to choose any law for the determination of issues of infringement, construction or validity of intellectual property rights ('IPRs').

In 1985, Behringwerke AG (now Hoechst AG ('Hoechst')), filed a US patent application directed to the use of certain DNA sequences, known as enhancers, which had been identified in human cytomegalovirus. As explained in the CAFC's judgment, 'an enhancer is a sequence of DNA that, when introduced into a cell that produces a drug, can enable the cell to produce the drug at a much higher rate than would ordinarily be possible'.

In 1992, Genentech entered into an agreement (the 'Agreement') with Behringwerke AG licensing intellectual property ('IP') related to the enhancers in issue. The Agreement included an application that ultimately matured into the patents in issue (the 'Patents'). Under the Agreement and in exchange for fixed annual payments, Genentech was permitted to practise the Patents for research purposes. Genentech also agreed to pay a royalty of 0.5% on the sale of commercially marketable goods that, but for the Agreement, would infringe the Patents. Genentech made these annual payments until 2008. The Agreement, which contained an ICC arbitration clause with France as the seat, was governed by German law.

In 1996, Hoechst transferred its pharmaceutical business to Sanofi. At the time, Hoechst did not transfer its rights in the Patents to Sanofi. Further, Hoechst remained as Genentech's counterparty under the Agreement.

In 1997 and 2004, Genentech launched two drugs, Rituxan and Avastin. Genentech did not identify these drugs as products falling within the Agreement and did not pay royalties. In June and July 2008, Sanofi, which is 85% owned by Hoechst, wrote to Genentech accusing it of infringing the Patents. In August 2008, Genentech, in turn, notified of its intention to terminate the Agreement. On 10 October 2008, Hoechst transferred the Patents to Sanofi.

On 24 October 2008, Hoechst commenced arbitration proceedings under the Agreement against Genentech. Three days later, Genentech terminated the Agreement and filed a complaint for

declaratory judgment of invalidity and non-infringement of the Patents in the United States District Court for the Northern District of California. On the same day, Sanofi filed an infringement complaint in the United States District Court for the Eastern District of Texas. The former district court (the 'District Court'), before which the two legal proceedings were consolidated, accepted Genentech's contentions and granted declaratory judgment of non-infringement. This decision was affirmed by the CAFC.

Thereafter, Genentech argued before the arbitral tribunal in the parallel ICC arbitration (the 'Tribunal') that the judgment of the CAFC disposed of all the issues in the arbitration. At that stage, it became apparent that the Tribunal was inclined to find that Rituxan was produced with the help of the Patents. Genentech then filed a motion requesting that the District Court enjoin Sanofi from continuing with the ICC arbitration. In determining whether an anti-suit injunction should be granted, the District Court considered the factors set out in *E & J Gallo Winery v. Andina Licores, SA*, 446 F 3d 984, 991, 994 (9th Cir 2006), namely, (a) whether the parties and the issues are the same, and whether the first action is dispositive of the action to be enjoined; (b) whether the foreign litigation would frustrate a policy of the forum issuing the injunction; and (c) whether the impact on comity would be tolerable.

The District Court declined to grant the injunction sought by Genentech as it concluded that (a) the parties were different – Hoechst is a party to the ICC arbitration but not to the legal proceedings in the US; (b) 'an injunction would frustrate the policies of [the US] in favor of enforcement of forum selection clauses in arbitration agreements', and (c) the principle of comity would not support the entering of the injunction.

Subsequently, the Tribunal made a liability award holding that as a matter of German law, Genentech was in breach of the Agreement. The determination of the quantum of the damages was left for a later stage.

Genentech then appealed before the CAFC the decision of the District Court to deny the injunction. The CAFC affirmed the District Court's decision. By reference to the second and third *Gallo* factors, the CAFC highlighted the policy of the US to enforce 'forum selection clauses' and further considered that enjoining Sanofi from continuing with the ICC arbitration would be inconsistent with the principle of comity. This aspect of the judgment of the CAFC illustrates the pro-arbitration stance adopted by a number of US courts.

In respect of the first of the factors in set out in *Gallo*, the CAFC focussed its analysis on whether the complaints filed before the US courts and the Tribunal were functionally the same. In particular, the CAFC analysed whether the non-infringement judgment was dispositive of the issues in the ICC arbitration for the period during which the Agreement was in force. The CAFC reasoned that as the Tribunal was to decide a breach of contract claim, not a patent infringement claim, the complaints were not functionally the same. Further, the fact that German law – and not US law – was to be applied by the Tribunal to decide the same issues being discussed before the US court reaffirmed this conclusion. In this respect, the CAFC stated:

Applying German law, the arbitrator has already deviated from U.S. patent law by concluding that infringement is possible even if the patents are invalid. In addition, the arbitrator has adopted a definition of infringement that includes using the enhancer to produce Rituxan, even if the enhancer is not in the ultimate product. The arbitrator thus appears to have adopted a definition of infringement that is both over- and under-inclusive compared to U.S. law. The district court came to the same conclusion, stating that '[t]o the extent that the arbitration involves the same infringement questions, under

U.S. law, Genentech can present its arguments to the arbitrator regarding why the judgment of this court should be respected'. In our view, this statement correctly recognizes that the meaning of infringement under the Agreement and the meaning of infringement under U.S. law are not functionally the same.

From a broader perspective, within the context of international arbitration, the above reasoning supports the conclusion that non-contractual issues (e.g. issues of construction, validity and infringement) arising from IPRs can be resolved according to a law that is not the law of the jurisdiction where the IPR subsists (for these purposes, 'Foreign IP Law') (for example, as in this case, an arbitral tribunal can decide the question of infringement of US patents under German law).

From the perspective of domestic public policy, it could be questioned whether parties can choose that Foreign IP Law would apply to non-contractual IP issues. Such concerns are likely to have traction within the context of domestic litigation. For example, under Article 8(3) of the EU Regulation (EC) No 864/2007 (the 'Rome II Regulation'), parties cannot contract out of the application of the law of the country in which the infringed IPR was issued. Within the context of domestic litigation, provisions limiting party autonomy make sense in light of the *erga omnes* effect – i.e. binding third parties – of court decisions (otherwise, for example, a Spanish court would be in a position to invalidate with *erga omnes* effect German patents, bringing to an end rights granted by German public authorities).

In most cases, such concerns do not arise in respect of international arbitration proceedings because a decision of an arbitral tribunal produces *inter partes* effect only. This means, for example, that the decision of an arbitral tribunal on the validity or the infringement of the IPR in issue does not affect third parties to the proceedings. Consequently, such decisions are unlikely to offend the public policy of the country where the IPR subsists. Due to the *inter partes* effect of arbitral awards *a fortiori* and as a matter of principle there is no reason to prevent parties from agreeing that non-contractual IPR issues are to be resolved by Foreign IP Law. The CAFC's judgment in *Sanofi* appears to be predicated in part on the understanding that parties to an arbitration agreement are free to choose that Foreign IP Law applies to non-contractual issues arising from IPR subsisting in the US. In light of the *inter partes* effect of arbitration awards, one would expect that the reasoning in the CAFC's judgment will be followed in other jurisdictions.