

No Annulment of Arbitral Award in Patent License Dispute as contrary to Art.101 TFEU: Genentech, Inc. v Hoechst GmbH / Sanofi-Aventis GmbH

Kluwer Arbitration Blog

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On a reference from the Cour d'Appel de Paris, A.G. Wathelet upholds the primacy of an arbitral award as compatible with Art.101 TFEU in Genentech, Inc. v Hoechst GmbH / Sanofi-Aventis GmbH, Case C-567/14 (Opinion of Advocate General Wathelet: 17 March 2016).

1. The Facts

1.1 The Patent License

In 1992 a predecessor of Hoechst/Sanofi-Aventis granted a worldwide non-exclusive license under German law to Genentech for the use of a human cytomegalovirus (HCMV) enhancer. The technology was the subject of two U.S. patents and one European Patent. A running royalty was payable by Genentech on sales of finished product using the patent.

The EP was revoked by the EPO in 1999.

1.2 The Dispute

Genentech failed to pay any running royalty provided for in the License and, when Hoechst/Sanofi-Aventis queried this, gave notice to terminate the License. Hoechst/Sanofi-Aventis asserted that Genentech used the enhancer in the synthesis of recombinant proteins in order to manufacture the monoclonal antibody sold as RITUXAN in the US and as MabThera in the EU. In October 2008, just before the License terminated, Hoechst/Sanofi brought an arbitration for payment of the royalties and also sued for infringement of the two U.S. patents in the District Court for the Eastern District of Texas. Genentech sued for revocation of the two patents in the District Court for the Northern District of California. The two US actions were consolidated and tried before the court in California. In 2011 the court upheld validity of the patents but found them not infringed. Validity was upheld by the CAFC in 2012.

1.3 The Arbitration and Award

The Arbitration also proceeded and in the Third Partial Award the Sole Arbitrator held that, originally, Genentech had wanted to use the enhancer without being regarded as an infringer, hence the License. It followed, according to the Arbitrator, that “the commercial purpose” of the License was to avoid litigation relating to the validity of the EP and the two U.S. Patents during the life of the License.

The Arbitrator held that the existence of the patents was a relevant consideration in order to establish “a commercial purpose” for entering into the License Agreement. Genentech wanted, the Arbitrator said, freedom from suit under the patents.

Consequently, the Arbitrator held that, notwithstanding the subsequent revocation of the EP and the finding of non-infringement of the two U.S. patents, any payments made under the Agreement (i.e. the one off front end payment made for the License and the fixed annual research fee) could not be reclaimed by Genentech. Furthermore, the running royalty payments due under the Agreement remained due even though the patents were revoked or not infringed.

Subsequently the Arbitrator gave a final Award for damages of Euros 108 million plus simple interest representing unpaid royalties over the period of the License Agreement, namely from December 1998 when the U.S. patents issued to October 2008 when the License Agreement was terminated. He rejected Genentech’s arguments that this breach European anti-trust rules.

1.4 Genentech’s anti-trust case to set aside/annul the Arbitral Award

Genentech challenged the Third Partial Award and the Final Award before the Paris Cour d’Appel. In relation to the Third Partial Award, the court referred to the CJEU a question whether, by holding that during the period of the License Agreement Genentech was obligated to pay royalties even though revocation of the EP had retroactive effect, such an Agreement contravened the provisions of Art.101 TFEU. Genentech contended that such an obligation placed it at a “competitive disadvantage” as against third parties who could use the technology without payment. The question was:

“Must the provision of Art.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?”

Hoechst/Sanofi-Aventis-Aventis’ case was that the question of the possible incompatibility of the License Agreement with Art.101 TFEU had been raised and debated before the Arbitrator, and was rejected by him.

2. The AG’s Opinion

2.1 Review of arbitral awards to ensure compatibility with Arts. 101 and 102 TFEU

First, it is open to the Court to review the compatibility of international arbitral awards with EU law to ensure that they do not infringe public policy. Arbitral awards, whether international or domestic, must be compatible with EU law. The task of arbitrators in international commercial arbitration is to interpret and apply the contract binding the parties correctly. In performance of that task, arbitrators may find it necessary to apply EU law, if it forms part of the law applicable to the contract (*lex contractus*) or the law applicable to the arbitration (*lex arbitri*).

Second, if there is an infringement of public policy, it makes no difference whether the infringement was flagrant, or not.

Third, although – as contended for by Hoechst/Sanofi-Aventis – compatibility of the License with EU

law had been raised and considered by the arbitrator, the Courts of EU Member States are not bound to comply with the findings of EU law made by the arbitrator. Consequently, parties cannot put agreements beyond the reach of review under Arts.101 and 102 TFEU by resorting to arbitration.

2.2 Analysis of the Award

First, the Arbitrator held that Genentech's liability to pay running royalties under the License Agreement was not dependent on the licensed technology being or remaining patented. It is not for the Court to review that finding made by the Arbitrator applying German law, the governing law of the License Agreement.

Second, the AG did not accept Genentech's contention that the Arbitrator's Award would place it at a competitive disadvantage, since it would be required to pay royalties whereas a competitor could take advantage of the technology freely and without charge. The AG cited the judgement in *Ottung* (Case 320/87, EU:C:2989:295) for the proposition that the obligation to pay a royalty may be unconnected with a patent. Here, the "commercial purpose" of the License Agreement was to enable Genentech to use for the duration of that Agreement the enhancer without risk of patent litigation.

The AG distinguished over the judgement in *Windsurfing International v Commission* (193/83, EU:C:1986:75) on the basis that in that case the Agreement provided that the licensee had obligations which had no connection with the subject matter of the Agreement. Such was not, however, the case in the license to Genentech.

Third, the Block Exemption on the application of Art.101(3) TFEU to certain categories of technology transfer agreements (Regulation (E) No.240/96) was not applicable in this case. In any event, the Court did not have sufficient information to undertake the analysis required under that Regulation.

2.3 The AG's Conclusion

"Art.101 TFEU does not require, in the event of revocation or non-infringement of patents protecting a technology, the annulment of an international arbitration award giving effect to a license agreement which obliges the licensee to pay royalties for the sole use of the rights attached to the licensed patents where the commercial purpose of the agreement is to enable the licensee to use the technology at issue while averting patent litigation, provided that the licensee is able to terminate the license agreement by giving reasonable notice, is able to challenge the validity or infringement of the patents, and retains his freedom of action after such termination."

2.4 Discussion

The AG's Opinion is persuasive but non-binding, and the Court's judgment can be expected later this year. For the AG, the issue turned on the terms of the License Agreement between Hoechst/Sanofi-Aventis and Genetech, and there was nothing in that Agreement which gave rise to infringement of Art.101 TFEU. Nevertheless, if the Opinion is followed by the Court, it is clear that – as a matter of general effect – there is power for a National Court of an EU Member State dealing with a request to set aside or refuse enforcement of an arbitral award to examine whether the Agreement and the effect of the arbitral award infringe Arts.101 and/or 102 TFEU and are, consequently, contrary to public policy.