

Kluwer Arbitration Blog

Court of Justice confirms Arbitral Award in International Patent License Dispute Compliant with Art.101 TFEU

David Perkins (JAMS International) · Friday, July 22nd, 2016

As discussed in an earlier [post](#), the Court of Justice of the European Union confirmed that its function is not to review findings of an Arbitrator or his interpretation of a Patent License Agreement: *Genentech, Inc. v Hoechst GmbH/ Sanofi Aventis GmbH*, Case C-567/14 (Judgment of the Court: 7 July, 2016).

1. The Facts

The terms of the 1992 Patent License to Genentech for use of a human cytomegalovirus (HCMV) enhancer, the dispute, the Arbitrator's Award and Genentech's anti-trust case to set aside/annul the Award are summarised in the [post](#) discussing the Opinion of Advocate General Wathelet. The HCMV enhancer facilitates the DNA sequence necessary to produce a biological medicinal product containing the active ingredient rituximab. That product, which is used to treat non-Hodgkin lymphoma (NHL) and chronic lymphocytic leukaemia (CLL), is sold in the European Union under the trade name, MabThera.

In its judgment of 7 July 2016, the Court has followed the AG's Opinion in all respects.

2. The Question for determination.

Does Art.101(1) TFEU preclude the imposition on the licensee of an obligation to pay a royalty for the use of patented technology for the entire period during which the license agreement was in effect, notwithstanding the revocation or non-infringement of the licensed patents?

3. The function of the Court is not to review the Arbitrator's interpretation of the License Agreement and his findings.

The Arbitrator found that under German law, the governing law of the Agreement, the licensee (Genentech) was required to continue to pay the running royalty notwithstanding the revocation or non-infringement of the licensed patents. Agreeing with the Advocate General, the Court confirmed that its function was not to review that finding. The Court was restricted to ruling on whether such finding infringed Art.101(1) TFEU.

4. The reasoning of the Court.

The Court applied its judgment of May 1989 in *Ottung* (320/87,EU:C:1989:195), which had been cited and relied on by AG Wathelet. That case involved an exclusive patent license agreement whereunder the obligation to continue paying royalties after expiry of the licensed patent was held not to infringe Art.85(1) of the Treaty. The justification for the decision in *Ottung* was that the agreement in that case reflected a “commercial assessment of the value to be attributed to the possibilities of exploitation granted by the license agreement.” The agreement also, crucially, contained a provision that the licensee was free to terminate the contract on notice.

The Court summarised the ratio in *Ottung* as follows. The 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 license agreement at issue is still valid and can be terminated by the licensee, the royalty payment is due even if the industrial property rights derived from the patents which are granted exclusively cannot be used against the licensee due to the fact that the period of their validity has expired.

5. The Judgment of the Court.

The Court then held that the reasoning in *Ottung* applied a fortiori to the facts of the HMCV License.

“42. The fact that the courts of the State issuing the patents at issue....have held, following termination of the license 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 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 Art.101(1) TFEU.”

6. Comment.

For arbitral tribunals, the position remains that international arbitral awards must be compatible with EU law and, consequently, it may be necessary to apply EU law when interpreting and applying the contract in issue.

On the facts of the *Genentech* case, Art.101(1) TFEU does not preclude imposing on a licensee an obligation to continue paying royalties for the use of patented technology for the entire period in which the agreement is in effect, notwithstanding the revocation or non-infringement of a licensed patent. As noted, this is subject to the proviso that the licensee is freely able to terminate the agreement by giving reasonable notice.

For patent lawyers, the case provides guidance in two respects. First, that *Ottung* remains good law and that, consequently, to ensure enforceability of royalty

obligations post termination or revocation of the licensed patents, the Patent License must entitle the licensee to terminate it on reasonable notice. Second, that - at least under German law - when interpreting patent license agreements, one must avoid a literal interpretation which is contrary to the “commercial objectives” of the parties. Under English law, interpretation of contracts is governed by the House of Lords (now, Supreme Court) judgments in the *West Bromwich Building Society* and *Chartbrook cases*, respectively (1998 1 WLR 896) and (2009 UKHL 38).

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