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The Genentech Case: A Missed Opportunity?

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On the 7th of July 2016 the Court of Justice of the European Union ("Court" or "CJEU") published the judgment in the *Genentech* case (Case C 567/14), awaited with great interest both by IP and competition practitioners, on one side, and by arbitration practitioners, on the other.

IP and competition law practitioners' interest lies in the Paris Court of Appeal's application to the CJEU for a preliminary ruling on the question whether the payment of royalties for a licence referring to a patent that has successively been revoked with retroactive effect is incompatible with the provisions of Article 101 TFEU.

As for arbitration practitioners, the interest lies in the fact that that the above mentioned request for a preliminary ruling was addressed within the context of a proceeding for the setting aside of an ICC arbitral award on the basis of its alleged incompatibility with EU law. Also, in his Opinion to the Court, Advocate General Wathelet dealt extensively with the highly debated topic of what standard of review must be applied by the national courts of EU Member States when checking for the compatibility of international arbitral awards with the EU competition law regime.

Before discussing the implications of the *Genentech* judgment from the arbitration practitioner's standpoint, it is worth analysing the case in its entirety.

Genentech Inc. acquired from Berhingwerke AG (now Hoechst) a worldwide non-exclusive license for the use of patents related to some pharmaceutical technology. Genentech complied with its obligation to pay a one-off fee and a fixed annual research fee for the use of such technology. However, it never paid the running royalty (equivalent to 0.5% of the net sales of the finished products) it committed to. Consequently, Hoechst and Sanofi-Aventis Deutschland (its subsidiary) commenced an ICC arbitration seated in Paris. Genentech claimed that the contractual provision on running royalties was null and void on the basis of Article 101(2) TFEU, as it required the licensee (Genentech) to pay such royalties even though the patents were revoked with retroactive effect. The sole arbitrator did not share Genentech's view and (according to the text quoted in the Opinion of AG Wathelet) considered that "*any payments made under the licence agreement could not be reclaimed and any payments due thereunder remained due where the patent had been revoked or was not infringed by the licensee's activity*."

Genentech filed to the Court of Appeal of Paris an application for setting aside the award, raising again the argument that the payment of royalties related to a revoked patent is prohibited under Article 101 TFEU and, consequently, the arbitral award itself is incompatible with public policy

provision forming part of the EU competition law regime. Genentech's application for setting aside was largely based on the *Eco Swiss* jurisprudence of the CJEU, which established that Article 101 TFEU is part of the public order within the meaning of the New York Convention and that "*where its domestic rules of procedure require a national court to grant an application for annulment of an arbitration award where such an application is founded on failure to observe national rules of public policy, it must also grant such an application where it is founded on failure to comply with the prohibition laid down in Article* [101 TFEU]."

The Paris Court of Appeal, being uncertain on the interpretation of EU competition law, asked the CJEU to render a preliminary ruling on the following question:

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

The answer of the Court to this question was straightforward. Since Genentech had the right to unilaterally terminate the license agreement, this did not constitute breach of competition law rules, even though it provided for an obligation to pay royalties for the granting of rights attached to a patent subsequently revoked with retroactive effect. The Court made reference to its judgment in the Ottung case (Case C-320/87) and confirmed 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.*"

What drew the attention of arbitration practitioners to the Genentech case is, first, that a French court was again confronted with a request for the setting aside of an arbitral award on the basis of its alleged incompatibility with EU competition law rules, and, second, that AG Wathelet dealt quite extensively with such an issue in his Opinion to the Court.

French courts have been, since 2004, considered the most fervent supporters of what has been called the "minimalist" approach to the review of arbitral awards. In both the Thalès v Euromissiles and the SNF v Cytec case, the French courts held that, in order to successfully invoke the incompatibility with the EU competition law regime as a ground for the annulment of an arbitral award, such incompatibility must be "*flagrante, effective et concrete*". If those three conditions are not met, French courts should not be allowed to look any further into the award and cannot, thus, set aside an award that is not manifestly and egregiously in breach of public policy provisions. The approach taken by the French courts has been heavily criticized by many scholars and, in some other courts of EU Member States, the maximalist approach has prevailed. The Court of The Hague in the Marketing Display International (MDI) case has, for instance, taken the maximalist approach and exercised a fully-fledged review of the arbitral award in order to verify its compatibility with the EU competition rules, without limiting its scrutiny of the award to the most blatant and manifest breaches of these provisions.

The second aspect that drew the attention of arbitration practitioners is that AG Wathelet, in his

Opinion on the Genentech case, considered that

> "[…] limitations on the scope […] of the review of international arbitral awards such as those under French law mentioned by Hoechst and Sanofi-Aventis as well as by the French Government — namely the flagrant nature of the infringement of international public policy and the impossibility of reviewing an international arbitral award on the ground of such an infringement where the question of public policy was raised and debated before the arbitral tribunal — are contrary to the principle of effectiveness of EU law."

In essence, AG Wathelet considered that a minimalist standard of review of arbitral awards that only sanctions blatant and serious breaches of EU competition law, such as the one applied by French courts, is not compatible with the principle of effectiveness of the application and enforcement of EU law. The AG pointed out that "*either there is an infringement of Article 101 TFEU, in which case the agreement between undertakings at issue is automatically void, or there is no infringement at all. […] it makes no difference whether the infringement of the public policy rule was flagrant or not. No system can accept infringements of its most fundamental rules making up its public policy, irrespective of whether or not those infringements are flagrant or obvious*."

Since the issue of the standard of review of arbitral awards was not, strictly speaking, part of the question raised by the Court of Appeal of Paris in its request for a preliminary ruling, the CJEU did not follow the reasoning of the AG in this topic and, consequently, the *Genentech* judgment remained silent on this highly debated question.

The *Genentech* case can certainly be regarded as a missed opportunity for the CJEU to clarify its position on the aforementioned issue. Nonetheless, this case consolidates the opinion of those who consider that French courts have, in the last years, already abandoned the pure minimalist approach. In fact, by requesting the CJEU for a preliminary ruling on the interpretation of Article 101 TFEU, the Paris Court of Appeal clearly considered the possibility of setting aside an arbitral award on the basis of a breach of EU competition law that was not manifest or flagrant, since an authentic interpretation of EU law proved to be necessary in order to understand whether an actual breach existed or not. Moreover, in three recent cases where French courts were requested to set aside arbitral awards on the basis of alleged corruption, the French judges seem to have abandoned their previous jurisprudential approach under which a breach of international public policy must be "manifest" or "flagrant" in order to be successfully invoked as a valid ground for annulment of an award.

The debate between minimalists and maximalists is probably not over yet, but a perceptible trend toward the abandon of the pure minimalist approach can be certainly detected, at least in the practice of French courts.

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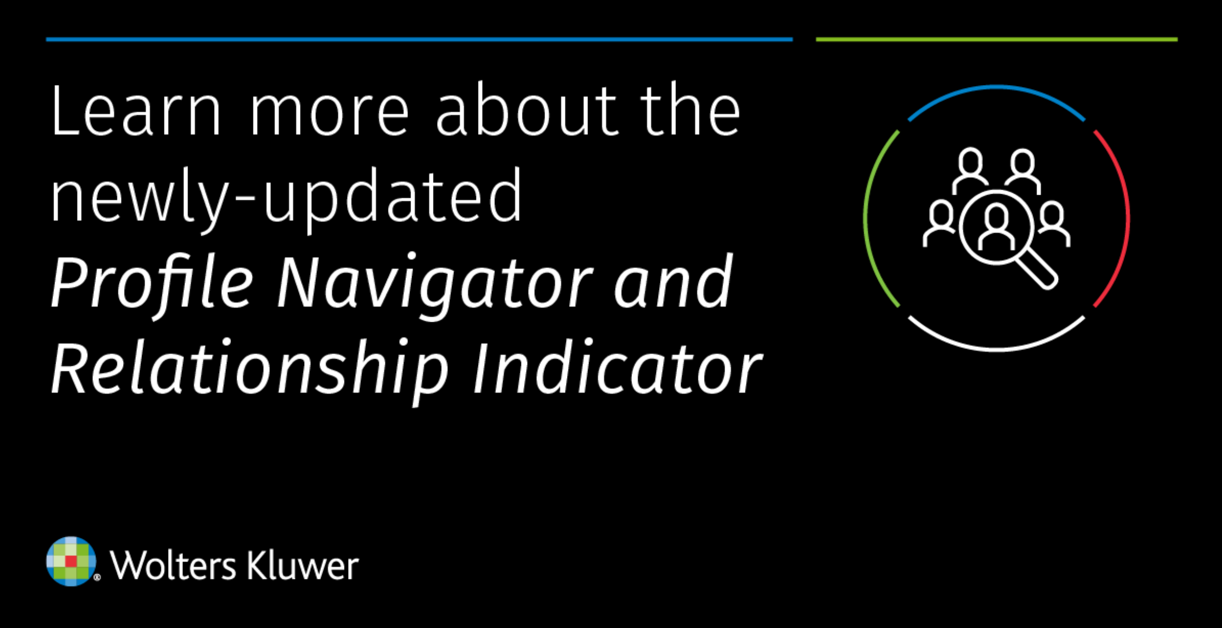

This entry was posted on Monday, July 18th, 2016 at 10:10 am and is filed under Arbitration, Arbitration Awards, Arbitration Proceedings, Competition Law, European Law, European Union, France, Set aside an arbitral award, Set aside an international arbitral award
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