

May 2016

Practice Group(s):

*Antitrust,
Competition & Trade
Regulation*

EU Competition Law Does Not Prevent Royalties for Revoked Patent Licences

By Francesco Carloni, Tatiana Siakka, Scott Megregian and Gabriela da Costa

Advocate General (“AG”) Wathelet recently delivered an important opinion concerning the relationship between EU competition rules and patent licences. Specifically, in *Genentech Inc. v Hoechst GmbH, Sanofi-Aventis Deutschland GmbH* (Case C-567/14, “*Hoechst v Genentech, Sanofi*”) the AG concluded that Article 101 TFEU will, in principle, not prevent the enforcement of a licence agreement and the payment of royalties, where a licensed patent has been subsequently invalidated. If adopted by the Court of Justice of the European Union (“CJEU”), the AG opinion will be of particular significance for patent owners and licensees, who will have to structure their patent licensing agreements accordingly.

Background

The case stems from a long-running dispute between companies in the Sanofi group (licensor) and Genentech (licensee) over royalty payments under a licence agreement for the use of technology. The licence agreement, which was concluded in 1991, involved two US and one European patent, the latter of which was subsequently invalidated. Pursuant to the licence, Genentech agreed to use Hoechst's technology in return for a licence issuance fee, an annual research fee and royalties on sales of any “finished” products. Although Genentech paid the agreed issuance and annual fee, it never made any royalty payments.

Sanofi initiated arbitration proceedings in Paris, where the sole arbitrator concluded that Genentech was required to pay the royalties, despite the retroactive invalidation of the patent. Following an action for annulment by Genentech against the arbitral award, the Paris Court of Appeal referred the following question to the CJEU:

- “Should the provisions of Article 101 TFEU be interpreted as rendering ineffective a license agreement, which requires the licensee to pay royalties for the mere use of the rights attached to the licensed patents, in case these patents are revoked?”

AG Opinion

According to the AG, the answer to this question should be “no”. The AG opined that a licence agreement, which requires the licensee to pay royalties despite the fact that the patent protecting the technology is revoked, does not violate, in and of itself, Article 101 TFEU, provided that:

- (i) the commercial purpose of the licence is to avoid patent litigation;
- (ii) the licensee can terminate the licence agreement by giving reasonable notice;
- (iii) the licensee can challenge the validity or infringement of the patents; and
- (iv) the licensee retains his freedom of action after termination (e.g. in relation to the formerly patented technology).

CJEU Confirms EU Competition Law Does Not Prevent Royalties for Revoked Patent Licences

The AG applied the *Kai Ottung v Klee & Weilbach A/S and Thomas Schmidt A/S* (Case 320/87, “*Ottung*”) ruling by analogy. In *Ottung* the CJEU had acknowledged that licence agreements may impose royalty obligations for reasons which are not connected with a patent, but which instead reflect the commercial value of the exploitation possibilities that the licence affords. These obligations, the CJEU held, may violate Article 101 TFEU where the licensee does not have the right to terminate the agreement by giving reasonable notice, or where it seeks to restrict the licensee’s freedom of action after termination.

Practical Implications

The AG opinion highlights the significant impact of competition law when structuring the payment provisions in licence agreements:

- Patent owners who wish to charge royalties extending beyond the patent’s life, should consider including in the agreement a provision explaining the commercial reasoning for doing so. Otherwise, there is a material risk that these royalties may be deemed unenforceable, unless the licensee can (i) terminate the licence on reasonable notice, (ii) is free to challenge the patents and (iii) is not restricted after termination. Alternatively, patent owners might wish to shift the risk of a future invalidation to the licensee by agreeing an upfront payment rather than a “running” royalty.
- Licensees should ensure that the licence agreement is clear regarding a potential invalidation or expiry of the patent. In particular, they may wish to include in the agreement an explicit clause stipulating that they will be released from their obligation to pay royalties in the event of a subsequent invalidation, or expiry of the patent. Otherwise, they will still be liable for the payment of royalties, even though any future revocation would have retroactive effect.

Authors:

Scott Megregian

Scott.Megregian@klgates.com
+44.(0).20.7360.8110

Gabriela Da Costa

Gabriela.daCosta@klgates.com
+44.(0)20.7360.8115

Francesco Carloni

Francesco.Carloni@klgates.com
+32.(0)2.336.1908

Tatiana Siakka

Tatiana.Siakka@klgates.com
+44.(0).20.7360.8138

CJEU Confirms EU Competition Law Does Not Prevent Royalties for Revoked Patent Licences

K&L GATES

Anchorage Austin Beijing Berlin Boston Brisbane Brussels Charleston Charlotte Chicago Dallas Doha Dubai
Fort Worth Frankfurt Harrisburg Hong Kong Houston London Los Angeles Melbourne Miami Milan Newark New York
Orange County Palo Alto Paris Perth Pittsburgh Portland Raleigh Research Triangle Park San Francisco São Paulo Seattle
Seoul Shanghai Singapore Sydney Taipei Tokyo Warsaw Washington, D.C. Wilmington

K&L Gates comprises approximately 2,000 lawyers globally who practice in fully integrated offices located on five continents. The firm represents leading multinational corporations, growth and middle-market companies, capital markets participants and entrepreneurs in every major industry group as well as public sector entities, educational institutions, philanthropic organizations and individuals. For more information about K&L Gates or its locations, practices and registrations, visit www.klgates.com.

This publication is for informational purposes and does not contain or convey legal advice. The information herein should not be used or relied upon in regard to any particular facts or circumstances without first consulting a lawyer.

© 2016 K&L Gates LLP. All Rights Reserved.