Reports of Cases

JUDGMENT OF THE COURT (First Chamber)

7 July 2016 *

(Reference for a preliminary ruling — Competition — Article 101 TFEU — Non-exclusive licence agreement — Patent — No infringement — Obligation to pay royalties)

In Case C-567/14,

REQUEST for a preliminary ruling under Article 267 TFEU from the cour d'appel de Paris (France), made by decision of 23 September 2014, received at the Court on 9 December 2014, in the proceedings

Genentech Inc.

v

Hoechst GmbH,

Sanofi-Aventis Deutschland GmbH,

THE COURT (First Chamber),

composed of R. Silva de Lapuerta, President of the Chamber, A. Arabadjiev, J.-C. Bonichot, C.G. Fernlund (Rapporteur) and E. Regan, Judges,

Advocate General: M. Wathelet,

Registrar: V. Tourrès, Administrator,

having regard to the written procedure and further to the hearing on 20 January 2016,

after considering the observations submitted on behalf of:

— Genentech Inc., by E. Kleiman, S. Saleh, C. Ritz, L. De Maria, E. Gaillard, J. Philippe, avocats, and by P. Chrocziel and T. Lübbig, Rechtsanwälte,

— Hoechst GmbH and Sanofi-Aventis Deutschland GmbH, by A. Wachsmann, A. van Hooft, M. Barbier, A. Fisselier and T. Elkins, avocats,

— the French Government, by D. Colas, D. Segoin and J. Bousin, acting as Agents,

— the Spanish Government, by A. Rubio González, acting as Agent,

— the Netherlands Government, by M. Bulterman and M. de Ree, acting as Agents,

* Language of the case: French.

— the European Commission, by A. Dawes, B. Mongin and F. Castilla Contreras, acting as Agents,

after hearing the Opinion of the Advocate General at the sitting on 17 March 2016,

gives the following

Judgment

1 This request for a preliminary ruling concerns the interpretation of Article 101 TFEU.

2 The request was made in the context of proceedings between, on the one hand, Genentech Inc. and, on the other, Hoechst GmbH and Sanofi-Aventis Deutschland GmbH concerning the annulment of an arbitration award relating to the performance of a licence agreement concerning rights derived from patents.

The dispute in the main proceedings and the question referred for a preliminary ruling

3 On 6 August 1992, Behringwerke AG granted a worldwide non-exclusive licence to Genentech ('the licence agreement') for the use of a human cytomegalovirus enhancer ('the HCMV enhancer'). This technology was the subject of European Patent No EP 0173 177 53, issued on 22 April 1992 and revoked on 12 January 1999, as well as of two patents, US 522 and US 140, issued in the United States on 15 December 1998 and 17 April 2001 respectively.

4 Genentech used the HCMV enhancer to facilitate the transcription of a deoxyribonucleic acid (DNA) sequence necessary for production of a biological medicinal product containing the active ingredient rituximab. Genentech markets that medicinal product, in the US, under the trade name Rituxan and, in the European Union, under the trade name MabThera.

5 The licence agreement was governed by German law.

6 Under Article 3.1 of that licence agreement, Genentech undertook to pay, as consideration for the right to use the HCMV enhancer:

— a one-off fee of 20 000 Deutschmarks (DM) (approximately EUR 10 225);

— a fixed annual research fee of DM 20 000;

— a running royalty equivalent to 0.5% of the net sales of the finished products by the licensee and its affiliated companies and sub-licensees.

7 The licence agreement defines 'finished products' as 'commercially marketable goods incorporating a licensed product, sold in a form enabling them to be administered to patients for therapeutic purposes or to be used in a diagnostic procedure, and which are not intended or marketed for reformulation, processing, repackaging or relabeling before use'. With regard to 'licensed products', these are defined by that agreement as 'materials (including organisms) in respect of which the manufacture, use or sale would, in the absence of this agreement, infringe one or more unexpired claims included in the rights attached to the patents under licence'.

8 Genentech paid the one-off fee and the annual fee, but never paid the running royalty to Hoechst, the successor company to Behringwerke.

9 On 30 June 2008, Sanofi-Aventis Deutschland, a subsidiary of Hoechst, made enquiries of Genentech as to the finished products which it was marketing without paying the amount of the running royalty.

10 On 27 August 2008, Genentech notified Sanofi-Aventis Deutschland of the decisions to terminate the licence agreement with effect from 28 October 2008.

11 On 24 October 2008, Hoechst, taking the view that Genentech had used the HCMV enhancer without paying the running royalty, initiated arbitration proceedings against it pursuant to the arbitration clause set out in Article 11 of the licence agreement.

12 On 27 October 2008, Sanofi-Aventis Deutschland brought an action before the United States District Court for the Eastern District of Texas against Genentech and Biogen Idec Inc. for infringement of the licensed patents. On the same day, Genentech and Biogen brought an action for revocation of those patents before the United States District Court for the Northern District of California. Both of those actions were joined before the latter court, which dismissed them by decision of 11 March 2011.

13 By judgment of 22 March 2012, the United States Court of Appeals for the Federal Circuit dismissed the appeal brought by Sanofi-Aventis Deutschland against that decision.

14 By a third partial award of 5 September 2012 ('the third partial award'), the sole arbitrator held Genentech liable for payment of the running royalty to Hoechst.

15 On 10 December 2012, Genentech brought an action before the cour d'appel de Paris (France) (Court of Appeal, Paris, France) seeking annulment of the third partial award.

16 On 25 February 2013, the sole arbitrator issued the final award and fourth partial award on the quantum and the costs, in which Genentech was ordered to pay to Hoechst, in addition to the arbitration and representation costs, the sum of EUR 108 322 850 in damages, plus simple interest. That final award was supplemented by an addendum of 22 May 2013.

17 By order of 3 October 2013, the cour d'appel de Paris (Court of Appeal, Paris) granted leave for enforcement of the third partial award and refused to join Genentech's actions seeking annulment of that third partial award and of the final award of 25 February 2013 and the addendum thereto of 22 May 2013.

18 In the context of the proceedings for annulment of the third partial award, the referring court expresses uncertainty as to whether the licence agreement is compatible with Article 101 TFEU. It notes that the sole arbitrator took the view that, during the period of validity of the licence agreement, the licensee was required to pay the royalties stipulated in that agreement even though the revocation of the patents had retroactive effect. The referring court is unsure whether such an agreement contravenes the provisions of Article 101 TFEU, in so far as it requires the licensee to pay royalties which no longer serve any purpose because of the revocation of the patents attached to the rights granted and places the licensee at a 'competitive disadvantage'.

19 In those circumstances, the cour d'appel de Paris (Court of Appeal, Paris) decided to stay the proceedings and to refer the following question to the Court for a preliminary ruling:

'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 question referred for a preliminary ruling

Admissibility

20 Hoechst and Sanofi Aventis Deutschland (hereinafter referred to jointly as 'Hoechst') and the French Government argue that the request for a preliminary ruling is inadmissible, a contention which the European Commission disputes.

21 First, Hoechst contends, in essence, that the rules governing the national proceedings do not allow the referring court to ask such a question without being in breach of its own jurisdiction. Hoechst declares that, as a result, it brought an appeal before the Cour de cassation (France) (Court of Cassation, France) against the request for a preliminary ruling.

22 It should, however, be borne in mind, first, that, in the context of Article 267 TFEU, the Court has no jurisdiction to rule either on the interpretation of provisions of national laws or national regulations or on their conformity with EU law (see, inter alia, judgment of 11 March 2010 in *Attanasio Group*, C-384/08, EU:C:2010:133, paragraph 16 and the case-law cited) and, second, that it is not for the Court to determine whether the decision whereby a matter is brought before it was taken in accordance with the rules of national law governing the organisation of the courts and their procedure (judgments of 14 January 1982 in *Reina*, 65/81, EU:C:1982:6, paragraph 8, and of 23 November 2006 in *Asnef-Equifax and Administración del Estado*, C-238/05, EU:C:2006:734, paragraph 14).

23 The Court must abide by the decision from a court of a Member State requesting a preliminary ruling in so far as that decision has not been overturned in any appeal procedures provided for by national law (judgments of 12 February 1974 in *Rheinmühlen-Düsseldorf*, 146/73, EU:C:1974:12, paragraph 3, and of 1 December 2005 in *Burtscher*, C-213/04, EU:C:2005:731, paragraph 32). In the present case, it is apparent from the evidence produced during the proceedings that, by order of 18 November 2015, the Cour de cassation dismissed the appeal brought by Hoechst against the decision requesting a preliminary ruling, with the result that the view cannot be taken that that decision has been overturned.

24 Second, Hoechst submits that no useful answer could be provided to the referring court. It argues that, in the case of an action seeking annulment of an international arbitral award, national courts are not entitled to check how competition issues were decided on by the arbitrator when he has taken the view, in the final award, that there was no breach of Article 101 TFEU.

25 The French Government adds that the request for a preliminary ruling does not contain the elements of fact and law necessary to enable a useful answer to be given to the question. In particular, it argues, the decision making the reference does not specify the actual conditions of the functioning and structure of the market or markets at issue. The referring court, in its view, failed to mention certain normative instruments relating to EU competition law, which are nonetheless relevant, or provide any information concerning the German law to which the licence agreement is subject.

26 It must be borne in mind in this regard that, in the context of the cooperation between the Court of Justice and the national courts provided for in Article 267 TFEU, it is solely for the national court before which a dispute has been brought, and which must assume responsibility for the subsequent judicial decision, to determine, in the light of the particular circumstances of the case, both the need for a preliminary ruling to enable it to deliver judgment and the relevance of the questions which it submits to the Court. Consequently, where the question put concerns the interpretation of a provision of EU law, the Court is, in principle, bound to give a ruling. The Court may refuse to rule on a question referred by a national court only where it is quite obvious that the interpretation of EU law that is sought bears no relation to the actual facts of the main action or its purpose, where the problem is hypothetical, or where the Court does not have before it the factual or legal material

necessary to give a useful answer to the questions submitted to it (judgments of 13 March 2001 in *PreussenElektra*, C-379/98, EU:C:2001:160, paragraphs 38 and 39, and of 22 June 2010 in *Melki and Abdeli*, C-188/10 and C-189/10, EU:C:2010:363, paragraph 27).

27 In the present case, since the referring court raises the question whether Article 101 TFEU precludes the licence agreement from being implemented in accordance with the interpretation which was given to it by the sole arbitrator, it is not entirely obvious that the question referred to the Court as to the interpretation to be given to this provision of the TFEU is irrelevant for the purpose of resolving the dispute in the main proceedings. The order for reference sets out, briefly but precisely, the origin and nature of this dispute, the outcome of which it regards as dependent on the interpretation of Article 101 TFEU. It follows that the referring court has adequately defined the factual and legal framework within which it made its request for interpretation of EU law to enable the Court to provide a useful reply to that request.

28 Third, Hoechst and the French Government argue that the question posed by the referring court does not correspond to the facts at issue in the main proceedings, in so far as the US patents, which alone have relevance for the purposes of the main proceedings, have not been revoked.

29 In that regard, it must be noted that the referring court has, admittedly, formulated its question in terms that could be understood as referring to the particular situation in which the licensee would be required to pay royalties for the use of rights attached to the patents, notwithstanding the revocation of those patents.

30 However, as the Advocate General has observed in point 36 of his Opinion, it is clear from the terms of the request for a preliminary ruling, as reproduced, essentially, in paragraphs 12 and 13 above, that the referring court is aware that patent US 522, issued on 15 December 1998, and patent US 140, issued on 17 April 2001, which the parties agree are the only patents of relevance for the purposes of the main proceedings, have not been revoked. The reference to the revocation of the patents by the referring court merely repeats that set out in paragraphs 193 and 194 of the third partial award, the wording of which is clearly contradicted both by the rest of that award, in particular paragraphs 51 to 53 thereof, and by the evidence in the file made available to the Court.

31 It follows that the question referred is admissible.

Substance

32 It should be noted at the outset that it is apparent from the file before the Court that Genentech argued during the arbitration proceedings that it was not required to pay the running royalty, since, according to the terms of the licence agreement, the payment of that royalty was based on the supposition, first, that the HCMV enhancer was present in the finished product rituximab and, second, that the manufacture or use of that enhancer had, in the absence of that agreement, breached the rights attached to the licensed patents. The sole arbitrator, however, rejected those arguments, which he considered to be based on a literal interpretation of the licence agreement, which was contrary to the parties' commercial objectives, namely to allow Genentech to use the HCMV enhancer for the production of proteins without incurring any risk of an infringement action brought by the holder of the rights to that technology.

33 Similarly, it also follows from the request for a preliminary ruling that, in the main proceedings, Genentech argued that, by requiring it to pay the running royalty in the absence of any infringement, even though, according to the terms of the licence agreement, that royalty was due only for products the manufacture, use or sale of which would, in the absence of that agreement, infringe the licensed patents, the third partial award imposes on it unjustified expenses, in breach of competition law.

34 Consequently, even if, in formal terms, the referring court appears, as has already been stated in paragraph 29 above, to have limited its question to the case of a revocation of the patents, that question should be understood as also referring to the case of non-infringement of the licensed patents.

35 In those circumstance, the question raised by the referring court must be understood as asking, in essence, whether Article 101(1) TFEU must be interpreted as precluding, under a licence agreement such as that at issue in the main proceedings, the imposition on the licensee of an obligation to pay a royalty for the use of a patented technology for the entire period during which that agreement was in effect, in the event of the revocation or non-infringement of patents protecting that technology.

36 Genentech and the Spanish Government consider that the answer to this question should be in the affirmative. Hoechst, the French Government, the Netherlands Government and the Commission take the opposite view.

37 Genentech claims that the sole arbitrator disregarded the clear terms of the licence agreement and of Article 101 TFEU by requiring it to pay royalties on sales of a product which does not infringe the patented technology. Genentech submits that it has been exposed to additional costs of approximately EUR 169 million as compared with its competitors due to that restriction, by object and effect, of Article 101 TFEU.

38 In that regard, it must be noted, as the Advocate General observed in point 75 of his Opinion, that it is not for the Court, in the context of the preliminary ruling procedure, to review the findings of the sole arbitrator or his interpretation of the licence agreement carried out in the light of German law, according to which Genentech is required to pay the running royalty fee notwithstanding the revocation or non-infringement of the patents at issue in the main proceedings.

39 It should further be recalled that the Court has already ruled, in the context of an exclusive licence agreement, that the obligation to pay a royalty, even after the expiry of the period of validity of the licensed patent, may reflect a commercial assessment of the value to be attributed to the possibilities of exploitation granted by the licence agreement, especially when that obligation to pay was embodied in a licence agreement entered into before the patent was granted (judgment of 12 May 1989 in *Ottung*, 320/87, ECR, EU:C:1989:195, paragraph 11). In such circumstances, where the licensee may freely terminate the agreement by giving reasonable notice, an obligation to pay a royalty throughout the validity of the agreement cannot come within the scope of the prohibition set out in Article 101(1) TFEU (judgment of 12 May 1989 in *Ottung*, 320/87, EU:C:1989:195, paragraph 13).

40 It thus follows from the judgment of 12 May 1989 in *Ottung* (320/87, EU:C:1989:195), 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. That assessment is based on the finding that that 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 licence agreement at issue is still valid and can be freely terminated by the licensee, the royalty payment is due, even if the industrial-property rights derived from patents which are granted exclusively cannot be used against the licensee due to the fact that the period of their validity has expired. In the light of such circumstances, in particular the fact that the licence may be freely terminated by the licensee, the contention may be rejected that the payment of a royalty undermines competition by restricting the freedom of action of the licensee or by causing market foreclosure effects.

41 That solution, stemming from the judgment of 12 May 1989 in *Ottung* (320/87, EU:C:1989:195), applies *a fortiori* in a situation such as that at issue in the main proceedings. If, during the period in which a licence agreement is in effect, the payment of the royalty is still due even after the expiration of industrial property rights, the same applies, *a fortiori*, before the validity of those rights has expired.

42 The fact that the courts of the State issuing the patents at issue in the main proceedings have held, following the termination of the licence 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 in 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 Article 101(1) TFEU.

43 In the light of the foregoing considerations, the answer to the question referred is that Article 101(1) TFEU must be interpreted as not precluding the imposition on the licensee, under a licence agreement such as that at issue in the main proceedings, of a requirement to pay a royalty for the use of a patented technology for the entire period in which that agreement was in effect, in the event of the revocation or non-infringement of a licenced patent, provided that the licensee was able freely to terminate that agreement by giving reasonable notice.

Costs

44 Since these proceedings are, for the parties to the main proceedings, a step in the action pending before the national court, the decision on costs is a matter for that court. Costs incurred in submitting observations to the Court, other than the costs of those parties, are not recoverable.

On those grounds, the Court (First Chamber) hereby rules:

Article 101(1) TFEU must be interpreted as not precluding the imposition on the licensee, under a licence agreement such as that at issue in the main proceedings, of a requirement to pay a royalty for the use of a patented technology for the entire period in which that agreement was in effect, in the event of the revocation or non-infringement of a licenced patent, provided that the licensee was able freely to terminate that agreement by giving reasonable notice.

[Signatures]