

## REFERENCES:

1. *Genentech Inc. v Hoechst GmbH & Sanofi-Aventis Deutschland GmbH* – CJEU Case C-567/14 // *Ottung* – CJEU Case 320/87 // *Kimble v. Marvel Enterprises, Inc.*, 576 U.S. \_\_\_, 135 S. Ct. 2401 (2015)
2. *Unwired Planet v Huawei* [2017] EWHC 711 (Pat) // *Huawei v ZTE* – CJEU Case C-170/13 // *Illumina Inc. v Premiatha Health* [2016] EWHC 1726 (Pat)
3. s74 Patents Act 1977 // *Arrow Generics Ltd v Merck & Co Inc* [2007] EWHC 1900 (Pat) // *Fujifilm Kyowa Kirin Biologics Co Ltd v AbbVie Biotechnology Ltd & Another* [2017] EWCA Civ 1
4. s39-43 Patents Act 1977 // *Kelly v GE Healthcare* [2009] EWHC 181 (Pat) // *Shanks v Unilever* [2017] EWCA Civ 2 // Employee Creations Handbook: <http://globalipsuite.bakermckenzie.com/e handbook/>



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# Annual IP Seminar

## PATENTS: COMPETITION DEFENCES, ROYALTIES AND FRAND LICENSING ISSUES, ARROW DECLARATIONS AND INVENTOR COMPENSATION

### 1. LICENCE ROYALTIES FOR EXPIRED, REVOKED OR NON-INFRINGEMENT PATENTS

- In *Ottung* the CJEU had held that obliging a licensee to pay a royalty after the expiry of the period of validity of the licensed patent is not a breach of EU competition law provided the licensee is free to terminate the licence by giving reasonable notice.
- This was extended in *Genentech* to apply also in the event of revocation or non-infringement of the licensed patent.
- 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 licence may be freely terminated by a licensee, payment of a royalty will not restrict the freedom of action of the licensee or cause market foreclosure effects and so will not undermine competition.
- This contrasts with the position in the US where the Supreme Court (in *Kimble v Marvel*) recently affirmed that an obligation to pay royalties following expiry of the patents is unlawful *per se*.

### 3. ARROW DECLARATIONS

What are "Arrow declarations"?

- They are a mechanism which allows the court to declare that an intended product or process was not new or was obvious at the priority date of a patent application in circumstances where the patent application owner reserved the right to assert the patent against that product or process on grant.

How did they come about?

- Prima facie the validity of a patent application cannot be challenged; therefore, if there are no relevant granted patents, validity cannot be put in issue (see s74(1) and s74(2) Patents Act 1977).
- In *Arrow Generics v Merck*, the High Court held that it had a discretionary power to grant a declaration (an "Arrow declaration") that a generic pharmaceutical was known or obvious at the priority date of certain divisional patent applications.
- An Arrow declaration can be used as a "Gillette defence" to any later claim for infringement of a granted patent.
- An Arrow declaration is (in effect) a negative declaration. Negative declarations are an unusual remedy, but can be granted when useful to do so. Whether a declaration is justified depends on the exercise of the court's discretion in accordance with established principles.
- In the recent case of *Fujifilm v AbbVie* the Court of Appeal confirmed in principle the availability of Arrow declarations.

### 4. EMPLOYEE INVENTOR COMPENSATION

- Employee can claim compensation if (a) the patent or invention is of outstanding benefit to the employer; and (b) it is just to award the employee compensation. In considering whether there is an outstanding benefit regard must be had, among other things, to the size and nature of the employer's undertaking. If compensation is to be given the court may secure for the employee "a fair share of the benefit which the employer has derived from the patent".
- The CA gave further guidance in *Shanks v Unilever* on determining if there was an outstanding benefit. In particular:
  - in defining the employer's undertaking it is necessary to consider the "economic and business realities" of the employer's organisation;

### 2. COMPETITION DEFENCES IN PATENT LITIGATION

- The UK Courts are willing to consider competition law defences in the context of patent disputes. The sensible approach will generally be to consider non-technical defences in a further trial following the judgment in the technical trial.
- In the most recent *Unwired Planet* decision, the High Court considered competition law – specifically Article 102 abuse of a dominant position – in the context of standards essential patents (SEPs) that had been found to be valid and infringed and for which the

patentee had made a declaration that it was willing to licence on fair, reasonable and non-discriminatory (FRAND) terms.

- Dominance: Where the patentee has a 100% market share as in the case of the owner of a SEP where the relevant market is the market for licensing each SEP, there is a rebuttable presumption that the patentee is in a dominant position. The FRAND undertaking and the potential for hold out by an implementer are relevant factors and may be sufficient to rebut that presumption in the particular circumstances.
- Premature litigation: bringing an infringement claim seeking an injunction will be abusive if brought without any prior notice and will not be abusive if it complies with the scheme set out in *Huawei v ZTE*. If there is some notice but the scheme is not complied with fully then the claim might be abusive and the circumstances need to be considered. Note that bringing a claim for damages alone is not abusive.
- Excessive pricing: The boundary of what is or is not a FRAND rate is different from the boundary of what is or is not an unfair price contrary to Article 102 – a FRAND rate cannot be abusive but a royalty rate above the FRAND rate may also not be abusive. Offers in negotiations higher or lower than the FRAND rate that do not disrupt or prejudice the negotiations are legitimate.
- Bundling patents worldwide: Multijurisdictional portfolio licences themselves are unlikely to have inherently anti-competitive effects and a demand for a worldwide licence is not inherently likely to distort competition.
- Bundling SEPs and non-SEPs: Making an offer that puts SEPs and non-SEPs together is not contrary to competition law, but an insistence on putting the two together if the licensee asks for them to be separated might be.

THE PAST YEAR'S patent cases have illustrated again the court's willingness to be creative and commercial in its approach to patent litigation and, in particular, in areas outside the traditional infringement and validity arguments. In this session we discuss some of the key cases that demonstrate this and consider the practical implications of these decisions