

Brulotte and Spiderman

More important to be settled than to be right?

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Kimble v Marvel Entertainment: background

- Patent holder cannot charge royalties for post-expiration use of a patent - *Brulotte v Thys* (1964)
- Concept of time-limited monopoly
- Marvel / Kimble licence agreement
 - Lump sum
 - 3% royalty for patent and non-patent rights
 - Royalty applied to all future sales of Web Blaster and similar products using the '856 patent
 - No end date for royalty payments
 - Patent expired in 2010

Supreme Court decision, June 2015 (majority)

- Doctrine of precedent or *stare decisis*
 - Matter of legislative interpretation – not accepted by dissenting minority
 - Reliance by third parties
- Congress declined to change the law on numerous occasions
- Consistent and predictable rules - simple to apply
- Not economically irrational
- No evidence that *Brulotte* discouraged innovation or commercialisation of inventions
- Misapplication of antitrust principles?
 - No, simple application of principle that patent and its benefits must expire on expiry of the patent

Alternative policy considerations

- Do post-expiration royalties harm competition, e.g. by extending patent monopoly?
- Even if so, would *per se* rule as reflected in legislation be appropriate?
- Allocation of risk reflecting
 - Uncertainty over economic value of technology and ability to recoup investment
 - Avoiding early expensive outlays of capital
 - Time taken to monetize an invention
 - Encouragement to innovators

EU Competition Law

- Greater flexibility in structuring royalty payments without falling within Article 101(1)
- Whether competitors or non-competitors
- TTBER only applies for as long as the technology rights are valid and in force BUT
- Royalty obligations can extend beyond the period of validity of the licensed IPRs without falling within Article 101
- Ability of third parties to exploit the IPRs is usually enough to ensure such an obligation does not have an appreciable anti-competitive effect.

But is there more to it than this?

Competition / Antitrust concerns

- Dampening innovation and competition
- Raising prices and foreclosure
- Preventing misuse and abuse

SO

- TTBER only applies for as long as IPRs are in force (whether lapsed, expired or declared invalid)
- TTBER defines as a hard-core restriction:
 - Requirement to pay royalties for use solely of own technology
 - Requirement to pay royalties calculated on basis of all product sales irrespective of whether licensed technology is used
- No challenge provisions not exempted

EU Competition law - examples

- *Windsurfing*: royalties extending to products not covered by patent
- *Ottung v Klee*: restriction on ability to exploit rights post termination (nb. licensee had right to terminate on reasonable notice)
- *AIOP v Beyrard*: obligation to pay royalties when licensor's patent not used and no termination right

Genentech – preliminary ruling

- Revocation of patent => implications for royalty payments
- Worldwide licence from Sanofi for use of HCMV enhancer used to manufacture drugs
- Royalty fees included annual fixed minimum royalty
- Running royalty by reference to net sales of finished products
- Arbitral awards in Sanofi's favour despite
 - EPO revocation of European patents
 - US patents found to be non-infringed
- *“Must ... Article [101 TFEU] be interpreted as precluding effect being given, where patents are **revoked**, to a licence agreement which requires licensee to pay royalties for the sole use of the rights...”*

Consequences of finding of invalidity

- IPRs valid until invalidated, but generally retroactive effect
- Precise contractual consequences can vary among Member States
- Examples of cases where royalty payments post-expiry have been upheld (*Pestre v Oril, 1990*)
- May depend on whether invalidity through mistake, fraud/deceit
- **Contrary to public policy, e.g. as breach of competition law?**

Implications for licensing

- US Supreme Court acknowledged implications for drafting of licence agreements
- Sufficient flexibility remains?
 - E.g. around deferral of royalties, minimum and maximum royalties
 - *Brulotte* enables royalties until expiry of last-running patent
- Multi-jurisdictional licences
- Article 101(2) invalidity
- Doctrine of severance

Potential solutions

- Linking post-termination royalties to other IP rights, e.g. know-how
 - Limitations where those underlying rights ‘expire’
 - Cannot cheat!
- Separate agreements? Or at least separate licences with distinct terms / values, likely to be lower post patent-expiry
- Licensing of multiple patents
- Deferring payments for pre-expiration use of patent to post-expiration period
- Greater upfront lump sum?
- Higher royalties generally?
- Joint venture agreement
- Ensure right to terminate on reasonable notice



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