Get Your Hands Off My Patent: Adjudication Of Foreign Patents Under A Licence Agreement In The UK Court

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Introduction

For various reasons, businesses and rights holders like to bring patent-related proceedings to the UK court. In addition to the normal situation of litigating UK patents, increasingly the UK court is willing to rule on infringement of foreign patents in the context of contractual disputes, given parties to licence agreements often agree via exclusive jurisdiction clauses to litigate in the UK court on infringement of a patent portfolio which includes both UK and foreign patents.

This article seeks to review this practice of litigating foreign patent infringement disputes in the UK court in the context of contractual disputes. We will focus on the recent UK High Court decision in *Chugai v. UCB* [2017] EWHC 1216 (Pat), whereby the court considered that it had jurisdiction to consider the construction of U.S. patent claims in a royalty dispute under a patent licence agreement, and briefly look at other jurisprudence in this area.

We will also touch upon other examples of the UK court assuming jurisdiction over infringement of foreign patent rights outside the context of a licence agreement, such as the recent pemetrexed litigation *Actavis v. Eli Lilly* [2017] UKSC 48, and consider the potential implications on litigation of unitary patents and the jurisdiction of the Unified Patent Court (UPC).

Recent Developments: *Chugai v. UCB* [2017] EWHC 1216 (Pat)

Summary

The UK High Court recently held that it has jurisdiction to consider the construction of U.S. patent claims in a dispute over royalties due under a patent licence agreement which contained a provision whereby the parties submitted to the jurisdiction of the UK court.

Background

Chugai and UCB were parties to a patent licence permitting Chugai to use and exploit patents relating to products containing tocilizumab, which is an antibody principally used in the treatment of rheumatoid arthritis. Chugai brought an action in the High Court seeking a declaration against UCB that it does not need to continue paying royalties under this patent licence. Since the start of 2016 the only patent still in force under the patent licence was a U.S. patent (771 Patent). Chugai argued that its tocilizumab products (which are, in part, manufactured and sold in the U.S.) do not fall within the scope of the 771 Patent, and is seeking a declaration that it doesn't owe royalties for products manufactured after the start of 2016. The main trial was listed for February 2018.

The patent licence in question contains an exclusive jurisdiction clause under which the parties submit to the exclusive jurisdiction of the UK court, with an exception such that only the U.S. courts can determine the validity of the 771 Patent. Such jurisdiction arrangements are not uncommon in patent licences. The patent licence is governed by UK law.

Case Overview

UCB applied for strike out and/or summary judgment as regards aspects of Chugai's pleading, which relate to issues of invalidity of the 771 Patent, albeit in the context of a declaration about royalties under the licence. UCB alleged that the UK proceedings concerned the validity of the 771 Patent, and not simply its scope, and, since a UK court has no power to determine the validity of a foreign patent, this was not a matter for the UK court to determine.

UCB challenged aspects of Chugai's pleading which asserted arguments about the principles of claim construction under U.S. patent law, notably that the 771 Patent would be invalid for lack of novelty over the prior art if one construes the 771 Patent such that Chugai's tocilizumab product infringes the 771 Patent. UCB argued that infringement and validity were inseparable, and that the UK court should not determine a dispute which relates to the validity of a foreign patent. UCB submitted that this was akin to a classic "squeeze" between infringement and validity, which had been "dressed up" by Chugai as an action for a declaration about licence royalties.

Chugai, on the other hand, asserted that reference to U.S. law on patent validity was incidental to the determination of whether royalties are due under the licence agreement (which was a contractual matter). In addition, Chugai submitted that it was not challenging the validity of the 771 Patent or seeking any relief as to invalidity.

The court sided with Chugai and dismissed UCB's applications for strike out/summary judgment in respect to the disputed paragraphs in Chugai's pleading. It also

held that the UK court had jurisdiction in respect of the issues raised by these disputed paragraphs.

Whilst agreeing that the court should carefully examine the substance of a dispute in the context of challenges to jurisdiction, it found that not every infringement dispute concerned a challenge to validity, and, therefore, that validity and infringement were separable. On the facts, the court considered that Chugai was not claiming the 771 Patent to be invalid.

As was the case here, the court considered that it is common for parties to agree in their patent licences that infringement is to be determined by the court of a single state (which from a commercial point of view makes sense), but that patents may only be challenged and declared invalid in the relevant countries of registration. The court also recognised the commercial importance of requiring parties "to stick to their agreements" as regards exclusive jurisdiction clauses in patent licences. The court rejected UCB's argument that adjudicating on issues relating to the scope of the patent would be a breach of the principle of comity, on the basis that the parties had agreed that this would be judiciable by the UK court.

Referring to recent case law on the *Moçambique* rule—that the UK court had no jurisdiction to entertain an action for determination of the title to, or the right to possession of, foreign land, or the recovery of damages for trespass to such land—the court implied that this rule no longer applied to patents where infringement (not validity) was being determined. In addition, the longstanding contractual exception to the *Moçambique* rule was deemed to apply in this case, the parties having contractually agreed that the scope of the patents under the licence agreement should be determined by the UK court.

The court also considered whether it was constrained by the doctrine of foreign act of state. Referring to the UK Supreme Court's ruling in *Lucasfilm v. Ainsworth* [2011] UKSC 39, the court considered the granting of a patent not to be an act of state, and that the foreign act of state doctrine is not an impediment to an action for infringement of foreign intellectual property rights, even if the validity of a grant of such intellectual property rights is in issue (recognising that invalidity was not being claimed in this case).

Finally, the court went on to make some obiter comments supporting the position that, had the case concerned a direct challenge to the validity of the 771 Patent, it would not have been justiciable by the UK court.

Litigating Foreign Patents—Nothing New

Based on the *Chugai* case, it appears that the UK court will consider the scope of foreign patent rights where the parties have agreed to give the UK court jurisdiction to do so under the relevant licence agreement, at least in the context of payment of royalties (and in effect infringement) for patents under a licence agreement where there is no challenge to the validity of the patent.

This willingness of the UK court to determine infringement of foreign patents by reference to foreign patent law is nothing new. As referred to in *Chugai*, a series of cases in the UK courts back in 2003/2004 between Celltech and MedImmune, involving disputed royalties under a licence agreement relating to MedImmune's Synagis product, saw the UK court consider infringement/royalties relating to German and U.S. patents (*Celltech v. MedImmune* [2004] EWHC 1124 (Patents); 2003 EWCA Civ 108; [2004] EWCA Civ 1331). Interestingly, in one of the cases MedImmune commenced proceedings in the U.S. court for declarations of non-infringement and invalidity, but Celltech managed to bring the proceedings to the UK court on the basis that the relevant licence agreement conferred jurisdiction on the UK court as regards the question of whether or not a product was covered by the licenced patent.

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The *Chugai* and *Celltech* rulings indicate a more general trend of the UK court considering construction and infringement of foreign patents. More generally, where there is an agreement in place with an exclusive jurisdiction clause, such clause is likely to be interpreted "widely and generously" where commercial parties are involved. This also extends to the UK court considering construction of an agreement as a matter of foreign law. For example, in the recent case of *Philips v. HTC* [2017] EWCA Civ 1526 the UK court considered the construction of a patent cross-licence agreement governed by California law where exclusive jurisdiction was conferred on the UK court, specifically a covenant not to assert patents against certain third parties. Whilst this case was a preliminary issue in patent infringement proceedings brought by Philips against HTC and various other defendants in the UK, it will nevertheless be relevant in parallel infringement proceedings brought against HTC in Germany, the

Netherlands, France and the U.S.

There does not necessarily have to be a licence agreement/exclusive jurisdiction clause for the UK court to consider patent construction as a matter of foreign law, as the recent pemetrexed litigation shows, where the UK Supreme Court in *Actavis v. Eli Lilly* [2017] UKSC 48 considered direct infringement of the UK patent-in-suit alongside direct infringement of French, Italian and Spanish designations. However, as mentioned in Carr J's ruling in *Chugai,* in the pemetrexed litigation it was important that validity was not in issue in the proceedings (Actavis had, in fact, undertaken not to challenge the validity of the patent).

Separating Infringement From Invalidity

Despite this trend of the UK court considering construction and infringement of foreign patents, the UK court will not consider validity/invalidity of a foreign patent, which is clearly a matter for the national court to determine as a matter of law, and, in any case, most licence agreements expressly confer jurisdiction for validity matters on the national courts only (via, for example, limiting the scope of a licence to a "Valid Claim" as determined by the relevant national courts). As regards European patent rights, Article 24(4) of EU Regulation 1215/2012 (Brussels I Regulation) also provides that jurisdiction for patent validity lies with the courts of the member state of registration regardless of the domicile of the parties.

A fundamental tenet of the UK court's readiness to determine infringement of foreign patents appears to be that the court is content to view invalidity and infringement as distinct matters, *i.e.* the court can decide infringement because (or so long as) infringement is separate to invalidity. The UK court appears to adopt a very commercial approach in making such distinction, taking the view that, generally speaking, sophisticated parties negotiating global licensing deals are likely to select a jurisdiction for determining matters relating to royalties and infringement with a *"specialist, experienced court to decide matters,"* in the knowledge that certain other jurisdictions have *"non-expert patent courts of variable quality and speed of decision."* Other commercial factors feted by the UK court include that one court determining infringement gives rise to a greater chance of consistency, reduces litigation, and the need to educate judges in relation to the technology is kept to a minimum.

But is it fair to view and separate invalidity and infringement in this way? Commercially it does seem reasonable to confer one court with exclusive jurisdiction over all infringement disputes where this has been expressly agreed as part of the *"parties' bargain,"* and convenient to look at infringement as separate to invalidity when doing so. This is especially the case where the sophistication of the parties is high, and the agreed exclusive jurisdiction has bifurcation of patent litigation such that invalidity and infringement are dealt with separately by different patent courts (such as in Germany, for example).

However, it is more difficult to make the distinction for patent disputes more generally given that infringement and invalidity arguments are often interlinked and co-dependent, especially when (as is often the case) there is some form of "squeeze" in play. As Floyd QC (as he was then) argued in *Celltech*, where a "squeeze" argument is relevant it may be particularly dangerous to have two different courts deciding construction (one for infringement, and one for invalidity), as the risk of injustice may be particularly high. Ultimately, there is no avoiding the potential risk of parallel proceedings and inconsistent decisions, for example, a U.S. court construes the claim of a U.S. patent such that the scope of the claim is X in the context of U.S. invalidity proceedings, but a UK court considers the scope of the claim is Y in concurrent infringement proceedings involving royalties under a licence agreement.

Even where there is no "squeeze" in play, arguably, invalidity and infringement are not completely separate matters. In the same example as above, there is also the risk that an earlier UK judgment could affect wider litigation strategy, settlement discussions between the parties and whether to proceed with the U.S. invalidity proceedings. This could even influence the outcome of the U.S. invalidity proceedings themselves (recognising that U.S. judges could choose to ignore the UK ruling).

That said, multi-jurisdictional and global patent licence agreements are often negotiated by sophisticated parties who, normally supported by expert legal counsel, should understand and be advised of the implications of an exclusive jurisdiction clause, and the risk of inconsistent rulings on patent construction between different courts in different jurisdictions. Furthermore, if a party is particularly concerned with such risk, then they should negotiate into the licence agreement an express requirement that infringement of each patent in the licenced portfolio is determined by the relevant national court (this may not be commercially palatable, but seems prudent given the approach of the UK court in *Chugai* and *Celltech*).

UPC

It is worth thinking about the impact on unitary patents and disputes in Europe's new UPC, which is now expected to open towards the end of 2018 (at the same time as the first unitary patents expect to be granted). The UK and Germany still need to ratify the UPC Agreement, and, whilst the new court had been on track to start in December 2017, this has been delayed by the UK general election called in June 2017

and a private challenge to the UPC system before the German Constitutional Court.

When it opens, the default position is that the UPC will have exclusive jurisdiction over new unitary patents and shared jurisdiction over existing European patents other than those specifically not opted out from the jurisdiction of the new court, with the UPC's jurisdiction extending to both invalidity and infringement disputes. At the end of a transition period of seven years, national courts will lose their jurisdiction over patents granted by the European Patent Office and all disputes concerning validity and infringement of such patents will be heard in the UPC.

However, the *Chugai* decision suggests that, in the context of a licence agreement, the exclusive jurisdiction of the UPC may be circumvented should parties agree to confer exclusive jurisdiction on the UK court to determine royalties and infringement. At this stage, there is nothing to suggest that the UK court would not have the appetite to determine infringement of both new unitary patents and non-opted out European patents in a similar way to its current approach for foreign patents as per *Chugai.*

Concluding Remarks—Why the UK?

Why are parties increasingly looking at ways to litigate patent infringement disputes in the UK courts (or in the case of European patents, maintain their rights to do so)? Most likely to obtain access to the UK court procedure and the perceived potential benefits that this brings. The extensive disclosure process which forms an integral part of, and is hardwired into, UK patent proceedings may be one such benefit given such disclosure (or discovery) is not commonplace in many other jurisdictions (most of continental Europe, for example). Other potential benefits include access to expert patent judges, the extensive oral cross-examination of expert witnesses at trial, speed of decision, and the relatively large expense of proceedings (when used to deter less committed or established opponents).

As in the case of *Chugai*, where parties have agreed to submit to the exclusive jurisdiction of the UK court, the UK court is likely to consider that its jurisdiction covers all infringement disputes in connection with the relevant agreement. Patent owners, licensors and licensees should consider carefully the potential scope of exclusive jurisdiction clauses in their patent licence agreements, and the implications of agreeing that one court determines infringement for a global/multi-jurisdictional patent portfolio. The impact on wider litigation strategy and settlement discussions, and the risk of inconsistent construction by courts in different jurisdictions, are just some of the factors to be borne in mind. ■

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