

Cross-undertaking in damages

claimants were seeking relief which amounted to a quantitative restriction on trade between Member States or a measure having equivalent effect within the meaning of **Article 28 EC**. Further, they contended that such a restriction was incapable of justification under **Article 30 EC**. Likewise, the claimants were seeking relief which amounted to a restriction on the freedom of foreign broadcasters to provide services and the freedom of customers to receive those services contrary to **Article 49 EC**.

The claimants argued that the ECJ had decided that performance rights, such as copyright in broadcasts, may be validly licensed and enforced in the EU on national territorial lines without falling foul of the EC Treaty's rules on free movement because of the specific subject-matter and essential function of copyright protection. The fact that a fee had been paid in respect of one Member State was irrelevant because FAPL had a right to license for a fee in each Member State in which it had copyright for its broadcasts. The Judge said that this issue also needed to be referred to the ECJ for guidance.

Competition law (Article 81 EC)

The defendants' case under **Article 81** only applied to the broadcasts made from within the EU. FAPL had established a system of contracts which contained restrictions against the circulation of authorised decoder cards outside the territory of each licensee.

The defendants argued that in the event that the interpretation of the Conditional Access Directive for which they contended was correct, it could be presumed that the

export restriction had as its object the restriction or distortion of competition and it was enough to show that there was a danger that trade between Member States would be appreciably affected. The **Article 81** defence was also raised against the copyright infringement claims.

The claimants stated that it was inherent in the specific subject-matter and essential function of copyright for broadcasts that rights could be licensed to exclusive licensees in particular Member States. In short, exclusive licences of performing rights did not *per se* infringe **Article 81**, even though they conferred absolute territorial protection and might prevent transmission into a neighbouring state.

This question was intimately tied to the other issues and the Judge believed it too should be referred to the ECJ. The Judge asked for the parties' input on the precise formulation of the questions which should be put to the ECJ.

Comment

The essence of the defence is that FAPL tries to partition the broadcasting market by prohibiting the circulation of lawful decoder cards. If the defendants' case is successful, it could have significant consequences for the European broadcasting market. The defendants' case is effectively a challenge to the way in which sports (and indeed virtually all) broadcast rights are licensed in the EU.

***Kathryn Robinson** is an assistant solicitor at Bird & Bird; she can be contacted at Kathryn.robinson@twobirds.com

A price worth paying for patentees?

Les Laboratoires Servier is the registered proprietor of **EP 1 296 947**, a patent covering a particular crystalline form of perindopril erbumine (an anti-hypertensive drug for reducing blood pressure). The UK designation of this patent gave Servier a monopoly over the sales of perindopril erbumine in the UK, which they sold under the brand name Coversyl®. The annual value of this market in the UK alone was about **£80m**.



By **Dr Matthew Royle** (left), **Kathleen Fox-Murphy** and **Simon Cohen**

In the summer of 2006, Apotex launched a generic version of perindopril erbumine in the UK and within a few days made substantial sales of the drug worth several million pounds. Servier sued Apotex for patent infringement and applied to court for an interim injunction pending full trial of the issues. Servier's application was successful and Apotex were enjoined for some 11 months – from 3 August 2006 to 9 July 2007, when the Court of Appeal refused permission to continue the injunction pending appeal¹. As a *quid pro quo* for the injunction Servier gave a cross-undertaking in damages to compensate Apotex for any losses it might suffer as a result of the injunction were it to turn out that the injunction had been wrongly granted.

Cross-undertaking in damages

The patent was held to be invalid² and so the injunction had been wrongly granted. On 6 July 2007 at the hearing following judgment an enquiry into the amount of these damages was ordered. This is not the first time that such an enquiry has been ordered. However, in all previous cases the parties have settled before trial. **Norris J**'s judgment (*Servier v Apotex* [2008] EWHC (Ch) 2347) is therefore the first time that a UK court has been given the opportunity to consider the question of damages under a cross-undertaking. In this article we review the approach taken by the court and consider what implications it might have on the future conduct of patentees.

Damages Enquiry – the law

The judge assessed the damage suffered by Apotex on the basis of the breach of a notional contract between Servier and Apotex that Servier would not prevent Apotex from selling perindopril in the UK. This is in accordance with the guidance from **Lord Diplock** in *Hoffmann La Roche*³. Whilst taking this approach, **Norris J** recognised that there would be a lack of precision in the result and, following *Chaplin v Hicks*,⁴ held that damages for **lost opportunity** were available. This approach required '*Apotex first to establish on the balance of probabilities that the chance of making a profit was real*'. If this test was satisfied, the court would evaluate the likelihood of that chance (*Allied Maples v Simmons & Simmons*⁵).

This was not a typical 'loss-of-a-chance' situation. It was not simply a case of discounting the damages by the percentage chance of the loss occurring. Rather there were a number of possible scenarios in each of which Apotex had made some loss. The Judge therefore decided what the percentage chance of each of two possible scenarios was, multiplied the assessed damages in each scenario by these proportions and then added the two figures together (finding some support for this approach in *Earl of Malmesbury v Strutt & Parker*⁶).

The judge also held that he should not be too eager to subject Apotex's approach to 'minute criticism' because:

- (1) Servier represented in obtaining an interim injunction that calculating Apotex's loss was easier than that of its own loss; and
- (2) damages for patent infringement are to be assessed liberally following *General Tyre*⁷ and there should be a 'degree of symmetry' between the assessment of damages for patent infringement and for damages under a cross undertaking so assessment of the latter should also be liberal.

Servier did not seek to appeal any of these principles in the hearing following judgment on 20 October 2008.

Damages Enquiry – the facts

The judge held that the chance of Apotex continuing to supply throughout the injunction period and making a profit as a result was 100% and he therefore proceeded to assess Apotex's lost chance. This involved the detailed consideration of the two scenarios that **Norris J** considered were not so speculative as to be ignored. He considered that the evidence relating to whether third parties would have launched before the patent was held to be invalid, and therefore at risk of substantial damages was entirely speculative and should be discounted.

- **Scenario 1:** only Servier and Apotex were on the market for the injunction period and competed on price.
- **Scenario 2:** Servier supplied two authorised generic companies with perindopril and all four companies competed on the market throughout the injunction period.

Norris J held that scenario 1 was twice as likely as scenario 2 and awarded Apotex £17.5m, being 67% of scenario 1 (£22.5m) and 33% of scenario 2 (£7.9m).

Key to the decision that scenario 1 was more likely was the fact that Servier's witness could not offer any

Notes

1. See **Simon Cohen** and **Matthew Royle** '*Injunctions pending appeal*' September [2007] *CIPA* 494
2. *Servier v Apotex* [2007] EWHC 1538 (Pat) confirmed on appeal [2008] EWCA Civ 445
3. [1975] AC 295
4. [1911] 2 KB 786
5. [1995] 1 WLR 1602
6. [2007] PNLR 570
7. [1976] RPC 197
8. Apotex manufactured perindopril that was sold in the UK in 2006 in Canada.
9. <http://ipkitten.blogspot.com/2008/10/apoplectic-over-apotex.html>

Cross-undertaking in damages

explanation as to why Servier should vigorously pursue its claim to patent infringement in order to retain (or regain) its monopoly and at the same time supply authorised generics thereby destroying the market it was protecting. **Norris J** relied on the presumption that a company will act in its own commercial interests. If the patent was upheld, there was no doubt that it would be in Servier's best interests not to supply the authorised generics – the judge suggested that it would be 'commercial suicide' to do so. It was therefore more likely that Servier would not have supplied the authorised generics.

That being said, the judge accepted that there was some uncertainty about further entrants to the market should Apotex not be enjoined. If Servier also came to doubt the strength of its patent protection, it might make sense to sell heavily through the authorised generics. Although the judge thought that this was 'improbable', he did not feel it could be discounted.

Throughout the damages trial, Servier sought to suggest that Apotex would not have taken a large share of any market. This, however, was contrary to the evidence that was put forward to obtain the interim injunction. During this application it was said that Apotex would 'gain a major part of the UK market'. The judge effectively rejected any arguments raised by Servier against the ability of Apotex to obtain a large share of the market due to competition from generics supplied by Servier (authorised generics) as arguments made with the benefit of hindsight. Had Servier thought this aspect significant when applying for an injunction they would have raised it then.

The Canadian decision

There is an interesting addendum to the judgment relating to a decision in Canadian proceedings. In November 2006, Servier sued Apotex for infringement of the basic Canadian patent covering perindopril. On 2 July 2008, the Federal Court of Canada gave judgment in favour of Servier. As a result of this decision Servier sought to amend its pleadings in the UK to argue that because the sales in the UK during the injunction period would have been an infringement of the Canadian patent⁸ then Apotex should not be entitled to damages under the cross-undertaking.

Norris J recognised that the Canadian proceedings had been referred to during the trial but that Servier had not suggested then that a judgment in those proceedings might render the enquiry otiose. He therefore refused the application to amend because it was too late and, if it was a good point, it had been open to Servier to plead it from the start of the enquiry.

Re-assessing interim injunctions

When applying for the interim injunction Servier argued, as is the accepted practice, that damages incurred by the patentee are not quantifiable and that on the balance of convenience the court should grant the injunction. This case exemplifies the reasons why the quantification of infringers' losses is impossible to do with any degree of accuracy. This is because there are too many unknowns. Such calculations require an assessment of a company's loss on a hypothetical scenario that never occurred. Moreover they require the court to determine the likely actions of third parties in that scenario without evidence from the third party, as was the case here with the generic company referred to by the judge as TG1.

In comparison, were there to be no injunction and a patentee's loss was to be calculated on finding of infringement, actual data showing the patentee's profits in a monopoly versus data on the patentee's reduced profits when faced with generic competition and any price reduction over the remaining life of the patent would allow calculation of that loss. This is more likely to be accurate than a hypothetical figure such as the one calculated in these proceedings. **Norris J** referred to a patentee's loss as a 'simple damages claim'.

Comparing the relative ease of assessment of the damages ignores the merits of the case. It could be said that justice would better be served by considering the merits more fully at the interim injunction stage and factoring that consideration into the balance of convenience rather than requiring there only to be an arguable case. In most cases the merits are so much in the balance that this would not affect whether an interim injunction was awarded.

Amending the approach to interim injunctions to take more account of the strength of the patent might prevent patentees making a profit from prosecuting patents with no (or little) expectation of success.

Symmetrical approach?

Norris J held that there should be a degree of symmetry between the assessment of damages for infringement for patent infringement and on a cross-undertaking. Damages for patent infringement are assessed on a tortious basis and here damages on a cross-undertaking have been assumed to arise from the breach of a notional contract. Some commentators have suggested that this approach is far from symmetrical⁹. The symmetry to which the judge refers was in the sense of liberal assessment, *i.e.* burden of proof over loss, not tort versus contract.

If the damages were assessed in tort, the tort presumably being preventing Apotex from coming

on the market, Apotex would be compensated on the basis of putting Apotex in the position as if the tort never occurred. The damages for breach of the notional contract are assessed on the basis that the contract was performed properly. In both cases damages would therefore be assessed on the basis that Apotex would not have been prevented from entering the market (*i.e.* the tort did not occur or the contract was performed properly). The result, if not the starting point, is therefore symmetrical.

The notional contract is probably a more accurate analogy since the patentee agrees to pay damages in return for obtaining an interim injunction (albeit that the agreement is not the same as the notional contract). Calling it a tort would imply some wrongdoing on the part of the patentee in obtaining the injunction and this is not the case. In any event, the distinction is not important in the assessment of the damages as both approaches are equivalent.

The future

This decision gives an indication as to how a court will approach an enquiry as to damages under a cross-undertaking. The law itself was uncontroversial between the parties.

There must be consistency in the arguments put forward by a patentee in obtaining an injunction in respect of the damage it may suffer, with those it seeks to run when the boot is on the other foot and the patentee must pay for damage caused by having obtained an injunction on an invalid or unfringed patent.

The rewards for a patentee retaining its monopoly for an extra year are potentially high but following this judgment it seems that there are risks too. This is unlikely to put patentees off pursuing an interim injunction but it might make them think twice – particularly if they view their patent protection as being vulnerable to attack.

**Matthew Royle and Kathleen Fox-Murphy are associates and Simon Cohen is a partner at Taylor Wessing; contact: m.royle@taylorwessing.com*

EU-China workshop on the Chinese patent law



By **Dr Gillian Davies***
(Associate)¹

The **Chinese Patent Law** is currently undergoing its third revision. The revision aims to improve and strengthen patent protection in China in line with the goal of constructing an 'innovative country' as outlined in the National IPR Strategy, as well as to bring it fully into line with WTO requirements. The revision process is approaching its conclusion and the draft text is being finalized before its expected final adoption by the National People's Congress (NPC) in the first half of 2009.

As part of this process, a workshop was held in Harbin, Manchuria, China, on 24 and 25 September 2008, at the invitation of the Legislative Affairs Commission (LAC) of the Standing Committee of the NPC, with the support of the EU-China project on the protection of intellectual property rights (IPR2)². LAC is responsible for finalizing the draft, under the chairmanship of **Mr Gao Zhixin**, Director General of the General Office of LAC.

The workshop provided an opportunity for the Chinese drafting team and European experts³ from Germany and the United Kingdom to review the draft law, to discuss its expected impact, to consider together a number of issues of particular concern to the Chinese delegation and for the experts to make suggestions to the drafting team. The discussion was based on the latest draft amendment submitted by the State Council to the Standing Committee of the NPC in August 2008.

The European experts were asked in advance to make presentations on a number of selected topics of particular importance for the work of the Chinese drafting team to serve as a basis for discussion. The topics covered the following issues.