

OUTER HOUSE, COURT OF SESSION

[2010] CSOH 158

A70/08

OPINION OF LORD MALCOLM

in the cause

BAYER CROPSCIENCE KK

Pursuer:

against

(FIRST) CHARLES RIVER
LABORATORIES PRECLINICAL
SERVICES EDINBURGH LIMITED and

(SECOND) ALBAUGH INC

Defenders:

Pursuer: Dean of Faculty, Higgins, advocate; Biggart Baillie LLP

Second Defenders: Currie, QC, Cormack, solicitor advocate; McGrigors

26 November 2010

[1] The pursuer is Bayer Cropscience KK, a company incorporated under the laws of Japan. Amongst other things it develops and markets pesticides and insecticides. It was the proprietor of European Patent (UK) EP 0 192 061 B1 ("the patent"). The patent was registered in the UK. It related to insecticidal agents containing new heterocyclic compounds, and in particular a compound with the generic name "imidacloprid" (the patented product). The patent expired on 31 March 2006. A similar US patent expired on 21 January 2006.

[2] The first defender is a commercial research organisation based in Scotland which offers a range of research and development services for manufacturers of pharmaceutical, animal health, chemical and agrochemical products. The second defender is Albaugh Inc, which is incorporated under the

laws of the state of Iowa, USA. It is a competitor of the pursuer. In March 2005 it sought to register with the Environmental Protection Agency (EPA) in the USA an insecticide containing the patented product as its active ingredient, such registration being necessary before the second defender could place the insecticide on the market. The EPA required chemistry test data in relation to the active ingredient. Accordingly the second defender instructed the first defender to carry out tests and produce the necessary information. The data was produced to the EPA in March and May 2005.

[3] The pursuer did not supply the product to either defender. It has never sold the product on its own, only once incorporated into an end product. The second defender instigated the importation of the active ingredient from China to the UK so that the first defender could carry out the tests. The second defender admits that all of this occurred before the expiry of the patent. It is not disputed that, in respect of this importation and testing of the product, the second defender infringed the pursuer's patent. The second defender specifically avers that all of this was done to gain EPA registration in time "to allow the second defender to place insecticide products consisting of and containing the active ingredient on the market in the US shortly after the expiry of the pursuer's US patent", and that the imidacloprid products were "placed on the US market at an earlier date than would have been the case had the second defender instructed, and the first defender carried out, the disputed testing...only after the expiry of the patent." The second defender also avers that the products were not placed on the market until April 2006 and that any and all profits obtained by the second defender from sales in the US were obtained after expiry of both the UK and US patents.

[4] Against this background the pursuer asks the court to order an account of the profits made by the second defender from its infringement of the patent. (The case against the first defender has been resolved extra-judicially.) The claim falls into two parts. Firstly the pursuer seeks all the profits made during 2006 on the basis that, but for the infringement, the second defender could not have put the products on the market until December 2006, thus all of the profits in that year are

attributable to the infringement. Secondly, as a direct result of its early entry into the marketplace in 2006, it is said that the second defender achieved enhanced levels of sales in 2007 and 2008. Its infringement allowed it to compete against the pursuer significantly in advance of other suppliers. The pursuer states that the advantage gained would have dissipated by 2009. Actions of this nature are sometimes described as "springboard" claims. I was informed that this is the first judicial consideration of such a claim in the context of an action for an account of profits, as opposed to damages or injunctions/interdicts.

The Second Defender's Submissions

[5] The submissions for the second defender can be summarised as follows. Whatever the position might be in respect of other forms of remedy for patent infringement, the court has no power to order an account of profits in the present circumstances. Section 61(1)(d) of the Patents Act 1977 allows the court to order an account of the profits "derived by (the infringer) from the infringement." However such profits as the second defender made were derived from lawful transactions, namely the post-expiry sales, not from the infringing acts. Mr Currie QC said that this basic submission does not admit of much elaboration. He accepted that, at least so far as 2006 is concerned, the infringement was a necessary antecedent of the subsequent sales, but in themselves the infringing acts were not commercial transactions capable of generating profit. They were no more than a precursor to profit generating activities, which all occurred after the expiry of the patent. On an ordinary understanding of the language used in section 61(1)(d) the only possible outcome is that the profits were derived from the lawful subsequent sales, not from the infringement, thus the pursuer's claim is fundamentally irrelevant and should be dismissed.

The Pursuer's Submissions

[6] In response the Dean of Faculty observed that the admitted purpose of the infringement was to

allow the second defender to "steal a march" over its competitors on the expiry of the pursuer's monopoly on the regulated product. The second defender's argument involves a confusion of the separate concepts of cause of action and remedy. The relevant statutory provision is couched in wide unqualified terms. The intention is to remove unjustified or unfair profits from the infringer. In the present case that unfair benefit consists of the profits which, but for the infringement, would not have been generated. The fact that the profits were achieved after the expiry of the patent is neither here nor there. The pursuer offers to prove that they were derived from the infringement, and, whatever else, that issue cannot be decided against the pursuer before evidence is led.

Case Law, Discussion and Decision

[7] As a matter of first impression I am not attracted to the second defender's submission. While it is true that, in themselves, the sales did not infringe either of the pursuer's patents, if one looks at the whole circumstances in the round, including the purpose of the admitted infringement, it is not easy to identify any fundamental flaw in the proposition that at least some of the profits were derived from the wrongful act. This is all the more so when the basic purpose of the remedy sought by the pursuer is to deprive the infringer of unfair or unjustified profits. The second defender deliberately used the invention in order to obtain an unfair advantage over its competitors and then exploit it for financial gain. Why should one ignore the profits from the sales when asking whether any benefit was improperly gained from the infringement? Why should the admitted purpose of the wrongful act be left out of account, and attention directed only to conduct occurring after the expiry of the patent? In themselves the sales may have been lawful acts, but to my mind it is far from obvious that this automatically severs the chain of legal causation. The suggestion made on behalf of the second defender that it might have been open to it to obtain the advantage in other non-infringing ways cannot allow attention to be diverted from the admitted wrongful conduct and its direct consequences. The authorities are well settled on that point. No issue of apportionment arises, it is simply a matter of whether the profits can be attributed to the infringement. Were they earned by the

use of the invention? On the face of it, in the present case the answer to this question may well be yes, though plainly after any proof it would remain open to the second defender to argue otherwise, and no doubt more specific questions as to quantum would arise.

[8] The case law cited to me in respect of springboard claims provides no assistance to the second defender. On the contrary it supports the validity of the pursuer's claim. In *Gerber Garment Technology Inc v Lectra Systems Limited and Another* [1995] RPC 383 Mr Justice Jacob upheld the validity of a damages claim in respect of an infringer establishing a "bridgehead" or "springboard" for sales before the expiry of a patent. His Lordship's careful consideration of the authorities and his, to my mind, persuasive reasoning on the matter is set out at pages 396/404. Of course the narrative is specifically directed to a claim for damages, which was the context of that action, but much of it can be applied with equal force to the alternative remedy of a claim for profits. For example, the observation that a wrongful act and the recoverable damage may be "quite distinct", as opposed to being "bound up together", can be translated to the present discussion. Similarly in respect of the view that damages based upon a defendant's accelerated re-entry (or entry) into the market are truly compensation for the past infringement, not for the post-expiration conduct. Mr Currie submitted that the reliance placed upon the concept of foreseeability is otiose for an account of profits. That may be true, but it does little to blunt the persuasive force of the court's refusal to rule out springboard claims in principle. In any event, to focus on whether a head of damage "foreseeably flows" from the wrong is not very different from asking whether a profit is derived from the infringement. In essence Jacobs J took the view that the wrong was the source and origin of the loss sustained by the plaintiff. In the present case the question is whether the infringement was the source and origin of unfair profits gained by the second defender. Foreseeability may not be the most obvious tool in an accounting, but, for what it is worth, so far as the second defender is concerned, not only were the profits foreseeable, a commercial advantage was the whole purpose of the exercise. Jacobs J said that foreseeability is a particularly appropriate test "because, as a

business matter the defender himself can not only foresee the consequence of the wrong to the plaintiff but also foresee (and so include as part of his business plan) the corresponding benefit to himself". Whether one approaches problems of this nature in terms of foreseeability, remoteness, causation or reasonableness, these concepts all reflect the basic issue of whether there is a sufficient link or nexus between the wrong and the ultimate financial consequences. Jacobs J held that the claimed damages "stemmed" from the wrong. The statutory language in section 6(1)(d) of profits "derived from the infringement" means much the same thing.

[9] Jacobs J's decision in *Gerber* was upheld by the Court of Appeal [1997] RPC 443. Counsel for the appellant argued that the damages which can be recovered from an infringer by way of lost profits are limited to those which would have been earned in activities for which the patent provides a monopoly. In other words, any activities which do not in themselves constitute an infringement cannot form part of a claim for lost profits. Thus, along with the other heads of claim, springboard damages relating to goods sold after the expiry of the patent should be excluded. Lord Justice Staughton rejected this submission. (The other judges agreed with his judgment on this point.) His Lordship said "Viewing the cases as a whole, I cannot find any rule of law which limits the damages for infringement in a patent case in such a way as to exclude the loss claimed by the patentees in the present case." Given that it is well understood that an account of profits and an inquiry as to damages both proceed on a common principle of legal causation (*Celanese International Corp v BP Chemicals Limited* [1997] RPC 203, Laddie J at paragraph 37), I can identify no good reason why this conclusion should not apply to both forms of remedy. It was not submitted that *Gerber* was wrongly decided, and to my mind it would be very odd if springboard claims were available for damages, but not for the alternative remedy of an accounting of profits made by the wrongdoer.

[10] The European Court of Justice considered a springboard claim in *Generics BV v Smith Kline & French Laboratories Limited* [1997] RPC 801. (Subsequently it was described as "a jumping the

gun" case - *Union Carbide Corporation v BP Chemicals Limited* [1998] FSR 1). The action concerned medicinal products and infringement by the submission of samples for marketing authorisation prior to the expiry of a patent. On its facts it was similar to the present case. The specific issue was whether a post-expiry injunction granted under the law of the Netherlands was contrary to articles 30 and 36 of the EC Treaty. The duration of the injunction was 14 months, being the average time for the obtaining of a marketing authorisation, but it was in excess of the period of 120 days stipulated in certain Directives. Amongst other things it was held that a post-expiry prohibition of this duration upon marketing a product in order to prevent an infringer from deriving any unfair profit from his infringement was not disproportionate and could be justified. The opinions of the Advocate General and of the Court both proceeded on the basis that claims of the present nature are valid. The Netherlands law was consistent with the position in other member states. At paragraph 33 of his opinion the Advocate General said:

"...insofar as the national provisions have the effect of extending the patentee's protection and of preventing the competitor from initiating the authorisation procedure for the generic product before the expiry of the 20-year term, that consequence again seems not unreasonable. Once again, the approach is in line with legal developments generally, both in the Community and elsewhere".

At paragraph 62 the Advocate General said:

"The choice of the appropriate remedy is in my view essentially a matter for the national courts, and this court should not intervene unless the national courts were to grant a remedy which was manifestly disproportionate. Merely to illustrate that point, I make the following observations. First, on the suggestion that damages might have been awarded rather than an injunction, I would observe that it might be very difficult to calculate a fair level of damages. Moreover, an account of profits might not suffice because Generics would have

benefited from an additional 14 months of presence upon the market in order to build up its reputation, thus increasing the degree of competition for the future. If that were so, it might make the type of injunction ordered in the present case the only fair remedy, and it is not unreasonable for the national court to wish to grant a remedy to SKF, even if SKF could have acted earlier."

With regard to that passage Mr Currie submitted that the Advocate General was suggesting that in such circumstances an account of profits is not available. In the whole context I do not read it in that way. Rather the Advocate General was offering the view that an account of profits may not be a sufficient remedy, thus providing a justification for the use of an injunction. The reason for the alleged insufficiency is of interest. It appears to assume that the period of accounting could not extend beyond the 14 month period. I would not necessarily agree with that, but for understandable reasons there was no real discussion of the point in the Advocate General's opinion.

At paragraph 67 the Advocate General said:

"I have already concluded that both the right to prevent the submission of samples to the CBG during the currency of the patent, and the choice of an injunction, as opposed to, for example, damages, in order to remedy an infringement of that right are justified under Community law. It must follow that the length of an injunction which is calculated so as to place the patentee in the position which he would have been had that right been respected is equally justified. Moreover that injunction puts Generics, as well as SKF, in approximately the situation in which it would have been if it had not infringed the patent. The result is therefore in accordance with equity. Indeed if the solution were otherwise, there might be an inducement for a competitor to infringe a patent, in the expectation that the resulting injunction would expire sooner than if it had to await the normal period for obtaining a marketing authorisation."

[11] There is nothing said by either the Advocate General or the Court itself to suggest that in claims of this nature there are fundamental problems of the kind argued for on behalf of the second defender. On the contrary the overall theme is that, in principle, in an appropriate case the normal range of remedies is available. This general approach can be found in the judgment of the Court, for example at paragraph 24:

"In substance, the national court's third question is whether, when a person other than the patentee has infringed the patent laws of a member state by submitting samples of a medicinal product manufactured in accordance with a patented process to the authority competent for issuing market authorisations and has thus obtained the authorisation sought, an order of a national court prohibiting the infringer from marketing such a product for a specified period following expiry of the patent in order to prevent him from deriving any unfair profit from his infringement constitutes a measure having equivalent effect within the meaning of article 30 of the treaty capable of being justified under article 36".

It is worth noting that the language used echoes the provisions in section 61(1)(d) of the 1977 Act. This suggests that, for present purposes, there is nothing peculiar or different about the remedy of an account of profits. At paragraph 29 the Court said:

"The answer must therefore be that, when a person other than the patentee has infringed the patent laws of a member state by submitting samples of a medicinal product manufactured in accordance with a patented process to the authority competent for issuing marketing authorisations and has thus obtained the authorisation sought, an order of a national court prohibiting the infringer from marketing such a product for a specified period following the expiry of the patent in order to prevent him from deriving any unfair profit from his infringement constitutes a measure having equivalent effect within the meaning of article 30 of the Treaty capable of being justified under article 36 of the Treaty."

In the present action there was no application for interdict, thus the question of whether an interdict would have been granted by a Scottish court did not and does not arise. However the remedy of an accounting is specifically designed to recover unfair profits derived from the infringement.

[12] In *Dyson Appliances v Hoover Limited (No. 2)* [2001] RPC 544, Deputy Judge Michael Fysh QC granted an injunction by way of "springboard relief" to prevent the defendant from making and selling vacuum cleaners which used the patented invention. The prohibition operated for a period of 12 months after the expiry of the patent. The claimant had argued that the court's powers were not limited to financial remedies granted after loss had been sustained. Rather, as part of its equitable jurisdiction, the court could grant appropriate relief of a practical nature so as to prevent a party from continuing to enjoy the fruits of its own wrongdoing. The defendant argued that section 61 of the 1977 Act (which allows an injunction or interdict only against an infringing act) is a complete code, and that an injunction could not be granted after the expiry of the statutory monopoly period. The issue was not as to the availability of relief, but whether it extended to an injunction after the expiry of the patent. Mr Currie observed that the statutory power relied upon by Mr Fysh QC, namely section 37 of the Supreme Courts Act 1981, does not extend to Scotland, therefore he submitted that the case is of little assistance to the pursuer. However, to my mind the importance of the decision is in the underlying conclusions that, absent an injunction, the defendants would be able to obtain a commercial advantage "which owes its existence entirely to their pre-expiry infringing activities", and that there was a "direct nexus" between presence in the market and infringement (paragraph 50). In this respect the reasoning is on all fours with that in *Gerber* and *Generics*, and with my initial impressions outlined above.

[13] In the course of the discussion reference was made to *Monsanto Company v Stauffer Chemicals* [1988] FSR 57. In that case the Supreme Court of South Africa ruled that springboard claims for restraining and delivery orders could not be granted. However counsel for the second

defender placed no reliance on that decision, recognising that it proceeded on the basis of materially different South African legislation. In any event the court held that a damages claim was available. There was no discussion of the remedy of an account of profits.

[14] A number of non-springboard cases were cited for their general discussion of the law concerning the remedy of an account of profits for patent infringement. None of them are directly relevant to the specific issue raised by the second defender. Suffice to say that all the cases cited to me either support, or do not undermine my first impressions as narrated above. I therefore reject the second defender's submission that the pursuer's claim for an account of profits is fundamentally irrelevant as being beyond the power of the court.

Subsidiary Arguments

[15] For the second defender Mr Cormack submitted that the pursuer's pleadings are fundamentally deficient in the absence of any averment to the effect that the second defender could gain early EPA approval only by infringing the patent. In other words the pursuer requires to exclude any non-infringing alternative method of gaining the desired market advantage. However, all the cases cited by Mr Cormack demonstrate that it is well settled that the patent holder does not require to exclude such alternatives.

[16] An argument was presented to the effect that if the claim is valid in principle, no fair notice has been given as to the basis upon which it is asserted that profits for the years 2007/8 are recoverable. It was said that there is no attempt to aver how or why there is any causal connection between, on the one hand, the acts of infringement and the sales in 2006 and, on the other hand, the claimed enhanced level of sales in 2007/8. On both sides there are extensive pleadings on this issue, and I can well understand that there are likely to be important issues for resolution after proof, for example as to the impact, if any, of variable market conditions, competition, and of a wide variety of other factors. However, I consider that there is no real uncertainty as to the nature of the case

made by the pursuer in respect of 2007/8. Nor is there any inherent implausibility in the proposition that the infringement gave the second defenders a market advantage which persisted beyond the time when other generic suppliers were able to enter the marketplace, and was reflected in higher sales in those years than would have been the case had there been no infringement. In the pleadings the enhancement is assessed by reference to the amounts of the product imported into the US in the relevant years. Without rehearsing all the averments on the subject, I am satisfied that the second defender has sufficient notice of the case to be made, and that it justifies allowance of a proof before answer on the claim in respect of 2007/8. For completeness I should record that the argument contained in paragraph 5 of the second defender's note of arguments relating to alleged extra-territorial relief was not maintained.

[17] The pursuer complained about certain parts of the second defender's pleadings, in the main on the basis that they amount to now redundant calls or to legal propositions. However the Dean of Faculty conceded that these criticisms raise no issue of substance. **In all the circumstances I shall allow a proof before answer on both parties' averments and pleas in law in respect of the pursuer's claim for an accounting from the second defenders as contained in Conclusion 2(b).** Meantime I shall reserve the question of expenses.