

# Kluwer Patent Blog

## Anan Kasei & Rhodia v Neo Chemicals – Court of Appeal confirms Rhodia’s Pyrrhic Victory

Jonathan Ross (Bristows) · Wednesday, February 1st, 2023

Damages enquiries in patent cases rarely make it to trial, let alone to the Court of Appeal, so this judgment provides important guidance on the assessment of damages for patent (and by extension other IP rights) infringement.

### Background

Anan Kasei is the proprietor of a patent to high surface area cerium oxide, a catalyst used in the production of catalytic converters for car exhausts. Rhodia is the exclusive licensee to that patent. In 2016, Anan Kasei and Rhodia started infringement proceedings against Neo, and, in the liability stage of proceedings, were successful at first instance and appeal, with a valid and infringed patent. See [here](#) for a report on the Court of Appeal’s judgment in 2019.

Rhodia then sought damages. The customer for Rhodia and Neo’s cerium oxide product is Johnson Matthey, which builds the catalytic converter to sell to car manufacturers. Neo provided sufficient infringing product in the UK for Johnson Matthey to produce prototype catalytic converters for the car manufacturers to test and approve. Neo did not dispute that Rhodia should be entitled to damages for this supply, and the parties agreed a payment of £85,000.

However, once the catalytic converters were approved, Neo then provided Johnson Matthey with far greater amounts of infringing product. The issue for Rhodia was that this product was manufactured in China (where Neo had succeeded in invalidating the patent) and supplied to factories in Macedonia, South Africa and the Netherlands (where there is no patent protection).

Rhodia sought over €24 million for this supply, arguing that the initial supply in the UK was the cause of its losses due to supply abroad.

At first instance, Mrs Justice Bacon found that the infringing UK supplies were not the “*effective or substantial or proximate cause*” of Rhodia’s lost sales, and so made no award for damages. Rhodia appealed this decision, with Neo cross-appealing on a number of issues.

### Appeal Judgment

Lord Justice Arnold gave the leading judgment in dismissing Rhodia’s appeal, with Lord Justices Peter Jackson and Coulson in agreement. The key issues were whether the Court can ever order damages for supply outside the UK and the meaning of ‘proximate cause’. There was also a dispute on the correct calculation of royalty damages, but as this was highly fact specific, and a

moot point in any event, this shall not be addressed further. Finally, the Court considered an application from Neo to introduce new arguments and associated evidence.

### *Acts outside the UK*

Neo argued that a patentee's losses are only recoverable for acts committed in the UK. Bacon J rejected this proposition at first instance. With no previous authority on this point, Arnold LJ considered the issue as a matter of principle.

The leading case for patent infringement damages is *Gerber v Lectra*, in which the Court found that a patentee could recover damages for associated sales (so called 'convoyed goods'), spare parts, and servicing. One reason given for this decision was rooted in policy arguments; if the servicing contracts are more valuable than the original infringing goods then it would pay to infringe, and therefore it was right that the court should order these ancillary damages. Although the territorial issue did not arise in *Gerber*, Rhodia argued that the general principle should be extended to supplies outside the UK. Arnold LJ agreed, and was fortified in his opinion by a similar ruling from the US Supreme Court in *WesternGeco v Ion Geophysical*. (Neo attempted to rely on the dissenting opinions in *WesternGeco*, but unsurprisingly Arnold LJ was more persuaded by the majority.)

Neo countered with two copyright cases where damages were limited because the actual damage occurred not because of copyright infringement but to other invasions, such as passing off. Neo's argument was that damages were only recoverable if they fell within the scope of the duty not to infringe, and that duty only extended to the UK. Arnold LJ found that this interpretation could not be reconciled with *Gerber* and instead these cases were better understood as lacking in legal causation, but this served as a reminder to carefully consider factual and legal causation.

Neo also argued that restraining trade in non-infringing goods would be disproportionate or a barrier to legitimate trade under TRIPS and the Enforcement Directive. Having considered the relevant provisions, Arnold LJ did not find there to be any barrier to extra-territorial damages, but instead the requirement to ensure that the damage is factually and legally caused by the infringement.

### *Proximate Cause*

Patent infringement is a tort, and there is a large body of law on assessing damages due to torts. Arnold LJ explored this case law in the early part of the judgment. The House of Lords in *SAAMCo v York Montague* set out the principle that a wrongdoer is unlikely to be liable for all the consequences of their actions unless justified by special policy. In *Meadows v Khan* and *Manchester Building Society v Grant Thornton*, the Supreme Court set out a six-part test for determining a damages claim for the tort of negligence. The fourth part is factual causation; the 'but for' question. However, this was not in dispute as Neo had admitted that but for its supply in the UK, Johnson Matthey would not have ordered the product abroad and that such a result was entirely foreseeable. The sixth part – termed the 'legal causation' question – asks if the damages are irrecoverable because there is a "*different effective cause*" and was the key issue in dispute.

At first instance, Bacon J had found that the causal link between the infringing UK supply and the non-infringing foreign supplies was not sufficiently direct. In contrast to *Gerber*, where there was a direct link to the convoyed goods, the supply of an infringing product allowing the infringer to enter the market for a non-infringing product was not sufficiently direct: "*the fact that an*

*infringement creates an opportunity to sell a non-infringing product does not mean that the infringement causes the non-infringing sale*". Bacon J gave three factors that cumulatively led to this conclusion: i) there were multiple intervening contingencies between the infringing and non-infringing supplies; ii) the infringing and non-infringing supplies were made under separate contracts; and iii) Johnson Matthey had a choice between Rhodia and Neo.

Rhodia's strongest argument on appeal (Arnold LJ stated "*I acknowledge that this argument has some force*") was that these three factors did not justify the conclusion that the infringing acts were not a proximate cause of the lost sales. Unfortunately for Rhodia, the Court was not persuaded. Arnold LJ considered the factors in reverse order:

- Factor iii): Rhodia argued that it was only by making the infringing supplies that Neo were able to secure the ability to make commercial supplies that competed with Rhodia on capacity and price. Arnold LJ agreed that Neo were only qualified to supply because of the infringement, but this did not mean that Neo would necessarily secure the later orders. As the evidence suggested that Johnson Matthey wanted the security of two suppliers, it was not inevitable that a sale by Neo meant a lost sale by Rhodia.
- Factor ii): Rhodia argued that the fact that there were separate contracts was immaterial. Arnold LJ considered this factor to be relevant to the distinction between creating the opportunity for loss and being a proximate cause of the loss, but not, on its own, determinative of this issue.
- Factor i): This was seen as the most important factor. The evidence demonstrated that Neo's sales depended not only on Johnson Matthey's decision on which catalyst to purchase, but also on the car manufacturers' decision as to which system to use. The car manufacturers' decision was based on the performance of the system as a whole, rather than just the cerium oxide. Rhodia argued that the Court should apply a counterfactual analysis, asking what would have happened if Neo never made the infringing supplies. However, Arnold LJ rejected this as the correct test, as the Court should first determine whether the infringing acts were a proximate cause of the damage claimed, and then may use a counterfactual to calculate the losses.

Taking these three factors together, Arnold LJ considered that Bacon J was entitled to reach the conclusion that she did, and furthermore, agreed with her.

### *New Arguments*

In case the original decision was overturned on appeal, Neo sought to introduce a new argument that Rhodia was not an exclusive licensee for the whole period claimed and therefore not entitled to damages for the period prior to the licence being executed. To support this point, Neo applied for permission to rely on the licence agreement between Anan Kasei and Rhodia from 2016 as fresh evidence.

However, Neo had previously admitted that Rhodia was the exclusive licensee prior to the liability trial and had been provided with the licence shortly after the start of proceedings. Therefore, Neo should have considered this issue far earlier in the damages enquiry, and Arnold LJ considered the appeal stage of proceedings to be far too late. In relation to the evidence, Arnold LJ found that Neo's application failed on the first criterion set out in *Ladd v Marshall*. As many readers will know, UK Courts apply a very strict approach to the admission of new evidence on appeal as set out in the *Ladd v Marshall* decision of the Court of Appeal in 1954. The first criterion is that the evidence could not with reasonable diligence been obtained for use at trial. There was no doubt that it could have been and therefore Neo fell at the first hurdle.

## Conclusion

Rhodia, despite having gone to the time (proceedings started in 2016) and expense of having a patent found valid and infringed, only scored a Pyrrhic victory, being left with damages of only £85,000 and likely to be on the wrong side of a sizeable costs order from this damages enquiry. This result shows the importance of considering in which jurisdictions to obtain and maintain patent protection in order to best protect an invention, particularly in global industries (such as car manufacturing).

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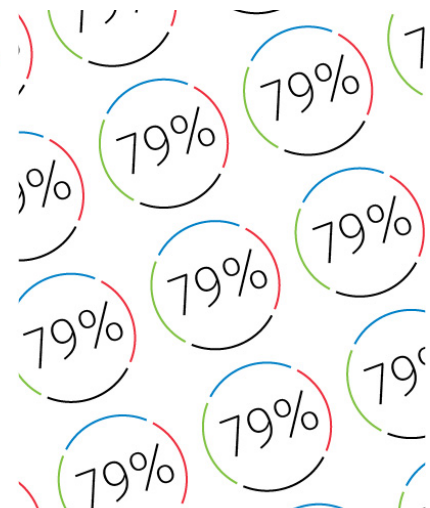
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