

Neutral Citation Number: [2011] EWCA Civ 1288

Case No: 2011/2642, 2011/2654 & 2011/2669

IN THE COURT OF APPEAL (CIVIL DIVISION)
ON APPEAL FROM THE CHANCERY DIVISION
PATENTS COURT
Mr Justice Norris & Mr Justice Arnold
HC11C00026

Royal Courts of Justice
Strand, London, WC2A 2LL

Date: 8 November 2011

Before :

THE MASTER OF THE ROLLS
LORD JUSTICE AIKENS
and
LORD JUSTICE LEWISON

Between :

FRESENIUS KABI DEUTSCHLAND GMBH
FRESENIUS KABI AG
FRESENIUS VIAL S.A.S.
FRESENIUS KABI LIMITED

- and -

CAREFUSION 303, INC

Appellants
in 2011/2642
Respondents
in 2011/2654
& 2011/2669

Respondent
in 2011/2642
Appellant in
2011/2654 &
2011/2669

MR MICHAEL TAPPIN QC & Mr JOE DELANEY (instructed by Powell Gilbert LLP)
for the **Appellants**

MR JOHN BALDWIN QC (instructed by DLA Piper UK LLP) for the Respondent

Hearing date : 1 November 2011

Judgment

Lord Justice Lewison :

1. This is the judgment of the court.
2. If you tell a commercial litigator who is not steeped in the law of patents that a patentee can sue for infringement and then discontinue his claim against the alleged infringer and consent to the revocation of his patent, yet require the alleged infringer to pay a substantial proportion of his costs, his reaction would be one of bafflement. If you went on to explain that this situation came about because the alleged infringer had amended his defence and counterclaim to plead a new piece of prior art he would be none the wiser. This is the

practice of the Patents Court in making a *See v Scott-Paine* order (*See v Scott-Paine* (1933) 50 RPC 56) previously more robustly known as an *Earth Closet* order (*Baird v Moule's Patent Earth Closet Co Ltd* 3 February 1876). Such an order enables the patentee to discontinue his claim and consent to the revocation of his patent on terms that he pays the costs of the action up to the date of service of the original defence; but that the alleged infringer pays the costs of the action from that date down to the date of discontinuance.

3. Why, the commercial litigator would ask, do you assume that but for the amendment the patentee would have won his case; because that is the unspoken assumption on which such an order rests? And why do you assume that it was the fact of the amendment that caused the patentee to abandon his claim? You might then explain that patent litigation is governed by special rules, more particularly those contained in CPR Part 63. On looking at that Part the commercial litigator would discover that certain other rules of the CPR had been modified or disapplied. But he would also see that CPR Part 63 does not modify or disapply CPR Part 38.6 which says that unless the court orders otherwise a claimant who discontinues is liable to pay the defendant's costs. So why are patent cases different?

4. The patentee may refer him to the well-known words of Lord Esher MR in *Ungar v Sugg* (1892) 9 RPC 113, 117:

“a man had better have his patent infringed, or have anything happen to him in this world, short of losing all his family by influenza, than have a dispute about a patent. His patent is swallowed up, and he is ruined. Whose fault is it? It is really not the fault of the law; it is the fault of the mode of conducting the law in a patent case. That is what causes all this mischief.”

5. But, the commercial litigator would reply, we all know that litigation is expensive. Big commercial cases also cost huge amounts of money to fight; and it is by no means uncommon in contested probate cases for the costs to exceed the value of the estate. Is there a better reason?

6. The patentee might say (in the words of Slade LJ in *Williamson v Moldline Ltd* [1986] RPC 556, 564):

“If, at the time when the defendant served his original particulars of objections, I had known that he was going to rely on the new point now sought to be raised, I might well have discontinued my action. If, however, after further investigation of the legal and factual position in the light of this new point, I now find that there is a valid objection to my patent and accordingly I, sensibly, decide to discontinue my action, it is only fair that the defendant should be ordered to pay the

unnecessarily wasted costs which I have incurred since service of the original particulars of objection.”

7. The commercial litigator is unlikely to find that a sufficient justification. He might also say that if that is the justification it would be equally applicable to all sorts of litigation in which an amendment to the statements of case casts a new light on the case. It does not amount to a reason special to patent cases. He might also say that to make this order at the time of allowing the amendment to the pleadings assumes in the patentee’s favour that it is the amendment that is causative of the discontinuance, whereas in reality the patentee might simply have got cold feet about his original case. He might also point out that to make an *Earth Closet* order at the point at which an amendment is allowed may operate to deprive the defendant of any protection to which he might be entitled by virtue of having made a Part 36 offer.
8. In *GEC Alsthom Limited’s Patent* [1996] FSR 451 Laddie J pointed out a number of injustices that could be produced by the making of an *Earth Closet* order. They included:
 - i) Such an order was a disincentive to a defendant to plead his best case, particularly since prior art from all over the world may be used to attack the validity of a patent (whereas only art published in the UK could be relied on when the *Earth Closet* order was invented);
 - ii) This disincentive might mean that the court was required to pronounce on the validity of a monopoly on the basis of a second best case. Put bluntly this would be against the public interest;
 - iii) *Earth Closet* orders are seen as a gift from heaven by patentees with a weak case which enables them to take the benefit of a costs order when the amendment was not really the cause of the discontinuance. In addition they will have had the commercial benefit of reliance on a monopoly which, with hindsight, can be seen to have been invalid;
 - iv) There is also a danger that the making of such orders will front load the costs onto defendants who will have to undertake exhaustive searches of prior art at a very early stage in the litigation.
9. All those factors are, in our judgment, cogent reasons why an *Earth Closet* order should not be made. There is no case decided under the CPR which binds this court to continue the practice of making *Earth Closet* orders. It is, however, right to say that in *CIL International Ltd v Vitrasshop Ltd* [2002] FSR 67 Pumfrey J, sitting at first instance, held that an *Earth Closet* order was not incompatible with the CPR. His reason was that such an order was not

incompatible with the overriding objective. He said (§ 42):

“That being the existing state of the law prior to the Civil Procedure Rules it may be seen immediately that it is consistent with the overriding objective of the Civil Procedure Rules, particularly since it can be properly viewed as a means of imposing a sanction in relation to waste caused by lack of diligence by the defendant.”

10. However, Pumfrey J did not consider how such an order fitted the philosophy underlying CPR Part 38.6, and whether it was incompatible with that part of the new procedural code.
11. Except in certain cases (e.g. where the court has granted an interim injunction) a claimant may discontinue his claim at any time: CPR Part 38.1. He does so by filing a notice of discontinuance and serving it on every other party: CPR Part 38.2. Notice is to be given on Form N279. Discontinuance takes effect from the date of service: CPR Part 38.5. Unless the court orders otherwise a claimant is liable for the costs of the defendant against whom he discontinues: CPR Part 38.6. The same procedure applies to a party who discontinues a counterclaim: CPR Part 20.2 (2)(b).
12. Thus in all forms of litigation if a claimant (or counterclaimant) discontinues he must apply under CPR Part 38.6 if he wishes to avoid the usual costs consequences of discontinuance. The burden will be on him to justify a departure from the default rule. In *Brookes v HSBC Bank plc* [2011] EWCA Civ 354 HH Judge Waksman QC formulated the following principles which were approved by this court (§ 6):

“(1) when a claimant discontinues the proceedings, there is a presumption by reason of CPR 38.6 that the defendant should recover his costs; the burden is on the claimant to show a good reason for departing from that position;

(2) the fact that the claimant would or might well have succeeded at trial is not itself a sufficient reason for doing so;

(3) however, if it is plain that the claim would have failed, that is an additional factor in favour of applying the presumption;

(4) the mere fact that the claimant's decision to discontinue may have been motivated by practical, pragmatic or financial reasons as opposed to a lack of confidence in the merits of the case will not suffice to displace the presumption;

(5) if the claimant is to succeed in displacing the presumption he will usually need to show a change of circumstances to which he has not himself contributed;

(6) however, no change in circumstances is likely to suffice unless it has been brought about by some form of unreasonable conduct on the part of the defendant which in all the circumstances provides a good reason for departing from the rule.”

13. Moore-Bick LJ added (§ 10):

“It is clear, therefore, from the terms of the rule itself and from the authorities that a claimant who seeks to persuade the court to depart from the normal position must provide cogent reasons for doing so and is unlikely to satisfy that requirement save in unusual circumstances. The reason was well expressed by Proudman J. in *Maini v Maini*: a claimant who commences proceedings takes upon himself the risk of the litigation. If he succeeds he can expect to recover his costs, but if he fails or abandons the claim at whatever stage in the process, it is normally unjust to make the defendant bear the costs of proceedings which were forced upon him and which the claimant is unable or unwilling to carry through to judgment. That principle also underlies the decision of this court in *Messih v MacMillan Williams*. There may be cases in which it can be said that the defendant has brought the litigation on himself, but even that is unlikely to justify a departure from the rule if the claimant discontinues in circumstances which amount to a failure of the claim.”

14. We can see no reason why this approach should be any different in patent cases. We find the supposed justifications for a special opt-out unconvincing. If the patentee establishes by evidence that but for the amendment he would have gone to trial; and if he would have won but for the amendment, that may be a reason for departing wholly or partly from the default position. But even then the court should not conduct a mini-trial. Mr Baldwin QC was unable to point to any particular reason why patent cases differed from other heavy commercial cases. His suggestion was that the *Earth Closet* order imposed discipline on the parties and that it should be adopted across the board. However, the court’s discretion under Part 38.6 enables the court to do justice in a case where justice requires a departure from the default position. There is no need for the court to circumvent the procedure laid down by the Rules. In addition an *Earth Closet* order is made proleptically, contingent upon an eventuality that may never happen. In principle it is better for the court to make orders on the basis of what has happened rather than on the basis of what

might happen in the future.

15. The *Earth Closet* order was originally invented to deal with claims for infringement in which the patentee is the claimant (formerly plaintiff). The standard form of such an order in the Patents Court Guide (see White Book para 2F- 148) is drafted on that basis. But in the present case CareFusion is not the claimant. It is the defendant to a claim by Fresenius for revocation of the patent, although it has its own counterclaim for infringement. That should not make any difference in principle to how the costs of the action should be borne. The counterclaim may be discontinued under CPR Part 38.6. The defence may be withdrawn by making an admission under CPR Part 14.1. If an admission is made then the claimant may apply for judgment on the admission: CPR Part 14.3. On such an application the court will have its discretionary power to make orders for costs under CPR Part 44. Again the proper exercise of that power will ensure that no injustice is caused.
16. In the present case on 26 September 2011 Norris J made an *Earth Closet* order having been told that that was the usual practice of the Patents Court in allowing amendments to the grounds of invalidity. There was some debate about how usual such orders are, although it is right to note that Terrell on Patents (17th edition para 18-122) says that that is the practice that is “almost invariably followed”. In our judgment the sooner the practice stops the better. The specimen form of order in the Patents Court Guide (and reproduced in the White Book) should be amended to remove the paragraph containing such an order. The *Earth Closet* order should be consigned to the place that bears its name.
17. That however, does not necessarily dispose of this appeal. The reason for that is that when Mr Speck on behalf of CareFusion applied to Norris J for the costs of the application for permission to amend, he asked the judge to make an *Earth Closet* order. Mr Delaney, appearing below for Fresenius, did not object in principle to the making of that type of order. Thus the wisdom or propriety of making an *Earth Closet* order was not in issue before the judge. Nor, as we understand it, did Mr Delaney refer at that time to the possibility of challenging the practice at a higher level.
18. It is therefore necessary to set out some more of the background to these appeals. The underlying claim is brought by Fresenius for revocation of a patent owned by CareFusion. There is also a counterclaim by CareFusion for infringement of that patent. CareFusion’s patent relates to the design of automatic syringe pumps, which are used to administer drugs to patients from disposable syringes over extended periods of time. In particular, the patent relates to a mechanism by which the plunger of a syringe is retained against the moving part of the pump (the so-called plunger driver). The priority date of the patent is July 1999. The litigation is part of international litigation between the parties, which includes parallel proceedings in Germany.

19. In this action Fresenius initially relied on a number of pieces of prior art. These included what has been called the Terumo patent. Fresenius say that the Terumo patent describes a device which differs from that claimed by the patent only in that the two arms which grip the plunger stem do not then move back to hold the plunger against the driver. Fresenius' expert evidence is that it was obvious to add that movement of the arms to prevent the known problem of uncontrolled or uneven dispensing. This piece of prior art is also relied on in the German proceedings, together with the prior use of a syringe pump which is referred to as the Terumo Device. Fresenius say that the Terumo Device is in accordance with the Terumo patent (or at least is very similar to it). It has two arms which move inwards to grip the plunger stem, but not then backwards to hold the plunger against the driver. The application to amend that Fresenius made was an application for permission to plead the prior use of the Terumo device, together with the Terumo manual which gave the user instructions on how to use the Terumo device. Norris J permitted Fresenius to amend in order to plead the Terumo device, but refused to permit them to plead the Terumo manual. The trial date had already been fixed for 7 November (some six weeks after the hearing before Norris J).

20. The relevant parts of Norris J's order are as follows:

"1. The Claimants have permission to re-amend their Grounds of Invalidity and Particulars of Claim in the forms attached to this order.

2. The Claimants shall serve the aforesaid re-amended Statements of Case as soon as practicable.

3. The Defendant shall serve any consequential amendments to its Defence and Counterclaim within 5 days of service of the aforesaid re-amended Statements of Case.

...

5. The Defendant shall pay the Claimants 50% of their costs of this application to be assessed on the standard basis if not agreed.

6. The Defendant does elect by 4 p.m. on 10th October 2011 whether it withdraws its Defence and Counterclaim and consents to an Order for the revocation of EP 1 200 143 B2 (UK) as a result of the matter introduced by the aforesaid re-amended Statements of Case and if the Defendant does so elect and give notice thereof in the time aforesaid IT IS ORDERED THAT:

(a) EP 1 200 143 B2 is revoked;

(b) The Defendant do pay the First Claimant's costs of these proceedings to be assessed on a standard basis (if not agreed) incurred up to and including the service of the Grounds of Invalidity on the 7th January 2011;

(c) The Claimants do pay the Defendant's costs of these proceedings incurred thereafter to be assessed on the standard basis if not agreed.

...

8. The directions timetable to trial shall be as follows:

(a) The parties shall exchange expert evidence and fact evidence by 30th September 2011.

...

(d) The parties shall exchange expert and fact evidence in reply by 21st October 2011."

21. Although Fresenius had been given permission to amend their grounds of invalidity they did not in fact re-serve a statement of case containing those amendments. However on 30 September 2011 CareFusion said that they were withdrawing their Defence and Counterclaim and consenting to the revocation of their UK patent. What their solicitors said was:

"Dear Sirs,

We write further to our first letter of today's date.

We hereby notify you that our client elects to withdraw its Defence and Counterclaim and to consent to an order in the UK for the revocation of EP 1 200 143 B2 (UK) pursuant to paragraph 6 of the Order of Norris J made on 26 September 2011.

Yours faithfully"

22. Fresenius objected that the election to withdraw the Defence and Counterclaim was not "pursuant to paragraph 6" of Norris J's order. The result was, so they said, that CareFusion were not entitled to the benefit of the *Earth Closet* order. Arnold J heard the arguments on 12 October 2011. Fresenius advanced two arguments before Arnold J in support of their position. First they said that they had only been given *permission* to amend. They had not *in fact* amended, and would not have amended unless and until they took up that permission by re-serving an amended statement of case. Accordingly there was no "matter introduced by the aforesaid re-amended Statements of Case". On that basis paragraph 6 of Norris J's order was not triggered, and therefore the election was not made pursuant to that paragraph. Arnold J agreed with that argument.

The second argument was that the letter purporting to exercise the election did not state that the election had been made as a result of the matter introduced by the re-amended statement of case. If one looked at a letter written by CareFusion's solicitors earlier in the day on which they purported to elect, they had stated that the reason why they were withdrawing the Defence and Counterclaim was not because they accepted that the patent was invalid, but because it was not of sufficient value to be worth defending. Arnold J accepted that argument too.

23. Accordingly Arnold J held that the action was still continuing, and he therefore had to consider what directions to make about the future conduct of the case. Evidence had not in fact been exchanged in accordance with the timetable laid down by Norris J. Arnold J decided that CareFusion should be given a short period in which to file further evidence for trial (which was due to begin on 7 November 2011). He decided that CareFusion should have until 14 October 2011 (that is two days after his own order) in which to do so, failing which they were to be debarred from relying on any evidence at trial. He also refused to vacate the trial date.
24. We now have the following appeals or potential appeals:
 - i) CareFusion's appeal against Arnold J's construction of the order of Norris J. Arnold J gave permission for this appeal. CareFusion says that on the true construction of that order they made a valid election, with the consequence that the action came to an end;
 - ii) If CareFusion's appeal against Arnold J's decision fails, they appeal against paragraph 5 of Norris J's order. Permission to appeal is needed for this appeal. CareFusion say that the costs order made by Norris J is only justifiable on the basis that the amendments were taken as having been made there and then; and that if it was open to Fresenius not to take up the permission to amend, then CareFusion should have had all its costs of the application to amend;
 - iii) Fresenius' appeal against paragraph 6 of Norris J's order on the ground that an *Earth Closet* order should not have been made at all. Permission to appeal is needed for this appeal also.
25. We have already set out our views about the principle of *Earth Closet* orders. But is it open to Fresenius to appeal on the basis that the order should never have been made, when they did not oppose the principle below? CareFusion rely on the recent decision of this court in *Allen v Bloomsbury Publishing Ltd* [2011] EWCA Civ 943 in which Lloyd LJ said (§ 17):

“... the judge's order was undoubtedly made in the exercise of his discretion and, as a matter of principle,

an appellate court will not interfere in such a case unless it is clear that the judge has misdirected himself either because it is clear from the judgment that he has made an error of law -- including taking irrelevant matters into account or leaving relevant matters out of account -- or because his order is plainly wrong so that it must be the result of a misdirection. In our adversarial system of litigation, in a case where each party was professionally represented *with plenty of opportunity to formulate and put to the court all points considered to be relevant on a particular point*, it seems to me questionable for a judge to be criticised for having failed to take into account a factor which, if relevant, was known or available to all parties and which no party invited him to consider as part of the process of exercising his discretion. It would be one thing if, through inadvertence, the judge overlooked a point of law which should affect his reasoning ... but otherwise what is said here is that there was a relevant consideration which the judge failed to take into account. It does not seem to me to be fair either to the judge or to the opposing party or parties for an unsuccessful litigant to be able to challenge the exercise of the court's discretion for failure to take account of a factor which was not in any way hidden and which, if it really is relevant, the exercise of reasonable professional diligence could have brought to light but which was not suggested to the judge as being relevant. This strikes me as being wrong in principle. I am not aware of any authority on the point. I can understand that a court might be reluctant to be dogmatic on the point because, in the context of interlocutory orders which very often involve the exercise of discretion, the relevant circumstances are infinitely variable and *there may often be cases in which one side was not represented below or in which the circumstances of the hearing did not allow full preparation or consideration of all potentially relevant factors.*" (Emphasis added)

26. He continued (§ 18):

"For that reason I do not intend to adopt any hard and fast rule as the basis for my decision on this appeal. However, I do view with considerable scepticism in the present case the attempt to criticise the judge for not taking a point into account which was not submitted to him as being relevant."

27. In our judgment Fresenius should be permitted to appeal against the principle

underlying the making of an *Earth Closet* order. The making of such orders is a well-established practice; and the chance of successfully challenging the whole practice at first instance would have been remote. It would, perhaps, have been better if Fresenius had indicated that it might wish to challenge the practice in this court; but to debar them from mounting the challenge because they had not explicitly trailed the possibility would in our judgment be too formalistic. The application for an *Earth Closet* order was made at the conclusion of the hearing dealing with the amendments; and had not been foreshadowed either in correspondence or in CareFusion's skeleton argument. It is not therefore a case in which there was ample opportunity to deploy all the arguments. In argument before Arnold J Mr Baldwin himself (both orally and in writing) said that if Fresenius were dissatisfied with paragraph 6 of Norris J's order they should have appealed against it. It is also pertinent that CareFusion made their "election" on the very day that the order was sealed (some four days after the hearing) at a time when the time limit for an appeal had not expired. CareFusion has not, on the strength of the order, taken any irrevocable step whose consequences are irreversible. The patent has not in fact been revoked; and CareFusion have not in fact discontinued their counterclaim. Nor have CareFusion admitted that the patent is invalid; and even if they had that admission could be withdrawn with the permission of the court. Mr Baldwin said that CareFusion had "downed tools" in trial preparation for a period of some nine days. But CareFusion has in fact served extensive expert evidence dealing with all the issues in the case; and the expert has not said that he was short of time in compiling his report. These reasons are insufficient to make it just that Fresenius are bound by an order which, in principle, should not have been made.

28. The point is an important one, which this court should consider. We would therefore grant permission to Fresenius to appeal against paragraph 6 of Norris J's order and, for the reasons we have given, allow the appeal.
29. This makes the appeal against Arnold J's order to some extent academic. However, we respectfully disagree with his interpretation of Norris J's order. Our reasons are as follows. The context in which Norris J made his order was that there was an impending trial due to begin on 7 November. Time was tight. If an amendment was to be permitted, consequential pleadings might become necessary and evidence would have to be gathered and exchanged. Built into this timetable was a period for CareFusion to elect whether to withdraw their defence and counterclaim and consent to the revocation of the patent. CareFusion had asked for two weeks to consider their position; and that was the genesis of the date specified in paragraph 6 of the order. Against that background it is, in our judgment, improbable that the order provided for a floating timetable in the sense that the time periods would not begin to run effectively unless and until Fresenius served a re-amended statement of case. Mr Tappin QC, for Fresenius, says that one must distinguish between obtaining permission to do something and doing it. Here all that had happened was that Fresenius had obtained permission to make amendments. The normal way of introducing new matter into a case is by serving an amended statement

of case; and that is what paragraph 2 of the order contemplated.

30. We do not think that the wording of the order bears out Mr Tappin's submission. First, paragraph 2 of the order provided that Fresenius "shall serve the aforesaid re-amended Statements of Case as soon as practicable". At first blush this is mandatory language. Arnold J interpreted this as meaning that if Fresenius decided to take up the permission to amend contained in paragraph 1 of the order then they had to serve the amended statement of case as soon as practicable. But that is not what the order says. It is also to be contrasted with the standard form of order in the Patents Court Guide which gives the defendant *permission* to re-serve, but which clearly sets time running for the claimant to make his election as at the date of the grant of permission. The wording of Norris J's order is more emphatic in that respect than the standard form. Fresenius pose the question: if the amendments formed part of the case merely on the making of Norris J's order, why bother to require service at all? It is true that the judge could have dispensed with re-service because the permitted amendment was attached to the order; but since Fresenius had only been partially successful in obtaining permission to amend, it made sense for re-service of a re-amended statement of case containing (and containing only) the permitted amendment. Second, given that CareFusion had to make an election by a fixed date, and given that they had asked for two weeks in which to decide what to do, to say that time only started to run when Fresenius served its re-amended statement of case could substantially erode that period. Third, the period for exchange of evidence was likewise tied to fixed dates. It would be unusual for the parties to have to exchange evidence without knowing what the issues were. Fourth, Norris J decided that Fresenius should have half its costs of the application for permission to amend. If it were open to Fresenius to decide not to take up that permission at all, then all those costs would have been wasted; and justice would require that Fresenius should have paid CareFusion's costs of a futile application. If, therefore, the order had contemplated that Fresenius could decline to take up the permission to amend, we would have expected the order to have contained a contingent order for costs in that eventuality (just as it contained a contingent order for costs in the event of CareFusion withdrawing its counterclaim). Fifth, the order made in this case departs from the standard *Earth Closet* order in one other respect. The standard order gives the claimant the right to elect to discontinue within a stipulated period. The order made by Norris J also gives them that right, but qualifies the right by saying that it must be "as a result of the matter introduced by the aforesaid re-amended Statements of Case." The timetable in the standard order clearly runs from the time at which the order was made. It is difficult to accept that the introduction of the quoted change in wording has the effect of altering that basic position. Sixth, the new wording refers to the "matter introduced" (past tense); not to matter *to be* introduced. Seventh, the expectation of a party against whom an *Earth Closet* order is made that he must elect whether to press for his amendments at the time when he applies for permission to make them; and not at some later time: *Instance v Denny Bros Printing Ltd* [1994] FSR 396, 402. Eighth, in no other area of litigation does the court in giving permission to amend a statement of case give the applicant the opportunity to repent of his decision to apply for the amendments. Lastly, as we have said, the context in which Norris J made his order makes Mr

Tappin's construction improbable.

31. We do not say that any one of these reasons is decisive. But cumulatively they compel the conclusion that time for CareFusion to make the election began to run on the making of the order. That then leads to the second question: did CareFusion make a valid election?
32. We have already quoted the letter purporting to make the election. Arnold J said of that letter (§ 24):

“In my judgment the second letter does not amount to a valid exercise of the right of election conferred by paragraph 6 of Norris J's order, since it does not state that CareFusion will consent to an order for revocation of the Patent as a result of the matter introduced by the re-amended statements of case. That is not merely a matter of form, but also of substance, as can be seen when one looks at the first letter.”

33. Immediately before the letter purporting to make the election CareFusion's solicitors wrote:

“2. Your clients made a very late application to amend their Grounds of Invalidity so as to introduce a new allegation of prior use in Japan, only 6 weeks before the trial is due to commence, for which you were given permission by the said Order. The result of this late addition to your client's case is that, in addition to the excessive costs that are involved in going to trial in England, which our client is already required to expend if it continues to defend its position, our client now has to carry out what would be very expensive urgent investigations in Japan into the circumstances of the alleged Japanese prior use based on the limited details given in your client's pleading in the six weeks that remain before trial.

3. It was a condition of such permission to amend that your clients will have to pay our client's costs of these proceedings from 7 January 2011 if our client elects to withdraw the Defence and Counterclaim and to consent to the revocation of the patent in suit.

4. In defending the litigation initiated by your client against ours, as a prudent business organisation our client has to keep the commercial value of these proceedings to its business at the forefront of its mind.

5. Our client firmly believes the patent in suit is valid

over all the prior art cited against it, including the Japanese prior use now added, and that if the matter were to go to trial the English court would find in our client's favour that the patent was valid and infringed by your clients.

6. Nevertheless, from a business perspective the negligible benefit to our client's business in defending the English proceedings as outlined above is outweighed by:

(i) the excessive costs of continuing to do so as outlined above; and

(ii) the significant value to our client's business in recouping the costs your clients have forced our client to expend by issuing these proceedings against our client.

7. For these reasons our client has taken the pragmatic decision that the commercial value of succeeding in the English action is not worth the nuisance and expense of continuing to defend these proceedings. Accordingly we refer you to the election in our second letter of today's date."

34. Arnold J said of this letter (§§ 25, 26):

"The first letter does not state that CareFusion is electing to consent to revocation as a result of the matter introduced by the re-amended statements of case. Rather, it asserts that CareFusion remains of the belief that the Patent in suit is valid over all the prior art cited against it, including the Terumo Device, and that if the matter were to go to trial the court would find that the Patent was valid and infringed. The reason given in the letter for CareFusion desiring to elect to withdraw its defence and counterclaim and consent to an order for revocation is, as it is put in paragraph 6, the negligible benefit to its business in defending the proceedings being outweighed by (i) the excessive costs of continuing to do so and (ii) the value to CareFusion in recouping costs if it does make the election under paragraph 6 of Norris J's order.

The nearest the letter comes to suggesting that the matter introduced by the re-amended statements of case is even a factor in the decision is in the reference in paragraph 6(i) to "the excessive costs ... as outlined above". It is fair to say that in paragraph 2 mention is made of a requirement to carry out "very expensive

urgent investigations in Japan". However, that is stated to be in addition to the excessive costs that are involved in going to trial in England. Thus the reference to excessive costs in paragraph 6(i) would hold good even if there had been no requirement for the "very expensive urgent investigations in Japan". CareFusion's position, as expressed in paragraph 2, is that the costs were excessive anyway."

35. The letter purporting to make the election said that the election was made "pursuant to paragraph 6 of the Order of Norris J". Necessarily that entailed an assertion that it was made "as a result of the matter introduced by the aforesaid re-amended Statements of Case"; otherwise it would not have been made *pursuant to* paragraph 6. In addition the immediately preceding letter, as Arnold J acknowledged, did say that "The result of this late addition to your client's case is that ...our client now has to carry out what would be very expensive urgent investigations in Japan...". However, we do not consider that it is a fair reading of the letter that those additional costs played no part in the decision to make the election. If they played some part in that decision then, as it seems to us, the decision can fairly be said to have been made as a result of the matter introduced by the amendments. The fact that CareFusion did not admit the invalidity of the patent does not matter. There is no reason why a patentee who decides that the incurring of additional expense to deal with amendments makes the game not worth the candle cannot say that he is abandoning his claim as a result of those amendments.
36. Accordingly, we hold that (if the *Earth Closet* order had been rightly made) CareFusion made a valid election under it. We allow the appeal against Arnold J's order.
37. This conclusion means that the third appeal (against paragraph 5 of Norris J's order) is unnecessary. We would therefore refuse permission to appeal on that appeal.