



Neutral Citation Number: [2023] EWCA Civ 11

Case No: CA-2022-000822

IN THE COURT OF APPEAL (CIVIL DIVISION)
ON APPEAL FROM THE HIGH COURT OF JUSTICE, BUSINESS AND PROPERTY
COURTS OF ENGLAND AND WALES, INTELLECTUAL PROPERTY LIST (ChD),
PATENTS COURT

Mrs Justice Bacon

[2022] EWHC 708 (Pat)

Royal Courts of Justice
Strand, London, WC2A 2LL

Date: 17 January 2023

Before :

LORD JUSTICE PETER JACKSON

LORD JUSTICE COULSON

and

LORD JUSTICE ARNOLD

Between :

(1) ANAN KASEI CO. LIMITED

(2) RHODIA OPERATIONS SAS

- and -

(1) NEO CHEMICALS & OXIDES (EUROPE) LIMITED

(2) NEO PERFORMANCE MATERIALS INC

(3) NEO CAYMAN HOLDINGS LIMITED

Claimants/

Appellants

Defendants/

Respondents

Tom Mitcheson KC and Miles Copeland (instructed by Hogan Lovells International LLP)
for the Appellants

Hugo Cuddigan KC and Adam Gamsa (instructed by Bird & Bird LLP) for the
Respondents

Hearing dates : 13-15 December 2022

Approved Judgment

Lord Justice Arnold:

Introduction

1. This is an appeal by the Claimants (“Rhodia”, part of the Solvay Group) from an order of Bacon J dated 7 April 2022 dismissing their claim against the Defendants (“Neo”) for damages for patent infringement, except in so far as the claim had been compromised, for the reasons given in the judge’s judgment dated 29 March 2022 [2022] EWHC 708 (Pat).
2. The First Claimant (“Anan”) was the proprietor of European Patent (UK) No. 1 435 338 (“the Patent”), which was applied for on 5 September 2002, granted on 16 February 2011 and expired on 5 September 2022. The Second Claimant (“RhodiaOps”) was the exclusive licensee under the Patent at least from 8 April 2016. On 13 April 2016 Rhodia commenced proceedings against Neo for infringement of the Patent. On 23 April 2018 Roger Wyand QC sitting as a Deputy High Court Judge held that the Patent was valid and had been infringed by dealings by Neo in their C100 and C100N high surface area (“HSA”) cerium oxide products [2018] EWHC 843 (Pat). On 9 October 2019 this Court dismissed Neo’s appeal against the rejection of their challenge to the validity of the Patent [2022] EWCA Civ 1646.
3. On the subsequent inquiry as to damages, Rhodia originally claimed nine heads of damage due to the infringement. The first, Head 1, was a claim for loss suffered by Rhodia as a result of the infringing supply of C100N to Rhodia and Neo’s mutual customer Johnson Matthey (“JM”) in the United Kingdom between 2014 and 2017. The claim for that head of damages was settled in late 2020 for the sum of £85,000 (the face value of the goods). Heads 2 and 5–8 were not pursued. The only heads of claim that were live before the judge were therefore Heads 3 and 4, which claimed losses said to have been suffered by Rhodia as a result of supplies of C100N to JM outside the UK, in countries where Rhodia did not have patent protection, in competition with Rhodia’s patented HSA20 product. In addition, Rhodia claimed losses from sales after expiry of the Patent as Head 9. In total, Rhodia claimed over €24 million on these bases.
4. Rhodia’s primary case was that, absent the infringements, Rhodia would have made all the sales to JM that Neo had made, so the infringements caused them to lose profits on sales of HSA20. In the alternative, if Rhodia would not have made all or some of those sales, Rhodia claimed negotiating damages quantified on a reasonable royalty basis.
5. Neo resisted Rhodia’s claim on four main grounds, which may be summarised as follows. First, Rhodia could not recover losses sustained due to acts by Neo committed outside the UK since the protection conferred by the Patent was limited to the UK. Secondly, Rhodia’s claim should be refused on the grounds that it was disproportionate and/or created a barrier to legitimate trade contrary to Article 41 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS”) and Article 3(2) of European Parliament and Council Directive 2004/48/EC of 29 April 2004 on the enforcement of intellectual property rights (“the Enforcement Directive”). Thirdly, Rhodia had suffered no loss because Neo could have supplied a non-infringing version of C100N that JM would have accepted. Fourthly, the infringing supplies of C100N to JM in the UK were not an effective or substantial or

proximate cause of the lost sales claimed by Rhodia. In addition, Neo advanced a number of arguments concerning the quantification of Rhodia's claim.

6. The judge rejected Neo's first three grounds of resistance, but accepted the fourth. In case she was wrong about that, the judge made various findings concerning Rhodia's claim with a view to enabling it to be quantified if necessary. In particular, she found that Rhodia would not have had the capacity to supply JM prior to 2018, and thus she held that Rhodia were only entitled to a reasonable royalty in respect of supplies during this period. By contrast, she found that Rhodia would have had capacity to supply JM from 2018 onwards and thus could claim lost profits in respect of that period.
7. Rhodia now appeal against the judge's rejection of their claim for want of causation, while Neo challenge the judge's rejection of their first two grounds of defence and the judge's decision as to the reasonable royalty by way of a respondents' notice. In addition, Neo have applied for permission to raise a new argument, to adduce new evidence and to obtain disclosure concerning RhodiaOps' status as exclusive licensee.

The facts in outline

8. Automotive catalyst systems (colloquially known as catalytic converters) have been used for some time to reduce the emissions from vehicle exhausts of noxious gases such as nitrogen oxide. The European market for automotive catalysts is driven by the European Union emissions standards that car manufacturers are legally required to meet. The current Euro 6 standard was introduced from 2014, and tightened emissions requirements, particularly with regard to nitrogen oxide ("NOx") emissions from diesel vehicles.
9. Cerium oxides (also known as ceric oxides) are often added to automotive catalyst systems to enhance their performance. They have the property of absorbing, storing and desorbing oxygen, which allows for the conversion of NOx elements in exhaust gases. To function efficiently in catalyst systems, however, the cerium oxide materials need to maintain a high surface area at the temperatures encountered in those systems. Claim 1 of the Patent is for a ceric oxide with a surface area of not smaller than 30m²/g when subjected to calcination at 900°C for 5 hours.
10. In the production of a catalyst system, the cerium oxide is mixed with other catalyst components, including alumina, zirconia and zeolite, to form what is called a "washcoat", which is coated onto a substrate that is typically a ceramic cylinder. The coated substrate is then encased in steel by a "canner", before being incorporated into the vehicle exhaust system by the car manufacturer. The three main "washcoaters" in Europe are BASF, Umicore and JM. The washcoaters' customers are the car makers, often referred to as Original Equipment Manufacturers or OEMs.
11. Rhodia and Neo are the only suppliers of HSA cerium oxide to JM. The First Defendant ("Neo UK") supplied infringing development samples of HSA cerium oxide to JM's testing centre in the UK in 2011-2013 and initial quantities of the infringing commercial products C100 and C100N in 2010 and 2014-2017 respectively. The admitted purpose of Neo UK's supply of the samples and initial quantities in the UK was to procure from JM orders for the supply outside the UK of much larger quantities of C100N. JM used the infringing samples and initial

quantities of C100N in the UK to qualify and gain approval by its car maker customers of JM's catalyst system (a "lean NOx trap"). JM agreed a technical specification for the supply of C100N with Neo UK in September 2014 which was revised in around March 2016. Thereafter Neo UK sold and supplied C100N made in China to JM's Macedonian and South African factories where it was incorporated into lean NOx trap catalysts for JM's customers.

12. In summary, Neo UK carried out the following acts:
 - i) Between February 2011 and October 2012 Neo UK supplied a total of 31.5kg of infringing C100 to JM in the UK.
 - ii) In March 2013 Neo UK supplied an infringing C100N-type sample AB0888Z to JM in the UK because JM considered C100 too expensive.
 - iii) In August 2013 Neo UK supplied two non-infringing C100N-type samples AB0931Z and AB0936Z to JM in the UK which JM did not pursue. In November 2013 Neo UK supplied another possibly non-infringing C100N-type sample AB0954Z to JM in the UK (Mr Wyand QC held this sample to be non-infringing, whereas the evidence before Bacon J suggested that it might have been infringing).
 - iv) Between January 2014 and August 2014 Neo UK supplied a total of 750kg of infringing C100N commercial product to JM in the UK.
 - v) Between November 2014 and May 2015 Neo UK supplied a total of 8000kg of C100N to JM in the UK.
 - vi) In May 2015 Neo UK supplied 500kg of C100N to JM in Macedonia, following which Neo UK commenced the supply of commercial quantities to Macedonia which continues today.
 - vii) In July 2015 Neo UK supplied 500kg of C100N to JM in South Africa, following which Neo UK commenced the supply of commercial quantities to South Africa which continues today.
 - viii) In addition to the supplies to JM in Macedonia and Macedonia, Neo UK has made supplies of C100N to JM via a third party facility in the Netherlands.
 - ix) Between March 2016 and July 2017 Neo UK supplied a total of 3000kg of C100N to JM in the UK.
13. Rhodia's claim for lost profits was predicated upon RhodiaOps having lost sales of HSA20 to JM until 2030 as result of JM purchasing C100N from Neo instead. Thus the losses claimed on Rhodia's primary case were sustained by RhodiaOps rather than by Anan.
14. Anan had a patent corresponding to the Patent in China, but Neo were successful in a claim for revocation of the Chinese patent. Anan did not obtain patent protection in Macedonia, the Netherlands or South Africa. If Anan had been able to maintain its Chinese patent it could have recovered damages in respect of all C100N manufactured by Neo there, including C100N supplied to JM anywhere in the world. If Anan had

obtained patent protection in Macedonia, the Netherlands and South Africa, it could have recovered damages in respect of Neo's supplies of C100N to JM in those countries.

The judge's judgment

15. The judge outlined the case at [1]-[9]. She identified, and gave her assessment of, the witnesses at [10]-[31]. These included two former employees of JM, Dr Richard O'Sullivan and Dr Duncan Winterborn, and Neo's sales director Robert Noll. She also explained that Rhodia relied upon hearsay evidence consisting of an affidavit made in 2017 for the purposes of Dutch proceedings by Karen Brown, the then managing director of Neo UK. The judge set out the factual background in some detail at [32]-[77]. She identified the issues at [78]-[81]. In this context she noted at [79(iii)] that Neo admitted that the overseas supplies of C100N were a foreseeable consequence of the infringing acts in the UK.
16. The judge considered the general principles applicable to the assessment of damages for patent infringement at [82]-[86]. She quoted the following summary by Kitchin J (as he then was) in *Ultraframe (UK) Ltd v Eurocell Building Plastics Ltd* [2006] EWHC 1344 (Pat) at [47] of the principles established by earlier case law, and in particular the leading case of *Gerber Garment Technology Inc v Lectra Systems Ltd* [1995] RPC 383 (Jacob J) and [1997] RPC 443 (CA), noting that it was common ground between the parties (except for one point which is no longer material):
 - “(i) Damages are compensatory. The general rule is that the measure of damages is to be, as far as possible, that sum of money that will put the claimant in the same position as he would have been in if he had not sustained the wrong.
 - (ii) The claimant can recover loss which was (i) foreseeable; (ii) caused by the wrong; and (iii) not excluded from recovery by public or social policy. It is not enough that the loss would not have occurred but for the tort. The tort must be, as a matter of common sense, a cause of the loss.
 - (iii) The burden of proof rests on the claimant. Damages are to be assessed liberally. But the object is to compensate the claimant and not to punish the defendant.
 - (iv) It is irrelevant to a claim of loss of profit that the defendant could have competed lawfully.
 - (v) Where a claimant has exploited his patent by manufacture and sale he can claim (a) lost profit on sales by the defendant that he would have made otherwise; (b) lost profit on his own sales to the extent that he was forced by the infringement to reduce his own price; and (c) a reasonable royalty on sales by the defendant which he would not have made.

- (vi) As to lost sales, the court should form a general view as to what proportion of the defendant's sales the claimant would have made.
 - (vii) The assessment of damages for lost profits should take into account the fact that the lost sales are of 'extra production' and that only certain specific extra costs (marginal costs) have been incurred in making the additional sales. Nevertheless, in practice costs go up and so it may be appropriate to temper the approach somewhat in making the assessment.
 - (viii) The reasonable royalty is to be assessed as the royalty that a willing licensor and a willing licensee would have agreed. Where there are truly comparable licences in the relevant field these are the most useful guidance for the court as to the reasonable royalty. Another approach is the profits available approach. This involves an assessment of the profits that would be available to the licensee, absent a licence, and apportioning them between the licensor and the licensee.
 - (ix) Where damages are difficult to assess with precision, the court should make the best estimate it can, having regard to all the circumstances of the case and dealing with the matter broadly, with common sense and fairness."
17. The judge also noted that the parties were also in agreement that, while the principles set out by the Supreme Court in relation to the tort of negligence in the cases of *Manchester Building Society v Grant Thornton LLP* [2021] UKSC 20, [2022] AC 783 ("*MBS v GT*") and *Meadows v Khan* [2021] UKSC 21, [2022] AC 852 were of some relevance in considering the assessment of (in particular) scope of duty and causation, they did not substantially modify the established framework for a damages inquiry in the context of patent infringement.
18. Finally, the judge summarised the principles concerning the court's assessment of what would have happened if the infringement had not been committed as follows:
- "i) The assessment of what would have happened in the counterfactual case is not a matter susceptible of precise estimation: 'one cannot expect much in the way of accuracy when the court is asked to re-write history': *Gerber v Lectra* [1995] RPC 383, 395.
 - ii) The court's task is therefore to do the best it can with the material available to it: *General Tire and Rubber Company v Firestone Tyre and Rubber Company* [1975] WLR 819, 826; *Original Beauty Technology v G4K Fashion* [2021] EWHC 3439 (Ch), §75.
 - iii) Where the defendant's wrongdoing has created uncertainties, those should where necessary be resolved by making assumptions generous to the claimant: *Gary Fearn v Anglo-*

Dutch Paint [2010] EWHC 1708 (Ch), §70. Green LJ commented to similar effect in *NTN Corp v Stellantis* [2022] EWCA Civ 16, §26 that where a claimant has a justiciable right the procedural and evidential rules governing the enforcement of that right should not be so onerous that it makes the right too hard to vindicate.

- iv) The court should also have regard to the extent to which it was in the power of one or other party to produce evidence on a particular point: see the principle stated by Lord Mansfield in *Blatch v Archer* (1775) 1 Cowp 63, 65, cited with approval by Lord Bingham in *Fairchild v Glenhaven* [2002] UKHL 22, [2003] 1 AC 32, §13.”
19. The judge considered Neo’s territoriality point at [87] and [89]-[109]. As noted above, she rejected Neo’s argument that Rhodia could not recover the losses claimed because (with the exception of the quantities supplied to JM in the UK which were the subject of Head 1 of Rhodia’s claim) C100N was both made and supplied by Neo to JM outside the UK. She considered Neo’s point on Article 41 of TRIPS and Article 3(2) of the Enforcement Directive at [88] and [110]-[117]. As noted above, she rejected Neo’s argument that Rhodia could not recover the losses claimed because the claim was disproportionate or created a barrier to legitimate trade. She considered and rejected Neo’s case on non-infringing alternatives at [118]-[155]. There is no challenge by Neo to that part of her judgment.
20. The judge considered the issue of causation at [156]-[196]. She began by noting at [156]:
- “It is well established that, for the purposes of the assessment of damages for infringement of a patent, it is not sufficient to show that ‘but for’ the infringement the loss would not have occurred. Rather, it is also necessary to show that the infringement was, as a matter of common sense, a cause of the loss: see Kitchin J in *Ultraframe* at §[47], point (ii).”
21. She then cited a passage from the speech of Lord Nicholls of Birkenhead in *Kuwait Airways Corp v Iraqi Airways Co (Nos 4 and 5)* [2002] UKHL 19, [2002] 2 AC 883 which I will set out a little more fully below.
22. At [160] the judge found that:
- “... ‘but for’ the infringing development samples, and the subsequent infringing commercial C100N product, the overseas sales would not have been made. The key question is, however, whether the infringing supplies were the ‘common sense’ or proximate cause of the overseas sales.”

It is clear from the context that, when the judge referred to “infringing” samples and product, she was referring to Neo’s infringing acts in supplying those samples and that product to JM in the UK.

23. At [161] the judge rejected an argument by Neo that the common-sense cause of Rhodia's losses was the non-infringing manufacture of C100N in China and the non-infringing supply of C100N to JM in Macedonia, South Africa and the Netherlands. At [162] she rejected an argument by Neo that, in so far as the samples supplied to JM were a cause of the overseas sales, the tipping point came from the apparently non-infringing samples AB0936Z and AB0954Z.
24. The judge went on:
- “163. Equally, however, I do not accept [counsel for Rhodia]'s argument that the fact that the overseas sales were the ‘intended and natural consequence’ of the infringements is sufficient to establish common sense causation. As to intention, [counsel for Rhodia] relied upon Neo's recorded admission that its intention and objective in importing and supplying development samples and commercial C100N product to JM was to procure a commercial contract with JM. But intention alone, it seems to me, cannot create a sufficiently direct link between infringing and non-infringing sales so as to establish that the latter have been caused by the former, although it may well be relevant to the assessment of whether such a link exists.
164. As to whether the overseas sales were the ‘natural’ consequence of the infringing supplies, if that simply means that those sales were foreseeable, then that is not denied by Neo, but that likewise does not mean that causal link between the infringement and those sales was sufficiently direct. A more direct link is, in my judgment, required for the infringing supplies to be regarded as the ‘common sense’ or proximate cause of the overseas sales.
165. In that regard, it seems to me that the crucial question is the importance of the infringing supply in influencing the customer's decision to purchase the non-infringing product. That is likely to involve a spectrum of possibilities. On one end of the spectrum, if an infringing product is supplied as part of a single transaction that includes the sale of a non-infringing product, in circumstances where the non-infringing sale is inextricably related to the infringing sale, causation will very likely be established. The sale of convoyed products, as in *Gerber v Lectra*, where the secondary (non-patented) product is functionally related to the infringing product, or is a spare part for the infringing product, invokes a similar analysis.
166. A less direct link, but one where causation might also be established, would be a case where the non-infringing sale is not inextricably or functionally related to the infringing sale, but where the customer requires both products for a single purpose and therefore seeks to purchase both products from the same source.”

25. Having discussed *Xena Systems Ltd v Cantideck* [2013] EWPC 1, [2013] FSR 41, the judge said:

“168. ... The mere fact, therefore, that the supply of an infringing product allows the infringer to enter the market for a non-infringing product does not in itself create a sufficiently direct causal link between the infringing and non-infringing sales. Put another way, 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.

169. In similar vein, if an infringing supply brings a product to the attention of a customer, who subsequently decides to purchase a non-infringing version of that product instead of a competing patented product on the grounds that the former is cheaper and more widely-available, then it seems to me that an intuitive analysis would regard the cause of the sale as being the customer’s decision based on price and availability, those factors being decisive in influencing the choice between the two products. The infringing supply would in that example have undoubtedly created the opportunity for the non-infringing sale, but would not be regarded as the common sense cause of that sale.

170. The question is whether in the present case Neo’s supplies of infringing samples and commercial product to JM in the UK were a sufficiently significant driver of the overseas sales that they should be regarded as the ‘common sense’ or proximate cause of those sales, or whether the infringing supplies simply created an opportunity for those sales to be made.”

26. The judge considered the evidence as to the factors affecting JM’s purchasing decisions at [171]-[184]. As she explained:

“172. Much of that evidence was uncontroversial and common ground. The parties were agreed that after JM had satisfied itself that a raw material was in principle suitable for its requirements, it would use that material to make sample catalysts which were then offered to the car makers for testing. In some cases, the car maker would ask for sample catalysts from several suppliers, which would then be tested against each other in a ‘shootout’. Once a car maker had chosen JM’s catalyst, JM would make up prototypes that would then be used for vehicle testing, including in fleet trials. Assuming that the catalysts performed satisfactorily, JM would then commence industrial scale manufacture of catalysts. That would translate to commercial scale orders of the raw materials from its chosen suppliers for each catalyst.

173. It was also common ground that a car maker would select a single catalyst (whether from JM or one of the other

washcoaters) for a particular platform (i.e. a particular type of engine manufactured by that car maker). Being the catalyst supplier on that platform would therefore secure the selected supplier years of business for the life of that platform, including making catalysts for spare parts after the platform came out of manufacture.”

27. The judge went on to find at [180] that both Rhodia and Neo were qualified as suppliers on the four car platforms for which JM was using Neo’s product by March 2015 (referred to as “dual qualification”). She found at [181] that this would have allowed JM to decide what quantities to purchase from each supplier, which would depend on the prices offered by the respective suppliers and their capacity to make timely supplies of the quantities JM required. She found at [182] that the commercial substitutability of Neo’s and Rhodia’s products played an important part in JM’s procurement decisions. She also found that:

“183. JM’s overall purchasing decisions were also, obviously, driven by the orders from its car maker customers, which were not predictable with any degree of certainty. The evidence showed that Neo had hoped to obtain a supply contract with JM, but none was in fact concluded.

184. Rhodia was likewise unable to secure a contract with JM for the supply of HSA20 until 2017. Even then, the agreement (which covered a range of products including HSA20) did not commit JM to any minimum purchases of HSA20 (whether in absolute volumes or in terms of any percentage of Rhodia’s requirements), consistent with JM’s position from the outset that the product was going to be used in new applications that would be subject to ‘a great degree of demand volatility’. Rhodia was therefore in the same position as Neo in that orders would be placed from time to time on an ad hoc basis. ...”

28. The judge then analysed the issue as follows:

“185. It is undoubtedly the case that the infringing supplies of development samples and initial commercial C100N to the UK created an opportunity for Neo to make substantial subsequent overseas supplies of the product. Neo was not only aware of the possibility of those future overseas supplies, but intended that.

186. In the early stages of the development process, however, that outcome was speculative and uncertain. Thus when Neo supplied initial development samples to JM, neither it nor JM knew whether those would lead to any commercial orders whatsoever. JM had first to test the product, to ascertain whether it was suitable for its requirements, and then had to submit catalysts formulated with the product for approval by car maker customers. As the witnesses made clear, in that process JM was frequently competing in a ‘shootout’ with

other catalyst suppliers. Any supplies by Neo were therefore entirely contingent upon JM being selected by a car maker using a catalyst formulation that included C100N - in which the car maker's decision would inevitably turn on the assessment of the performance of the catalyst as a whole rather than any individual assessment of the specific individual components of the catalyst.

187. Even when JM was selected to supply the catalyst for a particular vehicle platform, it would (as I have described above) be necessary to do further vehicle testing including fleet trials before full commercial supplies of the catalyst started. That is why Mr Williams described the 200kg order of C100N on 4 December 2013 as an order that would 'open the door to bulk production' thereafter if the product proved to be successful in the customer fleet trials that were intended.
188. The chain of events from the supply of samples for testing (whether laboratory testing by JM or catalyst testing by car makers) to commercial orders for Neo's product therefore involved a series of contingencies resting on decisions taken initially by JM and subsequently by the car makers.
189. It is fair to say that once a catalyst containing Neo's product was ultimately approved by a car maker for use on one of its platforms, Neo could at that point have expected commercial orders to follow, given the evidence that a car maker would select a catalyst for the lifetime of a particular platform. There are, however, two important points to make about those orders.
190. The first is that there was no overarching supply contract, nor any minimum order guarantee, nor were the orders placed together with orders for UK supplies. Rather, orders were placed depending on the requirements from time to time of each of JM's production plants (which in turn depended on the orders placed by the car makers for the vehicles on which Neo's product was a catalyst component).
191. Secondly, where Neo's and Rhodia's products were both approved for use in a catalyst on a particular vehicle platform, the volume of C100N ordered from Neo would have depended upon the allocation of JM's requirements from time to time for that platform as between Neo and Rhodia. That decision would have been made on the basis of factors such as price and capacity, as the evidence set out above indicated.
192. I have concluded on the evidence above that all four of the platforms for which Neo was approved as at March 2015 were platforms on which Rhodia was also qualified. There was no evidence before me as to whether Neo was qualified on any other platforms after that date. On the evidence before me,

therefore, all of the platforms for which Neo is known to have been qualified were platforms for which there was a choice as between Neo's and Rhodia's products.

193. Drawing together the strands of the above, this is a case in which (i) there were multiple intervening contingencies between the infringing supplies by Neo and the eventual overseas supplies made by Neo; (ii) the orders that were eventually placed for Neo's product were not made together with or subject to the same contract as any orders for infringing supplies, but were placed for delivery to JM's various production plants from time to time; and (iii) on the evidence before me, it appears that Neo and Rhodia were dual-qualified on the platforms for which Neo was known to have been approved, providing a choice between the two products. Taking all of those factors together, I do not consider that the infringing supplies of Neo's product can be regarded as the 'common sense' or proximate cause of the overseas sales that were ultimately made."
29. The judge proceeded to consider Rhodia's claim for lost profits at [197]-[253]. There is no challenge by either side to this part of her judgment.
30. The judge addressed Rhodia's claim for a reasonable royalty at [254]-[296]. She set out the applicable legal principles, citing *Force India Formula One Team Ltd v 1 Malaysia Racing Team Sn Bhd* [2012] EWCA 616 (Ch), [2012] RPC 29 at [386] and *32Red plc v WHG (International) Ltd* [2013] EWHC 815 (Ch) as summarised in *Henderson v All Around the World Recordings Ltd* [2014] EWHC 3087 (IPEC) at [19], at [258]-[260]. At [261]-[265] she considered and rejected an argument by Neo that this part of Rhodia's claim was barred by the terms of the settlement of Head 1. There is no challenge by Neo to that conclusion.
31. The judge turned to consider the nature of Rhodia's case at [266]-[282]. She began by noting that Rhodia's pleaded case was that, but for the infringement, the parties would have entered into a UK licence with royalties calculated on the basis of global sales; whereas Rhodia's expert Mark Bezant had valued a global licence which would have given Neo worldwide rights to manufacture and sell C100N (when in fact Rhodia had patents in China and elsewhere). As the judge explained, Neo contended that this meant that Rhodia's global royalty claim should be rejected in its entirety. The judge said that this contention gave rise to two questions.
32. The first question was whether Rhodia's pleaded case was sustainable as a matter of principle. The judge concluded that it was, and there is no challenge by Neo to that conclusion. In this context she observed:
- "274. Neo is right to say that the notional licence would not have guaranteed it the right to sell throughout the world. But that does not make it impossible to value a licence on the basis pleaded by Rhodia. The identification of a notional licence in this type of case is by definition a somewhat abstract exercise, the purpose of which is simply to form a reference framework

for the assessment of a value to be put on the breach of the right in question. The assumption is therefore that there is a willing licensor and a willing licensee, even if the parties would not in practice have agreed a licence on those terms: ... If the result is a rather artificial one, that follows from the nature of the exercise and is not a reason to reject the exercise altogether: the court simply has to do the best that it can on the material available to it.

275. That does not, of course, require the court to ignore a relevant feature of the market on which sales would be made following the grant of the notional licence. On the contrary, the court is required to have regard to the circumstances in which the parties would have found themselves at the time of the hypothetical negotiation: If those circumstances would have included the existence of other intellectual property rights which would have reduced the value of sales by the defendant, that is a matter which can and should be taken into account in the valuation of the licence.”
33. The second question was whether the pleaded case was supported by Rhodia’s expert evidence, and if not what the implications were for Rhodia’s global royalty claim. As to this the judge said:
- “278. ... The problem with Mr Bezant’s evidence was rather that he had valued the licence on the basis that Neo would be providing JM with a globally-licensed product, which meant that JM would not be exposed to litigation risk and would have been willing to pay a higher price than it did in fact pay to Neo. Mr Bezant concluded on that basis (among others) that Neo would have increased pricing power in the counterfactual scenario, and would have been able to negotiate a price similar to the price that Rhodia actually charged. It follows from the preceding discussion that this overstated the rights that would have been granted under the notional licence.
279. Mr Bezant accepted in cross-examination that if Neo did *not* obtain a global licence, that would reduce the value of the notional licence ...
280. It follows that in the present case any valuation of the notional licence would have to take into account the existence of other patents held by Rhodia, and in particular the Chinese patent [which was still in force at the date of the notional negotiation].
281. I do not, however, agree with Neo that the only way of doing so is to reject Rhodia’s global licence fee claim in its entirety and replace it with a licence fee confined to the licensing of Neo’s development samples. Mr Bezant’s erroneous assumption that the notional licence would give Neo global rights to manufacture and sell did not taint the entirety of his

approach to the quantification of the notional licence, but related specifically to the prices at which he assumed that Neo would be able to sell its product to JM. As I set out below, that error can be corrected by taking an alternative reference basis for those prices.”

34. The judge then explained that the starting point for the experts’ calculations of the royalty under the simplified economic benefits model that they had adopted was the contribution margin that Neo would have earned on their sales in the counterfactual case where they had taken a licence from Rhodia. The judge considered the price that would have been charged by Neo in that scenario at [283]-[289]. She rejected Mr Bezant’s evidence that Neo would have been able to negotiate a price similar to the price that Rhodia actually charged as being based upon unwarranted assumptions, the first of which was that the overseas supplies were licensed rather than unlicensed. Instead she accepted the evidence of Neo’s expert Richard Boulton concerning a scenario based on Neo’s actual prices.
35. The judge considered the percentage of the contribution margin that Neo could have expected to obtain at [290]-[296]. She noted that Mr Bezant and Mr Boulton agreed that literature and practice identified an allocation of between 25% and 50% of incremental benefits to the licensor. Mr Bezant supported a figure towards top of the range, while Mr Boulton supported a figure towards the bottom of it. Having considered the various factors identified by the experts, including the continuing litigation risk to Neo, the judge concluded that an allocation of 35% of the contribution margin would have been a reasonable outcome of the notional negotiation.

The issues on the appeal

36. Rhodia advance four grounds of appeal with permission granted partly by the judge and partly by myself:
 - i) GA1: The judge erred in law in her approach to the issue of causation because she wrongly asked whether the infringing supplies were “the” common sense or proximate cause of the oversales sales of C100N instead of “a” cause.
 - ii) GA2: The judge wrongly approached the issue of remoteness by disregarding the facts that JM’s decisions were (a) not independent of Neo’s infringements, (b) intended by Neo and (c) procured by Neo knowing of the risk of infringement.
 - iii) GA3: The judge wrongly analysed the factors bearing on the issue of causation.
 - iv) GA4: The judge wrongly found that JM “dual qualified” Rhodia and Neo’s products, and should have applied the principle in *Armory v Delamirie* (1772) 1 Str 505.
37. The fourth ground of appeal was barely pursued in oral argument, and therefore I shall only address it briefly. A fifth ground of appeal (concerning loss of a chance) was not in the end pursued by Rhodia.

38. Neo advance six contentions by their respondents' notice:
- i) RN1: The judge was wrong to hold that Rhodia could recover in respect of overseas supplies because patents are territorial.
 - ii) RN2: The judge was wrong to hold that Rhodia's claim was not disproportionate and did not create a barrier to legitimate trade.
 - iii) RN3: A proper analysis of the sequence of events supports the judge's conclusion as to causation.
 - iv) RN4: The judge erred in her approach to quantifying the royalty damages.
 - v) RN5: Rhodia failed to plead a case entitling RhodiaOps (as opposed to Anan) to claim damages. Neo accept that this point was not taken below, and therefore they need permission to raise it now. Since the lost sales claimed by Rhodia would have been made by RhodiaOps, Neo contend that this is fatal to Rhodia's claim for lost profits.
 - vi) RN6: Neo should be given permission to adduce new evidence consisting of an exclusive licence between Anan and RhodiaOps which appears to have been executed on 8 April 2016 ("the 2016 Licence"). Neo say that it is to be inferred that RhodiaOps was not previously an exclusive licensee, with the same result as in RN5.
39. In addition to applying for permission to adduce the 2016 Licence as new evidence, Neo have applied for disclosure of a Master Distribution Agreement referred to in its recitals.
40. Although the issues raised by the respondents' notice do not arise if Rhodia's appeal is dismissed, I shall nevertheless consider them in case this matter goes further. Furthermore, it is convenient to follow the judge's example of considering RN1 and RN2 before turning to Rhodia's appeal. Before doing that, however, it is necessary to consider a number of recent decisions of the House of Lords and Supreme Court concerning the measure of damages for tort.

General principles concerning the measure of damages for tort

41. The modern law concerning the measure of damages for tort really begins with decision of the House of Lords in *South Australia Asset Management Corporation v York Montague Ltd* [1997] AC 87 ("*SAAMCo*"). In a famous speech Lord Hoffmann, with whom the other members of the House agreed, said at 211-213:

"Before one can consider the principle on which one should calculate the damages to which a plaintiff is entitled as compensation for loss, it is necessary to decide for what kind of loss he is entitled to compensation. ... For this purpose it is better to begin at the beginning and consider the [plaintiff]'s cause of action.

...

A plaintiff who sues for breach of a duty imposed by the law (whether in contract or tort or under statute) must do more than prove that the defendant has failed to comply. He must show that the duty was owed to him and that it was a duty in respect of the kind of loss which he has suffered. ...

How is the scope of the duty determined? In the case of a statutory duty, the question is answered by deducing the purpose of the duty from the language and context of the statute In the case of tort, it will similarly depend upon the purpose of the rule imposing the duty.

...

Rules which make the wrongdoer liable for all the consequences of his wrongful conduct are exceptional and need to be justified by some special policy. Normally the law limits liability to those consequences which are attributable to that which made the act wrongful.”

42. In *Kuwait Airways* Lord Nicholls, with whom Lords Steyn, Hoffmann and Hope of Craighead agreed, said:

“69. How, then, does one identify a plaintiff’s ‘true loss’ in cases of tort? This question has generated a vast amount of legal literature. I take as my starting point the commonly accepted approach that the extent of a defendant’s liability for the plaintiff’s loss calls for a twofold inquiry: whether the wrongful conduct causally contributed to the loss and, if it did, what is the extent of the loss for which the defendant ought to be held liable. The first of these inquiries, widely undertaken as a simple ‘but for’ test, is predominantly a factual inquiry. ...

70. The second inquiry, although this is not always openly acknowledged by the courts, involves a value judgment (‘ought to be held liable’). Written large, the second inquiry concerns the extent of the loss for which the defendant ought fairly or reasonably or justly to be held liable (the epithets are interchangeable). ... the inquiry is whether the plaintiff’s harm or loss should be within the scope of the defendant’s liability, given the reasons why the law has recognised the cause of action in question. The law has to set a limit to the causally connected losses for which a defendant is to be held responsible. In the ordinary language of lawyers, losses outside the limit may bear one of several labels. They may be described as too remote because the wrongful conduct was not a substantial or proximate cause, or because the loss was the product of an intervening cause. The defendant’s responsibility may be excluded because the plaintiff failed to mitigate his loss. Familiar principles, such as foreseeability, assist in promoting some consistency of general approach. These are

guidelines, some more helpful than others, but they are never more than this.

71. In most cases, how far the responsibility of the defendant ought fairly to extend evokes an immediate intuitive response. This is informed common sense by another name. Usually, there is no difficulty in selecting, from the sequence of events leading to the plaintiff's loss, the happening which should be regarded as the cause of the loss for the purpose of allocating responsibility. In other cases, when the outcome of the second inquiry is not obvious, it is of crucial importance to identify the purpose of the relevant cause of action and the nature and scope of the defendant's obligation in the particular circumstances. What was the ambit of the defendant's duty? In respect of what risks or damage does the law seek to afford protection by means of the particular tort? Recent decisions of this House have highlighted the point. When evaluating the extent of the losses for which a negligent valuer should be responsible the scope of the valuer's duty must first be identified: see [*SAAMCo*]. ...”
43. In *Hughes-Holland v BPE Solicitors* [2017] UKSC 21, [2018] AC 21 Lord Sumption, with whom the other members of the Supreme Court agreed, said at [20]:

“‘Courts of law’, said Lord Asquith of Bishopstone in *Stapley v Gypsum Mines Ltd* [1953] AC 663, 687, ‘must accept the fact that the philosophic doctrine of causation and the juridical doctrine of responsibility for the consequences of a negligent act diverge’. What Lord Asquith meant by the philosophic doctrine of causation, as he went on to explain, was the proposition that any event that would have not have occurred but for the act of the defendant must be regarded as the consequence of that act. In the law of damages, this has never been enough. It is generally a necessary condition for the recovery of a loss that it would not have been suffered but for the breach of duty. But it is not always a sufficient condition. The reason, as Lord Asquith pointed out, is that the law is concerned with assigning responsibility for the consequences of the breach, and a defendant is not necessarily responsible in law for everything that follows from his act, even if it is wrongful. A variety of legal concepts serves to limit the matters for which a wrongdoer is legally responsible. Thus the law distinguishes between a mere precondition or occasion for a loss and an act which gives rise to a liability to make it good by way of damages Effective or substantial causation is a familiar example of a legal filter which serves to eliminate certain losses from the scope of a defendant's responsibility. It is an aspect of legal causation. So too is the rule that the defendant cannot be held liable for losses that the claimant could reasonably have been expected to avoid But the

relevant filters are not limited to those which can be analysed in terms of causation. Ultimately, all of them depend on a developed judicial instinct about the nature or extent of the duty which the wrongdoer has broken.”

44. In *MBS v GT* at [6] and in *Meadows v Khan* at [28] Lords Hodge and Sales, with whom Lords Reed, Kitchin and Black agreed, set out a structured set of six questions for determining a claim for damages for the tort of negligence:

- “(1) Is the harm (loss, injury and damage) which is the subject matter of the claim actionable in negligence? (the actionability question)
- (2) What are the risks of harm to the claimant against which the law imposes on the defendant a duty to take care? (the scope of duty question)
- (3) Did the defendant breach his or her duty by his or her act or omission? (the breach question)
- (4) Is the loss for which the claimant seeks damages the consequence of the defendant's act or omission? (the factual causation question)
- (5) Is there a sufficient nexus between a particular element of the harm for which the claimant seeks damages and the subject matter of the defendant's duty of care as analysed at stage 2 above? (the duty nexus question)
- (6) Is a particular element of the harm for which the claimant seeks damages irrecoverable because it is too remote, or because there is a different effective cause (including novus actus interveniens) in relation to it or because the claimant has mitigated his or her loss or has failed to avoid loss which he or she could reasonably have been expected to avoid? (the legal responsibility question).”

45. Lords Hodge and Sales elaborated upon the sixth question in *Meadows v Khan*:

“55. The sixth question (the legal responsibility question) is in reality a number of separate questions which must be addressed because the law does not impose responsibility on a defendant for everything that follows from his or her act or omission, even if it is wrongful. The questions are, like the duty nexus question, what Lord Sumption JSC has described as ‘legal filters’ (*Hughes-Holland*, para 20), which have been developed to reflect the court's judgment of the extent of a defendant’s liability for his or her wrongdoing.

56. These legal filters include questions of remoteness of damage. The law requires that the wrongdoing is the effective or

substantial cause of a loss before the defendant is liable to compensate for the loss by payment of damages. This concept used to be referred to as the ‘causa causans’ when Latin remained in fashion in legal circles. The legal test of remoteness focuses on the foreseeability of the harm which eventuated ... or on whether the harm was of a kind that might have resulted from an accident of a foreseeable nature Relevant also to the analysis of effective cause is novus actus interveniens, which is conduct, whether by the claimant or a third party, or a natural event which is a different effective cause and which breaks the causal connection between the defendant’s wrongdoing and the harm

57. Other legal filters include (i) contributory negligence on the part of the claimant ...; (ii) where the claimant has mitigated his or her loss, obtained any pecuniary advantage by the mitigatory measures, or has failed to avoid loss which he or she could reasonably have been expected to avoid ...; and (iii) defences such as volenti non fit injuria, the voluntary assumption of risk, where the claimant has, with full knowledge of the risk, freely and voluntarily agreed to incur that risk.”

Damages for patent infringement

46. Although *Kuwait Airways* involved the tort of conversion, the other House of Lords and Supreme Court cases cited above all concerned the tort of negligence. The analytical framework articulated by the majority of the Supreme Court in *MBS v GT* and *Meadows v Khan* cannot be applied to the tort of patent infringement without modification. The second question requires some adaptation in this context, and one of the issues on this appeal is whether the fifth question is applicable at all. Subject to that, however, I consider that the framework is of utility here.
47. First, the answer to the actionability question is that the harm which may be recovered in a claim for patent infringement is pure economic loss. Such economic loss usually takes the form of one or more of (i) lost profits on lost sales, (ii) losses due to price depression and (iii) lost royalties (including negotiating damages quantified on a reasonable royalty basis): see *Gerber v Lectra*.
48. Secondly, the duty not to infringe a patent is not a duty of care, but a statutory duty of strict liability. The Patents Act 1977 prescribes in section 60 what acts amount to infringing acts, which must be committed within the UK, and it provides in section 61(1) that the court may award damages “in respect of the infringement”. The purpose of the duty is to confer a monopoly of defined scope and limited duration upon the patentee (and, if applicable, its exclusive licensee), and thereby enable the patentee (and/or exclusive licensee) to reap the economic benefits of that monopoly. In that way inventors will be incentivised to make and patent their inventions.
49. Thirdly, the answer to the breach question depends on whether the defendant has committed an infringing act or not. In the present case that question has already been finally decided in favour of Rhodia.

50. Fourthly, in patent cases the test of factual causation which is applied is the ordinary “but for” test. As noted above, in the present case the judge found that the losses claimed by Rhodia would not have been sustained but for Neo’s infringing acts. There is no challenge by Neo to that finding.
51. Fifthly, RN1 raises the issue as to whether there is a form of duty nexus requirement in this context.
52. Sixthly, as can be seen from the summary in *Ultraframe v Eurocell* at [47(iii)], and as I shall discuss in more detail below, factual causation is not sufficient in a claim for patent infringement (or for infringement of other intellectual rights) any more than it is in other torts. There must also be legal causation (or legal responsibility). GA1, GA2, GA3 and RN3 are all directed to this issue.

RN1: Territoriality

53. Patents, like other intellectual property rights, are territorial. A patent confers a monopoly within the territory of the nation state whose laws provide for the grant of that patent. In general, a patent has no extraterritorial effect. What then is the position if the patentee (and/or its exclusive licensee) suffers losses arising outside the UK which are factually and legally caused by infringing acts within the UK? The issue arises in this case because Neo committed infringing acts of supplying development samples and initial commercial quantities of C100N to JM in the UK which subsequently led to Neo supplying C100N made in China to JM in Macedonia, South Africa and the Netherlands (and because Anan did not obtain or maintain patent protection in those countries).
54. Rhodia contend that there is no duty nexus question in cases of patent infringement: all economic loss which is factually and legally caused by the infringement is recoverable. Neo contend that losses are only recoverable if they fall within the scope of the relevant duty, which is not to infringe a patent by acts committed *within the UK*.
55. There is no authority which is directly on point. In *Goucher v Clayton* (1865) 13 LT 115 the patentee obtained damages for infringements of a patent for threshing machine beaters. The claim included damages in respect of beaters made by the defendants “to supply the foreign market in Austria”. The defendants argued that the manufacture and export of the beaters had not infringed the patent because no threshing machine was made in this country, but Wood V-C held that the beater was what was claimed and thus the manufacture of beaters had amounted to infringement. In that case, however, the defendants had previously been licensed under the patent, and it appears that the patentee’s claim was one for lost royalties on manufacture in the UK rather than lost profits on foreign sales.
56. In her judgment Bacon J reviewed at [98]-[103] a small number of recent first instance decisions containing obiter dicta which offer some support for Rhodia’s position, while there are none that support Neo’s position. The issue has not been considered in any detail prior to the present case, however, and it is therefore necessary to address it as a matter of principle.

57. As noted above, the leading case on damages for patent infringement is *Gerber v Lectra*. One of the issues in that case was whether the patentee could recover in respect of lost sales of non-patented CAD machines (“convoyed goods”) sold together with patented CAM machines and follow-on sales of spare parts and servicing. A related issue was whether the patentee could recover damages for the “bridgehead” the infringer had built up for sales after the expiry of the patents. Jacob J answered both questions in the affirmative, and his decision was upheld by this Court. Some of what was said by both courts in this context is relevant to GA1, and it is convenient to note it here.

58. In his judgment at first instance Jacob J summarised the patentee’s argument at 399 as follows:

- “(1) One must distinguish between the wrong and the damage flowing from it.
- (2) Any damage which foreseeably flows from the wrong is recoverable.
- (3) In some cases there may be policy reasons for restricting damages even where the damage foreseeably flows from the wrong.”

59. The patentee also relied upon a policy argument which Jacob J discussed at 400:

“Given that one can foresee these losses, why should the law not provide that the defendant must recompense the plaintiff? and all the more so where the defendant gets a corresponding benefit from his wrong If that benefit were large enough it might pay the defendant to commit the wrong. Suppose, for instance, that the ongoing value of service contracts was much greater than the value of the original sales. Then, since exemplary or additional damages are not available, it would pay to infringe.

I think this is a very powerful policy reason for holding that these ancillary damages are recoverable. The supposed counter-policy is that articulated by Goff L.J. [in *Polaroid Corp v Eastman Kodak Co* [1977] RPC 379]: that one is thereby setting up a wider monopoly than that provided by the patent. However upon analysis one can see this is not really so. The patentee has no monopoly in any of these matters. Anyone could have made peel-apart cameras or film, or sell service or parts, or sell post-expiry. There is no question of setting up a monopoly at all - there is only an investigation into the effect of the invasion of one.”

60. Jacob J concluded at 402:

“I hold that infringement of patent is another case where a secondary loss can be recovered, provided that secondary loss

is a foreseeable consequence of the infringement. The secondary loss may consist of sales of unpatented items which go with the patented item as a commercial matter (here the CAD, service, and spares) and such loss as the patentee can establish results from the infringer establishing a business pre-expiry. In all these cases it remains critical that the patentee can establish the factual basis: that his loss is caused by the infringement and foreseeably so.

In so holding I feel fortified by the reasoning in the United States courts where this kind of head of damage is regularly allowed provided the plaintiff can establish a sufficient nexus between the infringement and the damage.”

61. Jacob J went on at 403 to say that “‘but for’ can never be a sufficient test” and that the right approach was “to provide compensation for damage which is foreseeably caused by the wrong”.

62. In the Court of Appeal Staughton LJ, with whom Hobhouse and Hutchinson LJ agreed on this issue, began by noting that no limitation on the extent of the damages which could be recovered was to be found in the 1977 Act. He proceeded to reason that, given that patent infringement was a statutory tort, one would expect the damages recoverable to be governed by the same rules as most other torts, namely that the victim can recover loss which is (i) foreseeable, (ii) caused by the wrong and (iii) not excluded from recovery by public or social policy. Having noted that the defendant’s wrongdoing did not need to be the sole or dominant cause of the loss, he observed at 452:

“It is not enough that the loss would not have occurred *but for* the tort; the tort must (for present purposes at any rate) be, as a matter of common sense, a cause of the loss.”

63. Staughton LJ then turned to consider the passage from the judgment of Lord Hoffmann in *SAAMCo* that I have cited above and commented at 453:

“My answer would be, at first impression, that the Patents Act is aimed at protecting patentees from commercial loss resulting from the wrongful infringement of their rights. That is only a slight gloss upon the wording of the statute itself. In my judgment, again as a matter of first impression, it does not distinguish between profit on the sale of patented articles and profit on the sale of conveyed goods.”

64. Having considered earlier case law, Staughton LJ concluded at 455-456:

“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. ...

There is no dispute as to causation or remoteness in the present case; nor can I see any ground of policy for restricting the patentees' right to recover. It does not follow that, if customers were in the habit of purchasing a patented article at the patentee's supermarket, for example, he could claim against an infringer in respect of loss of profits on all the other items which the customers would buy in the supermarket but no longer bought. The limit there would be one of causation, or remoteness, or both. But the present appeal, in so far as it seeks to restrict the scope of recovery, should be dismissed."

65. The issue as to territoriality did not arise in *Gerber v Lectra*, but Rhodia argue that the reasoning in that case with respect to convoyed goods, spare parts, services and bridgehead damages is equally applicable to supplies outside the UK. The judge accepted that argument. Neo contend that the judge was wrong to do so, but I agree with the judge.
66. Counsel for Neo relied upon two copyright cases as supporting the opposite conclusion. The first is *Paterson Zochonis & Co. Ltd v Merfarken Packaging Ltd* [1983] FSR 273. In that case the claimants marketed a skin cream under a particular brand name. The defendants were printers who had innocently printed, for competitors of the claimants, cartons and leaflets which, the claimants alleged, infringed the claimants' copyright and which, the claimants also alleged, the competitors had used to pass off their goods as those of the claimants. The defendants applied in effect to strike out the claim for the consequential losses claimed by the claimants as a result of the acts of passing off by the competitors. Whitford J acceded to that application, and the Court of Appeal dismissed the claimants' appeal. Although Oliver, Fox and Goff LJ all gave separate judgments, their reasoning was essentially the same. As Goff LJ put it at 295 (see also Oliver LJ at 282 and Fox LJ at 287):

"I know however of no principle that, whenever one interest of a plaintiff has been wrongfully damaged, consequential damage to another interest of the plaintiff is necessarily recoverable. In each case it has to be considered whether, as a matter of policy, the latter damages should be recoverable in an action founded upon the wrongful invasion of the plaintiff's first interest. I know of no authority which enables a plaintiff, suing for damages for infringement of his copyright, to recover as part of such damages loss he has suffered because the commission by a third party of the tort of passing off has been facilitated by the defendant's infringement of his copyright; and as a matter of policy it is, in my judgment, undesirable to extend the scope of recoverable damages in an action for infringement of copyright in this way. The law of copyright is a self-contained branch of the law, concerned with the protection of a particular proprietary right. The provisions regulating the protection of that right, including (for example) those which provide for strict liability or liability based on fault are framed with regard to a particular interest, viz. the proprietary right in question. It would be undesirable as a matter of policy to extend the

statutory remedies available for the protection of that interest to the recovery of damages in respect of the invasion of a different interest.”

67. In *Gerber v Lectra* Jacob J treated the decision in *Paterson Zochonis* as being one based on policy, which is understandable given the way that Goff LJ expressed himself. Staughton LJ quoted the same passage that I have cited, and appears to have regarded the reasoning as inapplicable to the case before him, but did not clearly explain why not.
68. The second case is *USP plc v London General Holdings Ltd* [2005] EWCA Civ 931, [2006] FSR 6. The facts of the case were in summary as follows. The claimants owned the copyright in a document called the CAA which was an integral part of an extended warranty scheme they operated. The defendants were competitors of the claimants. A third party called Powerhouse negotiated with both the claimants and the defendants to place its extended warranty business with one of them. During the course of the negotiations the defendants supplied infringing copies of the CAA to Powerhouse. The claimants were forced to lower their price in order to secure the contract. The claimants claimed the losses they had suffered as a result of lowering their price as damages for copyright infringement. The Master awarded the sum claimed by the claimants. The Court of Appeal allowed the defendants’ appeal (but allowed a cross-appeal by the claimants and awarded a smaller sum by way of a reasonable royalty for the infringing use of the CAA made by the defendants in relation to Powerhouse).
69. The leading judgment was given by Laws LJ, with whom Waller and Jacob LJJ agreed. He reasoned as follows:
 - “29. ... I return to the question: what is the basis upon which damages for breach of copyright are awarded? The question cannot be answered without consideration of the *nature* of the wrongdoing which breach of copyright represents. The nature of the wrong is clear enough. In a case where the copyright work is a written document, it consists in the unauthorised use of the *actual text* of the document. It does not consist in pirating the idea or ideas to be found in the text. ...
 30. That being so, the true point in this appeal is not to be found in [counsel for the appellants’] elaborate arguments about foreseeability and breaks in the chain of causation. It is that on the facts relating to Powerhouse the respondents have suffered no damage arising from the unauthorised deployment of the actual text of the CAA, as opposed to the idea or ideas which it contains. ...
 34. In the circumstances, the appeal must in my judgment be allowed on the simple ground that the claimed loss is not attributable to any breach of copyright: not because it was unforeseeable or otherwise too remote for the reasons urged by [counsel for the appellants], but because in principle, and for

the reasons I have given, it lies beyond the scope of protection which the law of copyright affords.”

70. Laws LJ went on to cite part of the passage from *SAAMCo* quoted above, together with a passage from Lord Hoffmann’s speech in *Kuwait Airways* in which Lord Hoffmann said that “the question of causation is decided by applying the rules which lay down the causal requirements for that form of liability to the facts of the case”, and continued at [36]:

“This reasoning demonstrated the intimacy between the nature of the wrong alleged and the damage which by law may be attributed to it. It serves also to dispel the notion (if anyone entertains it) that the law’s different approaches to causation, according to the kind of case before the court, is in any sense random; the question is always a constant one, namely what is the loss for which the defendant should justly be held responsible. The nature of the cause of action which the claimant pleads and proves will often determine the question’s answer, and will always condition it. In this case, with respect, the Master’s mistake was to forget the nature of the cause of action in copyright.”

71. Jacob LJ added at [44]:

“The head of damage claimed here in no way turns on the fact that the exact text was copied. It is not attributable at all to the precise nature of the text used by the defendants. So it did not flow from the fact that the exact text was taken – it was not caused by the infringement.”

72. Counsel for Neo submitted that *Paterson Zochonis* and *USP v London* showed that damages were only recoverable if they fell within the scope of the duty not to infringe copyright, and that the same principle must apply to the duty not to infringe a patent since there was no material difference between copyright and patents for this purpose. But that reading of the decisions cannot be reconciled with the reasoning in *Gerber v Lectra*. In my judgment, *Paterson Zochonis* and *USP v London* are better understood as being based on an absence of legal causation. In each case the making of the infringing copies by the defendants was a factual cause of the losses claimed, since the losses would not have been suffered but for the infringements, but it was not a proximate cause of those losses. In *Paterson Zochonis* the proximate cause was the entirely distinct tort of passing off committed by the claimants’ competitors. In *USP v London* the proximate cause was a competitive bid by the defendants using ideas in which the claimants had no proprietary rights.
73. For completeness, I note that in *Experience Hendrix LLC v Times Newspapers Ltd* [2010] EWHC 1986 (Ch) Sir William Blackburne held that damages for infringement of copyright (and performers’ rights) were not limited to damage suffered within the territorial jurisdiction of the court since no such limitation was apparent from the Copyright, Designs and Patents Act 1988; but he was not referred to either *Paterson Zochonis* or *USP v London*.

74. Counsel for Neo also argued that, as a matter of policy, the territorial nature of patent protection meant that recovery should be restricted to losses arising from acts within the jurisdiction. In this regard he relied upon the dissenting judgment of Gorsuch J (with whom Breyer J agreed) in the US Supreme Court case *WesternGeco LLC v Ion Geophysical Corp* 138 S Ct 2129 (2018). Gorsuch J reasoned that awarding damages in relation to overseas sales would involve extending US patent monopolies to foreign markets, and that there was no policy justification for that outcome. He concluded that overseas losses were “simply not the kind of harm for which our patent laws provide compensation because a U.S. patent does not protect its owner from competition beyond our borders”.
75. As counsel for Rhodia pointed out, however, the majority opinion delivered by Thomas J gave this argument short shrift:
- “Two of our colleagues contend that the Patent Act does not permit damages awards for lost foreign profits. ... Their position wrongly conflates legal injury with the damages arising from that injury.”
76. As the judge noted, this reasoning is consistent with that adopted in the English cases, and in particular *Gerber v Lectra*. Furthermore, I accept the submission of counsel for Rhodia that the policy justification for permitting recovery articulated by Jacob J in *Gerber v Lectra* is equally applicable in the present context.
77. Accordingly, I conclude that that Rhodia are correct that there is no duty nexus question in cases of patent infringement, and thus the judge was right to reject Neo’s territoriality argument. On the other hand, I consider that what the case law discussed above does show is that it is important carefully to consider whether the losses claimed were legally as well as factually caused by the infringing acts of the defendant.
78. By way of a footnote to the preceding discussion, I would add that in an article cited by counsel for Rhodia, “Extraterritorial Damages in Patent Law” (2021) 39 *Cardozo Arts & Ent LJ* 1, Professor Thomas F. Cotter discusses cases from Canada, Japan, England (*Goucher v Clayton*) and Germany in which he says damages or profits have been awarded in respect of extraterritorial sales made as a result of domestic infringements. We were not referred to the Canadian, Japanese or German decisions themselves, however. I note that Prof Cotter argues that patent owners should be able to recover damages for extraterritorial losses subject to three limiting principles: first, the domestic infringement must be the cause-in-fact (or “but for” cause) of the defendants’ subsequent foreign sales; secondly, the patent owner cannot recover damages unless those sales are also proximately caused by the domestic infringement; and thirdly, there must no double recovery if the patent owner has obtained damages in a foreign jurisdiction. This analysis is consistent with my own conclusion.

RN2: Proportionality and barriers to legitimate trade

79. Article 41 of TRIPS provides, so far as relevant:
- “1. Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit effective action

against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.

2. Procedures concerning the enforcement of intellectual property rights shall be fair and equitable. They shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.”

80. Article 3 of the Enforcement Directive provides:

- “1. Member States shall provide for the measures, procedures and remedies necessary to ensure the enforcement of the intellectual property rights covered by this Directive. Those measures, procedures and remedies shall be fair and equitable and shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.
2. Those measures, procedures and remedies shall also be effective, proportionate and dissuasive and shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.”

81. Article 13(1) of the Enforcement Directive provides, so far as relevant:

“Member States shall ensure that the competent judicial authorities, on application of the injured party, order the infringer who knowingly, or with reasonable grounds to know, engaged in an infringing activity, to pay the rightholder damages appropriate to the actual prejudice suffered by him/her as a result of the infringement.

When the judicial authorities set the damages:

- (a) they shall take into account all appropriate aspects, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the rightholder by the infringement;
...”

82. The World Trade Organisation Agreement, which includes TRIPS, was declared to be an EU Treaty pursuant to section 1(3) of the European Communities Act 1972 by the European Communities (Definition of Treaties) (The Agreement Establishing the World Trade Organisation) Order 1995 (SI 1995/265). TRIPS has not been incorporated into domestic law, however, and it does not have direct effect in the UK. On the other hand, it is a well-established principle of EU law that, in a field of

intellectual property law where the EU has legislated, national courts must interpret both European and domestic legislation as far as possible in the light of the wording and purpose of relevant international agreements to which the EU is a party, such as TRIPS: see Case C-53/96 *Hermès International v FHT Marketing Choice BV* [1998] ECR I-3603 at [28]; Joined Cases C-300/98 and C-392/98 *Parfums Christian Dior SA v Tuk Consultancy BV* [2000] ECR I-11307 at [47]; Case C-89/99 *Schieving-Nijstad VOF v Groeneveld* [2001] ECR I-5851 at [35]; Case C-245/02 *Anheuser-Busch Inc v Budejovicky Budvar NP* [2004] ECR I-10989 at [55]-[57]; and Case C-431/05 *Merck Genéricos – Produtos Farmacêuticos Lda v Merck & Co Inc* [2007] ECR I-7001 at [35]. Leaving Brexit aside for the moment, this principle is applicable to Article 3 of the Enforcement Directive, which gives effect to Article 41(1) and (2) of TRIPS. In the context of the present case, however, Article 41 of TRIPS adds nothing to Neo’s case based on Article 3 of the Enforcement Directive.

83. Turning to Article 3 of the Enforcement Directive, it is settled law that it is directed not merely to the Member States, but also to the courts of the Member States: see in particular Case C-324/09 *L’Oréal SA v eBay International AG* [2011] ECR I-6011 at [138]-[144] and Case C-494/15 *Tommy Hilfiger Licensing LLC v DELTA CENTER as* [EU:C:2016:528] at [34]-[36].
84. The Enforcement Directive was partially implemented in the UK by the Intellectual Property (Enforcement, etc) Regulations 2006 (SI 2006/1028). Article 3 was not implemented in that way. Nevertheless, the courts, in accordance with their duty to interpret domestic law so far as possible consistently with EU law, accepted in a number of decisions prior to 31 December 2020 that remedies for infringement of intellectual property rights should be applied in a manner that complied with Article 3: see, for example, *Cartier International AG v British Telecommunications plc* [2018] UKSC 18, [2018] 1 WLR 28.
85. I see no reason to doubt, in the absence of any argument by Rhodia to the contrary, that this principle forms part of retained EU law within section 6(7) of the European Union (Withdrawal) Act 2018. In any event, the present case was commenced when the EU was a Member State of the EU (indeed, before the referendum on 23 June 2016) and the infringing acts relied upon by Rhodia were all committed well before 31 December 2020. In those circumstances it would be surprising if the applicable law was affected by Brexit, and Rhodia did not argue that this was the case.
86. I turn therefore to the substance of Neo’s argument that awarding Rhodia the damages they claim would be a disproportionate remedy and/or create a barrier to legitimate trade contrary to Article 3(2) of the Enforcement Directive. For the reasons explained above, this argument must be approached on the footing that losses arising outside the UK are recoverable if they are both factually and legally caused by acts of infringement of a UK patent. I will follow counsel for Neo’s example of considering barriers to legitimate trade first and proportionality second.

Barriers to legitimate trade

87. Neo contend that Article 3(2) of the Enforcement Directive requires the courts, when granting relief from infringement, to distinguish between infringing trade and legitimate trade and only to grant relief in respect of the former. Furthermore, Neo argue that in the present case the trade in issue – manufacture of C100N in China and

supplies to C100N to Macedonia, the Netherlands and South Africa – is clearly legitimate since it did not infringe any local patent rights. Neo also rely upon the fact that the trade in question is one which transcends national borders.

88. Rhodia contend that Article 3(2) requires the courts to distinguish between legitimate trade and illegitimate trade, and that trade which is factually and legally caused by infringing acts is not legitimate trade for this purpose. Counsel for Rhodia particularly relied in support of this contention upon the reasoning of Birss J (as he then was) in *Smith & Nephew plc v Convatec Technologies Inc (No 2)* [2013] EWHC 3955, [2014] RPC 22:

“121. The springboard jurisdiction has been recognised in patent cases. In a proper case the court has jurisdiction to grant an injunction which restrains a defendant from selling a product for a period after the patent has expired. For example in *Generics BV v Smith Kline & French Laboratories Ltd* (C-0316/95, [1997] R.P.C. 801, [1998] 1 CMLR 1) the European Court of Justice heard a reference from the Netherlands in which the Dutch court had granted an injunction to restrain Generics from selling a drug (cimetidine) for 14 months after the expiry of the relevant patent as a consequence of pre-expiry acts of infringement. Generics had submitted a sample of the product to the regulator in order to obtain a marketing authorisation. That act had been an act of patent infringement. As the ECJ put it (at [27]) ‘if Generics had respected SKF's patent right, it could not have submitted the cimetidine samples until that patent had expired. SKF would thus have been able to continue to market its product without competition [...] throughout the period required to obtain the marketing authorisation.’ The remedy granted by the Dutch court was not disproportionate ([28]) and the ECJ held that ‘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’ was not an impermissible barrier to intra-Community trade contrary to then art.30 and 36 E.C. ([29]).

...

130. I am satisfied that the court can, in a proper case, make an order of the kind sought by Convatec. The cases make that clear. As for the Enforcement Directive, a springboard order does not fall neatly within the words used in either art.10 or 11 of the Enforcement Directive but in a proper case it would fall within art.3. Such an order can be fair and equitable, effective and dissuasive. The ECJ (as it then was) recognised in *Generics* that such a remedy can be proportionate and is not a barrier to intra-Community trade. Moreover it seems to me that the scope of the damages available in art.13 (appropriate to the actual prejudice suffered) would include the sort of damages recognised as being available in *Gerber*. If damages are in

principle recoverable then I do not see why an injunction should not be able to be granted to prevent the harm occurring in the first place. ...”

89. In my judgment the rationale behind the prohibition on creating barriers to legitimate trade in Article 3(2) of the Enforcement Directive (and Article 41 of TRIPS) is that it is recognised that remedies for infringement of intellectual property rights can, if care is not taken, overreach the proper scope of protection. In the context of website-blocking injunctions, for example, courts should make orders which are targeted so far as possible at infringing content and minimise interference with lawful content so as to avoid “overblocking”: see e.g. *Cartier International AG v British Sky Broadcasting Ltd* [2014] EWHC 3354 (Ch), [2015] Bus LR 298 at [182] and [254]-[257] affd. [2016] EWCA Civ 658, [2017] Bus LR 1. In the present context, this provides another reason why it is important to insist that damages claimed are not only factually, but also legally, caused by infringing acts. Provided that is the case, however, I see no warrant for thinking that an award of damages for lost profits in respect of sales which have been lost due to infringement would create a barrier to legitimate trade. Nor can I see that it makes any difference that the trade is an international one or that the right holder could have protected itself more directly by obtaining patent protection in other territories.

Proportionality

90. Neo contend that the damages claimed by Rhodia in respect of supplies outside the UK are wholly disproportionate to the extent of the infringing acts committed by Neo, as evidenced by the fact that Rhodia’s claim in respect of the former is over three orders of magnitude larger than the damages agreed for supplies in the UK. Rhodia dispute this, and again rely in particular upon *Smith & Nephew*.
91. Given the conclusions I have reached already, the fact that Rhodia’s claim arises from supplies outside the UK is immaterial. If Neo’s proportionality argument were a good one, it would also apply in a case like *Gerber v Lectra*. I see nothing disproportionate, however, in compensating a patentee and/or its exclusive licensee for all the losses which they have suffered as a result of the infringement provided that those losses are both factually and legally caused by the infringing acts.

Conclusion

92. Accordingly, I conclude that the judge was correct to reject Neo’s arguments based on Article 3(2) of the Enforcement Directive.

GA1, GA2, GA3 and RN3: Legal causation

93. As can be seen from the House of Lords, Supreme Court and Court of Appeal authorities discussed above, it is important to distinguish between factual causation and legal causation in tort, and this is just as true where the tort is an infringement of an intellectual property right as it is in other cases. Although I have not accepted Neo’s arguments in support of RN1 and RN2, those arguments do help to illustrate the importance of legal causation in this context.

94. Before turning to the central issues on legal causation, it is first necessary to clear two points out of the way. The first is straightforward: as counsel for Neo confirmed, it has never been any part of Neo's case that Rhodia's losses were irrecoverable due to the existence of a *novus actus interveniens*, that is to say, some intervening act or cause which interrupted the chain of causation.
95. The second point concerns remoteness. As counsel for Neo submitted, and I agree, it can be seen from the case law in the field of tort that the term "remoteness" is used in two different senses, a narrow one and a broad one. When used in a narrow sense, "remoteness" is an antonym for foreseeability. When used in a broad sense, it is an antonym for legal causation. In the present case we are not concerned with remoteness in the narrow sense. Neo have never disputed that the losses claimed by Rhodia were a foreseeable result of Neo's infringing acts. In that sense, therefore, the damages claimed are not too remote. But Neo maintain that the damages claimed are too remote in the broader sense that the losses were not legally caused by the infringing acts because those acts were not a sufficiently effective or substantial or proximate cause of the losses. Counsel for Rhodia equivocated as to whether legal causation was different from remoteness in the narrow sense, but accepted that, to the extent that it was, the burden lay upon Rhodia to establish legal causation.
96. The judge held that the losses claimed by Rhodia were not legally caused by Neo's infringing acts. Rhodia contend that she fell into error in so holding, while Neo contend that there are additional reasons that support her conclusion.
97. GA1 is that the judge asked herself the wrong question: she asked herself whether the infringing supplies were *the* common sense or proximate cause of the overseas sales, when she should have asked herself whether they were, as a matter of common sense, *a* cause of the losses claimed.
98. In Rhodia's skeleton argument for the appeal reliance was placed in support of this argument on *Bonnington Castings Ltd v Wardlow* [1956] AC 613 and *Williams v Bermuda Hospitals Board* [2016] UKPC 4, [2016] AC 888. In my judgment both authorities are irrelevant to the present issue, however, because they are concerned with a (much disputed) exception to the ordinary "but for" test of factual causation. Counsel for Rhodia accepted during the course of oral argument that this was the correct characterisation of *Bonnington*, but suggested that the reasoning in *Williams* went wider. I disagree.
99. This does not matter, however, because Rhodia have a secure legal foundation for their argument in *Gerber v Lectra*. Furthermore, Neo do not dispute that it is sufficient for the infringement to be a, rather than the, cause of the loss.
100. The question then is whether the judge applied the correct test. Rhodia accept that she stated the test correctly at [82] and [156], but Rhodia contend that it can be seen from [160], [164], [170] and [193] that the test she actually applied was to ask if the infringing acts were "the" common sense or proximate cause of the losses claimed.
101. Neo contend that this is a purely semantic argument. First, Neo say that the use of the definitive article does not show that the judge made the mistake of asking whether the infringing acts were the sole or dominant cause of the loss, and that reading the judgment as a whole it is plain that she did not make that mistake. Secondly, Neo say

that the logic of the judge's analysis confirms this. She did not stop her analysis as soon as she found other causes of the losses, but on the contrary proceeded to an evaluation of whether the infringing acts were sufficiently proximate to the losses. I agree with both of these points, and therefore I reject Rhodia's contention that the judge asked herself the wrong question.

102. In their skeleton argument Rhodia also criticised the judge's analysis of *Xena v Cantideck*. In oral argument, however, counsel for Rhodia accepted the correctness of the judge's analysis of the law at [168]-[170] subject to the semantic point discussed above. Thus it is common ground that the fact that an infringing act creates an opportunity to make a non-infringing sale does not mean that the former is legally a cause of the latter: it is necessary to consider whether the infringing act is a sufficiently significant driver of the non-infringing sale that it may be regarded as a proximate cause.
103. Given that legal causation is, as Lord Nicolls made clear in *Kuwait Airways*, a matter for the evaluative judgment of the court and that the judge directed herself correctly as to the law, this Court can only revisit her conclusion if she erred in principle. By GA2 and GA3 Rhodia contend that the judge did make a number of errors of principle, which I will consider in turn.
104. First, Rhodia argue that the judge wrongly disregarded the facts that: (i) JM's purchasing decisions were admittedly intended by Neo; (ii) JM's purchasing decisions were not merely foreseeable, but also expected by Neo, at least from the time that the specification for C100N was agreed in September 2014; and (iii) Neo were aware of the Patent and therefore acted at risk.
105. Contrary to Rhodia's argument, however, the judge expressly took the first two of these factors into account when carrying out her analysis of legal causation, at [185] and [189] respectively. She did not expressly take the third factor into account in this passage, but she had discussed it earlier in her judgment at [151]-[154] and so she was plainly aware of it. The weight to be given to these factors was a matter for the judge.
106. Furthermore, I see no reason to disagree with the judge's assessment. I agree with the judge's statement at [163] that intention alone cannot create a sufficiently direct link between infringing supplies and non-infringing sales to make the former the cause of the latter, although it is relevant to the assessment of whether such a link exists. On the facts of the present case, it seems to me that Neo's intention does no more than confirm that the foreign supplies were foreseeable, as Neo admit. The same goes for Neo's expectation. As for Neo's knowledge of the risk of infringement, this will be true of most infringers: infringers who are not aware, and had no reasonable grounds for supposing, that the patent existed have a defence to damages under section 62(1) of the 1977 Act. I do not consider that this is a significant factor in the assessment of proximate causation. (Rhodia do not allege that Neo intentionally infringed the patent knowing it to be valid, and it is not necessary to consider whether that would make a difference.)
107. Secondly, Rhodia argue that the judge wrongly disregarded the fact that JM's purchasing decisions were not independent of the infringing acts. Thirdly, Rhodia argue that the judge wrongly treated JM's purchasing decisions as intervening acts by a third party.

108. I shall take these arguments together because it seems to me that they are two sides of the same coin. In my view the judge did not treat JM's purchasing decisions as intervening acts by a third party. There is no reference in the relevant part of her judgment to causation being interrupted by a *novus actus interveniens* (or any equivalent term). This is because, as noted above, Neo did not advance any such case. Nor did the judge treat JM's purchasing decisions as independent of the infringing acts. On the contrary, she found at [185] that the infringing supplies created an opportunity for Neo to make substantial supplies of C100N to JM. More specifically, she found at [186] that this depended on the product being tested and found suitable for JM's requirements. As she had found earlier in the judgment at [37]-[67], the infringing development samples supplied by Neo in the UK were tested by JM to ensure that they met JM's requirements as to surface area, in particular when aged, and this was reflected in the specification agreed between JM and Neo. Moreover, as she had found at [141]-[155], Neo could not have supplied a non-infringing alternative which JM would have accepted.
109. Fourthly, and to my mind most importantly, Rhodia contend that the three factors identified by the judge in [193] do not, whether individually or cumulatively, justify her conclusion that the infringing acts were not a proximate cause of the lost sales because the judge failed to take into account the infringing nature of Neo's product. It is convenient to take the factors in reverse order. Factor (iii) is that Neo and Rhodia were both qualified as suppliers with respect to the relevant car platforms. Rhodia say that this simply means that, by making the infringing supplies of C100N, Neo got themselves into the position of being able to supply JM with a product that was substitutable with Rhodia's patented HSA20 product, and thus to compete with Rhodia on capacity and price. Factor (ii) is that the orders in question were not placed with, or subject to, the same contract as the orders for the infringing supplies, but later and ad hoc. Rhodia say that this is immaterial: the orders were foreseeable, and it was the infringing supplies that opened the door to Neo obtaining them because it was those supplies that led to the specification being agreed. Factor (i) is that there were multiple intervening contingencies. Rhodia say that there was really only one contingency, which was whether Neo's product satisfied JM's requirements, and that depended solely or mainly on whether the product infringed the Patent. At worst, say Rhodia, there was a second contingency, which was whether the JM's catalyst system satisfied the car makers' requirements, but that again depended solely or mainly on whether Neo's product infringed.
110. I acknowledge that this argument has force, but in the end I am not persuaded by it. The first point to note is that, as I read the judgment, it was the cumulative effect of factors (i), (ii) and (iii) that led the judge to conclude that the infringing supplies were not a proximate cause of the losses claimed by Rhodia. She did not say that any of these factors would have been decisive on its own.
111. Taking the factors in the same order as above, the significance of factor (iii) is that it meant that, as the judge found at [178]-[181] and [191]-[192], Neo were able to compete with Rhodia on capacity and price. It is quite true that Neo were only able to become qualified because of their infringing supplies. But this did not necessarily mean that Neo would get the orders from JM that they did. In 2016-2017 Rhodia did not have the capacity to supply JM, which is why the judge held that they would only be entitled to a reasonable royalty in any event. From 2018, Rhodia could, at least in

theory, have competed with Neo on price. But Rhodia's claim is for lost sales, not price depression. This suggests that neither technical performance nor price was determinative so far as JM was concerned. Rather, JM wanted to have a second source in order to mitigate the risk of either Rhodia or Neo being unable to supply at some point.

112. Turning to factor (ii), the significance of this factor is that it goes back to the distinction between creating the opportunity for the loss to occur and being a proximate cause of the loss. I agree with the judge that the fact that the foreign supplies were both later in time and contractually distinct from the infringing supplies is relevant to this question, but not determinative.
113. The most important factor in my view is factor (i). It is fair to say that the judge's phrase "multiple intervening contingencies" is something of an overstatement. Read in context, however, it is clear what she meant by this. As the judge explained at [183]-[184], [186] and [188], Neo's sales depended not only on JM's decision as to whose cerium oxide to purchase, but also on the car makers' decisions as to which catalyst system to purchase. Thus it was not enough for Neo to satisfy JM's requirements, it was also necessary for JM to satisfy the car makers' requirements. As the judge found at [186], the car makers' decisions turned on the car makers' assessments of the performance of the catalyst system *as a whole* rather than their assessments of the specific individual components.
114. This finding is supported by two pieces of evidence which counsel for Rhodia himself took us to. First, Ms Brown said in her affidavit:

"Cerium oxide is but one part of a highly complex catalyst system, which will need to function in combination with the other parts."

Secondly, Dr O'Sullivan said in his witness statement:

"One of the reasons that OEMs were reluctant to change formulations was that it is not possible to fully define a catalyst by its specification. The performance characteristics of a catalyst are like a fingerprint and the fingerprint is unique to that catalyst formulation and process used to make it. All of the emissions calibration that takes place ends up with a system that is tuned around the catalyst combinations that are in the system. Catalyst manufacturers are quite secretive about their formulations and will not disclose the recipe to the OEMs."

115. Conversely, the judge made no finding that the car makers' decisions were driven by the performance of the cerium oxide component, and we were shown no evidence that that was the case. Counsel for Rhodia sought to meet this difficulty by submitting that (i) Neo had not pleaded a positive case as to the car makers' decisions and (ii) the evidential burden in this respect was on Neo. I do not accept either of these submissions. The burden lay upon Rhodia to plead and prove all the factual elements necessary for their claim. Neo were not obliged to plead a positive case, nor were they under an evidential burden, as to the car makers' decision-making.

116. It is probable, given the judge's findings as to JM's requirements and Neo's inability to satisfy them with a non-infringing alternative, that the performance of the cerium oxide component was necessary for JM to obtain favourable decisions from the car makers, but it does not follow that it was sufficient. It is also probable that each of the other components had to satisfy performance requirements of their own. Moreover, it is clear that the whole catalyst system will have had to satisfy the overall performance requirements laid down by the car makers based upon the Euro 6 standard. This was the real driver of the sales in issue.
117. Counsel for Rhodia also argued that the error in the judge's conclusion could be seen by considering the counterfactual in which Neo did not make the infringing supplies: in that event Neo would not have got any orders for HSA cerium oxide from JM. I do not think that this is the correct test in the present context. As Lords Hodge and Sales explained in *MBS v GT* at [23]-[27], counterfactual analysis has been used by the courts as a way to assist in identifying the extent of the loss suffered by the claimant which falls within the scope of the defendant's duty of care in cases involving the provision of information by asking whether the same loss would have resulted if the information had been correct. It is a tool for distinguishing between loss flowing from the fact that, due to the defendant's negligence, the information was wrong (loss which falls within the scope of the defendant's duty) and loss flowing from the decision to enter into the transaction at all (loss which would not have been sustained but for the negligence). The counterfactual test may be a useful cross-check, but it can be problematic and has the potential to confuse. Accordingly, it should not replace the decision that needs to be made as to the scope of the duty. As discussed above, the issue in the present case is not as to the scope of the duty, but whether the infringing acts were a proximate cause of the losses claimed.
118. Taking the three factors identified by the judge together, I consider that the judge was at least entitled to reach the conclusion that the infringing supplies were not a proximate cause of the losses claimed by Rhodia. Indeed, I agree with her.
119. In those circumstances it is not necessary to say much about RN3. As presented orally, the principal argument advanced by Neo under this heading was that the proximate cause of Rhodia's losses was the manufacture and supply of C100N in countries in which Rhodia did not have patent protection. The judge rejected this argument at [171], and I consider that she was at least entitled to do so. Additional arguments about the sequence of events were presented in Neo's skeleton argument, but I am not persuaded that these would assist Neo if the judge was wrong for one or more of the reasons given by Rhodia.

GA4: Dual qualification

120. The judge found as a fact that JM had dual qualified Rhodia's and Neo's cerium oxide products. Rhodia challenge this finding principally on the basis that the judge ought to have applied the principle in *Armory v Delamirie*. As explained by George Leggatt QC sitting as a Deputy High Court Judge (as he then was) in *Fearns v Anglo-Dutch Paint & Chemical Co Ltd* [2010] EWHC 1708 (Ch) at [70], "this requires the Court to resolve uncertainties by making assumptions generous to the claimant where it is the defendant's wrongdoing which has created those uncertainties". Rhodia contend that the judge should have applied this principle because there was no direct evidence from JM due to Neo's infringements.

121. I do not accept this. Neo's infringements did not cause any evidential uncertainty as to JM's decision making. To the extent that there was any uncertainty, it was because Rhodia chose not to summon a witness from JM to give evidence or to obtain third party disclosure from JM or even to summon Ms Brown to give evidence. Furthermore, there was evidence which enabled the judge to make a finding. Although the judge found that the evidence of Dr O'Sullivan and Dr Winterborn provided useful background, she particularly relied upon the contemporaneous documents that were available and the evidence of Mr Noll.
122. Rhodia also contend that the judge was wrong to rely upon Mr Noll's evidence, but this is an impossible contention. As the judge recorded at [177]-[178] counsel for Rhodia put it to Mr Noll in cross-examination that Neo and Rhodia were dual qualified on each of the four car platforms in question, and the witness agreed. The witness also agreed that there were obvious advantages for the customer in doing this. Having elicited that evidence, Rhodia cannot complain that the judge relied upon it. Furthermore, in closing submissions at trial Rhodia did not dispute dual qualification, but positively adopted it as part of their case on substitutability.

RN4: Reasonable royalty

123. Neo contend that the judge's conclusion as to the reasonable royalty was not open to her on the evidence. Both experts had opined on the value of a global licence, not on the value of a UK licence with royalties calculated based on global sales, which was Rhodia's pleaded case. Mr Bezant had accepted that the UK licence would have a lower value than the global licence he had valued, and that he could not say how much lower in the absence of information about the rights position outside the UK. Mr Boulton had said that it was not possible to value the UK licence on the information before the court.
124. Persuasively though this argument was developed by counsel for Neo, I do not accept it. The judge was correct to say that the fact that the experts had valued the wrong kind of licence did not mean that the court should ascribe a value of zero to the notional licence. Rather the court's task was to do the best it could on the material available, provided (I would add) that the material enabled it to make a reasoned estimate rather than merely speculate. The judge's approach was to discount the value of the global licence which Mr Bezant had valued by taking Neo's prices as the basis of the royalty calculation rather than Rhodia's prices. She then applied a percentage contribution margin in middle of the range agreed by the experts. In my judgment that approach was properly open to her.
125. Counsel for Neo submitted that this approach was not open to the judge not only because the experts had agreed that the necessary information to value a local licence was not available, but also because the percentage range agreed by the experts had only been agreed in the context of the global licence they were valuing. I do not accept this either. The experts' evidence was that this was a range which generally applicable in the simplified economic benefits model (also known as the "profits available approach"). It was therefore open to the judge to select an appropriate rate within that range, provided that she made an appropriate adjustment to the value of the licence to reflect the fact that it was a UK licence and not a global licence. That is what she did, both by taking Neo's prices as the basis for the royalty calculation and

by taking the continuing litigation risk to Neo into account when selecting the appropriate percentage.

126. A separate point raised by Neo concerns the period of the notional licence. Neo contend that the period must have come to an end when the last infringement was committed in July 2017, whereas the judge left open the term of the notional licence. As I understand it, this point might affect Rhodia's claim to royalties in respect of the period from July 2017 to the end of 2017. Given that the judge did not decide the point, it seems to me that it would be open to Neo to take it – and Rhodia to resist it – in the event of any quantification of Rhodia's damages.

RN5, RN6 and the application for disclosure: Exclusive licence

127. Section 67 of the 1977 Act provides, so far as relevant:

“Proceedings for infringement by exclusive licensee.

- (1) Subject to the provisions of this section, the holder of an exclusive licence under a patent shall have the same right as the proprietor of the patent to bring proceedings in respect of any infringement of the patent committed after the date of the licence; and references to the proprietor of the patent in the provisions of this Act relating to infringement shall be construed accordingly.
- (2) In awarding damages or granting any other relief in any such proceedings the court or the comptroller shall take into consideration any loss suffered or likely to be suffered by the exclusive licensee as such as a result of the infringement, or, as the case may be, the profits derived from the infringement, so far as it constitutes an infringement of the rights of the exclusive licensee as such.”

128. In Rhodia's Particulars of Claim served on 13 April 2016 Rhodia pleaded that RhodiaOps “is the exclusive licensee of the Patent”. It is common ground that this was a true statement: it is now known that on 8 April 2016 Anan and RhodiaOps entered into the 2016 Licence. The 2016 Licence provides that Anan grants RhodiaOps an exclusive licence under (inter alia) the Patent with effect from 1 July 2015. It is also common ground that that was sufficient to entitle RhodiaOps to the relief claimed in the prayer to the Particulars of Claim if Rhodia were successful in establishing that Neo had infringed the Patent. That relief included an inquiry as to the damages suffered by RhodiaOps.

129. In their Defence served on 1 July 2016 Neo did not admit that RhodiaOps was the exclusive licensee of the Patent. Despite this non-admission, it appears that Neo did not ask Rhodia for disclosure of the exclusive licence relied upon. On the contrary, Neo proposed, and Rhodia agreed, that standard disclosure should be dispensed with save in respect of two discrete issues.

130. On 4 October 2016 Rhodia applied to register the 2016 Licence at the United Kingdom Intellectual Property Office. On 25 October 2016 Anan commenced

proceedings against Neo UK in Germany for infringement of the German designation of the Patent. A copy of the 2016 Licence was annexed to the statement of claim served upon Neo UK. It is probable that the 2016 Licence was subsequently reviewed by Neo's English lawyers (although they have no specific recollection of doing so). No doubt as a result of that, in a skeleton argument lodged by counsel for Neo on 29 March 2017 for a hearing the following day Neo admitted that RhodiaOps "is the exclusive licensee" of the Patent. This admission was repeated in the skeleton argument for the liability trial lodged by counsel for Neo on 11 January 2018. Accordingly, in his judgment Mr Wyand QC stated that RhodiaOps "is the exclusive licensee" of the Patent.

131. In their Points of Claim on the inquiry as to damages served on 26 June 2020 Rhodia pleaded that "in a judgment dated 23 April 2018 Mr Roger Wyand QC sitting as a deputy High Court judge held, inter alia, that: ... [RhodiaOps] is the exclusive licensee in respect of [the Patent]". In their Points of Defence served on 11 September 2020 Neo admitted this.
132. By RN5 Neo contend that this plea was legally insufficient to sustain RhodiaOps' claim to damages because, as discussed above, that claim is for damages alleged to have been sustained as a result of infringing acts committed between March 2013 and (at the very latest) July 2017, that is to say, prior to 23 April 2018. Neo accept that it would have been open to Neo to apply to strike out RhodiaOps' claim on this basis as soon as the Points of Claim was served, but Neo did not take the point at any time prior to judgment. Neo now apply for permission to raise this as a new argument on the appeal.
133. Both this point and RN6 have been prompted by the fact that, in the parallel German proceedings, Rhodia's claim for damages draws a distinction between Rhodia's claims before and after the effective date of the 2016 Licence. This led in April 2022 to Neo discussing the 2016 Licence with Neo's English lawyers. The evidence of Neo's solicitors is that, although the 2016 Licence may have been reviewed by them in 2016, the relevant file had been put in storage after the liability trial and had not been reviewed again in the course of the inquiry.
134. In my judgment it is far too late for Neo to seek to raise this point now. It is clear that, at the time, neither side turned their mind to the question of whether RhodiaOps had been an exclusive licensee at the dates that were relevant to its claim for damages. If Neo had applied to strike out RhodiaOps' claim to damages in 2020, it is manifest that Rhodia would have responded by applying to amend the Points of Claim to plead the 2016 Licence. There is no basis upon which Neo could have resisted that application, given that the 2016 Licence was the foundation for the plea in the Particulars of Claim which Neo had admitted and thus the foundation for the finding by Mr Wyand QC which Rhodia had pleaded. That would have disposed of the current pleading point, although for the reasons discussed below it would not necessarily have disposed of the issue as to RhodiaOps' entitlement to the damages claimed.
135. By RN6 Neo apply for permission to adduce the 2016 Licence as fresh evidence on the appeal. Neo contend that it is to be inferred from the timing and terms of the 2016 Licence that RhodiaOps was not exclusively licensed under the Patent prior to its execution:

- i) The 2016 Licence was executed a matter of days before these proceedings were commenced. Neo say that it is obvious that this was done in order to give RhodiaOps standing to sue.
 - ii) The third recital to the 2016 Licence recites that Anan, Rhodia Inc and RhodiaOps concluded a Master Distribution Agreement effective as of 1 January 2012 (“the MDA”) “whereby [Anan] granted to [RhodiaOps] acting as distributor any license or permission required in the territory of distribution (the world except North and South America, Japan and China) to distribute some products protected by patents”. Neo point out that, on the face of this recital, the MDA was not an exclusive licence.
 - iii) The final recital states that “[RhodiaOps] (Licensee) desires to acquire from [Anan] (Licensor), and Licensor to grant to Licensee, an exclusive license ... under said patent rights”. Neo say that it is clear from this that RhodiaOps did not previously have such an exclusive licence.
 - iv) In the German proceedings Rhodia’s claim is limited to the damages caused by infringing acts committed after the effective date of the 2016 Licence, while Rhodia have reserved the right to add a claim for damages suffered by Anan before that date. Neo say that this can only be because RhodiaOps was not an exclusive licensee prior to the 2016 Licence.
136. I accept for present purposes that it is highly likely that RhodiaOps was not an exclusive licensee prior to the 2016 Licence taking effect. After all, if there were an earlier exclusive licence, it would be very easy for Rhodia to demonstrate that by disclosing it. Instead, Rhodia have said that, if the 2016 Licence were admitted, they would wish to adduce evidence that RhodiaOps was at all material times an exclusive licensee “as a matter of practicality”; but Rhodia have not explained how that would comply with the definition of an exclusive licence in section 130(1) of the 1977 Act.
137. On an application to adduce fresh evidence on appeal, the criteria laid down in *Ladd v Marshall* [1954] 1 WLR 1489 are not primary rules which place the court in a straightjacket, but they remain central to the exercise of the court’s discretion conferred by CPR rule 52.11(4): see *Terluk v Berezovsky* [2011] EWCA Civ 1534 at [32] (Laws LJ).
138. The first criterion is that the evidence could not with reasonable diligence have been obtained for use at trial. Neo contend that, in considering this question, account must be taken of any failure by the opposing party to comply with its disclosure obligations, relying upon *Anande v Firoka (King’s Cross) Ltd* [2018] EWHC 3679 (QB). I have no difficulty with that proposition. Neo argue that the 2016 Licence was a “known adverse document” within PD51U, now PD57AD, paragraph 2.8, which Rhodia ought to have disclosed. I do not accept this. As I have explained, Neo had admitted that RhodiaOps was the exclusive licensee in March 2017 and had admitted that Mr Wyand QC had found as much in April 2018. It is clear that, from March 2017 onwards, both sides proceeded on the basis that Rhodia’s status as exclusive licensee was not in issue. As I have explained, it is also clear that neither party turned their mind to the temporal factor once the inquiry as to damages was commenced. In those circumstances Rhodia did not breach their disclosure obligations by failing to disclose the 2016 Licence.

139. Furthermore, Neo did not require disclosure of the 2016 Licence in order to adduce it in evidence because Neo already had a copy of it. All that Neo needed to do was to give proper consideration to the legal basis for RhodiaOps' claim. If Neo had done that, they would have been bound to realise that it would be important to review the 2016 Licence again.
140. Yet further, the 2016 Licence was considered by Mr Bezant in his expert report, albeit that it was not exhibited to that report. In addition, when cross-examined by counsel for Neo about the 2016 Licence, Mr Bezant expressed surprise that counsel had not seen the document when Mr Bezant had. Counsel commented that the document was one that Neo ought to have been provided with (either not being aware or having forgotten that in fact Neo did already have a copy of the 2016 Licence), but Neo did not request disclosure of it or apply for an order for disclosure.
141. Thus by exercising reasonable diligence Neo could have adduced the 2016 Licence in evidence before Bacon J.
142. Although that is sufficient to dispose of the application to adduce fresh evidence, I would add that it is not clear that the second criterion, that the evidence would probably have had an important influence on the outcome of the inquiry, is satisfied either. Neo contend that the 2016 Licence only gave RhodiaOps standing to sue from 8 April 2016. It may be arguable, however, that it gave RhodiaOps standing from 1 July 2015. Either way, it is debatable whether it is fatal to RhodiaOps' claim that it was not an exclusive licensee at the time that the key infringing supplies were made (from March 2013 to May 2015) given that the losses claimed by RhodiaOps were sustained at a time when it was an exclusive licensee. Even if that would preclude the way in which Rhodia presented their case at trial, Rhodia had a pleaded case that Neo's supplies of C100N to JM in the UK in 2016 and 2017 were a cause of the losses claimed which would need to be considered. Indeed, Rhodia say that the judge's findings on factual causation include those later supplies. These questions were not fully argued before us, and I express no view on them. (And even if RhodiaOps could not claim for its lost profits, Anan could still claim for a reasonable royalty.)
143. That just leaves Neo's application for disclosure of the MDA. Neo applied to Bacon J for an order for disclosure, but she held in a judgment dated 22 June 2022 [2022] EWHC 1643 (Pat) that she was *functus officio* and therefore had no power to make the order sought. Neo want disclosure of the MDA in order to confirm their thesis that RhodiaOps was not an exclusive licensee by virtue of that agreement. For the reasons given above it is highly likely that Neo are correct about that. Given that Rhodia have not conceded the point, I am prepared to assume that the document is disclosable even at this stage of the proceedings. But even if the document were disclosed, Neo would still need permission to adduce it as fresh evidence. Since it is referred to in the 2016 Licence, Neo would run into the same difficulties with respect to reasonable diligence as they have with the 2016 Licence itself.

Disposition

144. For the reasons given above I would dismiss the appeal.

Lord Justice Coulson:

145. I agree.

Lord Justice Peter Jackson:

146. I also agree.