

Neutral Citation Number: [2009] EWCA Civ 1513
IN THE SUPREME COURT OF JUDICATURE
COURT OF APPEAL (CIVIL DIVISION)
ON APPEAL FROM THE CHANCERY DIVISION, PATENTS COURT
(MR JUSTICE LEWISON)

Royal Courts of Justice
Strand, London, WC2A 2LL

Date: Monday 21st December 2009

Before:

LORD JUSTICE JACOB
LORD JUSTICE PATTEN
and
MR JUSTICE KITCHIN

Between:

Virgin Atlantic

Appellant

- and -

Premium Aircraft

Respondent

(DAR Transcript of
WordWave International Limited
A Merrill Communications Company
165 Fleet Street, London EC4A 2DY
Tel No: 020 7404 1400 Fax No: 020 7831 8838
Official Shorthand Writers to the Court)

Richard Meade QC and Henry Ward (instructed by DLA Piper UK LLP) appeared on behalf of the **Appellant**.

Mark Vanhegan QC and Kathryn Pickard (instructed by Wragge and Co LLP) appeared on behalf of the **Respondent**.

Judgment

Lord Justice Jacob:

1. On 22 October 2009 this court handed down judgment in this case. We held that Virgin Atlantic's European Patent (UK) 1,495,908 was valid and infringed. The parties were unable to agree the consequential order. There were several rounds of written submissions, culminating in a hearing last Friday.
2. The matters in dispute were fourfold: permission to appeal to the Supreme Court, costs, stay of the inquiry as to damages and the terms of a permanent injunction. At the hearing we ruled against permission to appeal on the main questions of the claim construction and validity. We did not consider they raise questions of great significance. Moreover we considered that our approach to construction was entirely in line with a comparatively recent House of Lords decision in Kirin-Amgen v Hoechst Marion Roussel [2005] RPC 9.
3. At the hearing we also gave our ruling on costs. That leaves the question of a stay of the inquiry and the terms of the final injunction. The approach to these must be that unless the Supreme Court gives leave to appeal there is a final decision about validity and infringement in the United Kingdom.
4. First, I consider the question of a stay of the inquiry as to damages. We were told that Contour, the defendants, have supplied approximately 2,800 seats in the past. Virgin Atlantic say the sums involved by way of damages are substantial. That cannot be gainsayed at present. The general rule is that a successful claimant is entitled to pursue an inquiry for damages even if there is a possibility of an appeal. He normally does so at his own risk as to costs if the decision on liability is reversed on appeal.
5. I see no reason why that should not apply here. If the Supreme Court gives permission to appeal on liability and Contour succeeds on the appeal it will recover all its costs of the inquiry, any payment of damages made pursuant to it and interest.
6. Miss Pickard advanced another reason why there should be a stay of the inquiry. Currently the patent in suit is under opposition by Contour and others in the European Patent Office. The opposition division has dismissed the opposition, but there is an appeal to the Technical Board of Appeal currently due to be heard on 20 April next year. Suppose, she said, the appeal is successful. It would be wrong for Contour to have to pay any damages, so a stay should be granted to allow for that contingency.
7. There are two answers to that contention. The first is quite conventional. I see no reason why, even if the decision with the Technical Board of Appeal could have the effect of completely annulling our decision, just like a reversal by the Supreme Court, the general rule entitling a successful patentee to pursue his inquiry at his own risk as to costs while an appeal is pending should not apply.

8. The second reason is equally valid. A subsequent revocation of a patent by the Technical Board of Appeal does not have the effect of completely annulling a final earlier order to the contrary in our national court. This court held in Unilin Beheer BV v Berry Floor NV [2007] EWHC Civ 364; [2007] FSR 625 that where the issues of infringement and validity had been finally determined in our courts the matter is *res judicata* as between the parties. If the patent is subsequently revoked in proceedings in the EPO, that affects the future, in that any injunction restraining infringement for the patent would lapse when the patent is revoked. But the entitlement to damages remains because it is *res judicata* in our courts as between the parties.
9. Miss Pickard realistically accepted that that was the effect of Unilin. And that meant there was no basis for a stay of the inquiry because of the pending EPO appeal. So she changed tack. If there was to be no stay because of the rule in Unilin, then she wanted leave to appeal to the Supreme Court to attack that rule. I would refuse that application.
10. The rule in Unilin effectively stretches back to the Poulton v Adjustable Cover [1908] 2 Ch 430. Moreover, if the position were otherwise the Patents Court would be partially emasculated. No truly final order could be made until the very often long drawn-out EPO opposition procedure was over. Business could not know in a reasonable time where it stood. Things would be provisional for far too long. Wary or perhaps well-advised inventors might indeed eschew the European Patent Office altogether and apply for a national patent instead -- there is no opposition procedure here -- for fear that an EPO opposition would make their patents only incompletely or contingently enforceable for the whole period of the opposition.
11. In this connection I do not consider that Miss Pickard's extra point makes any difference. It was this. Contour contends in the EPO, apart from re-running the same attacks as failed here, that the United Kingdom designation of a patent was a nullity as being *ultra vires* the European Patent Office. This was a point she said that could not have been raised here. It followed, she said, that one of the reasons for the Unilin award, that the defendant had a full opportunity to run this case under the intensive procedure which applies in this country, did not apply to this extra point.
12. I do not accept, without looking into the matter, that the point could not have been raised here. If the European Patent Office United Kingdom designation is a nullity, then it is reasonably arguable that the act of the British Patent Office in registering the patent based on a nullity is also a nullity.
13. On the other hand it may be the rule is that the national court cannot go behind a purported act of the European Patent Office. The question would turn on the true interpretation of section 77 of the Patents Act 1977 which provides:

“77.-(1) Subject to the provisions of this Act, a European patent (UK) shall, as from the publication of the mention of its grant in the European Patent Bulletin, be treated for the purposes of Parts I and

III of this Act as if it were a patent under this Act granted in pursuance of an application made under this Act and as if notice of the grant of the patent had, on the date of that publication, been published under section 24 above in the journal; and –

(a) the proprietor of a European patent (UK) shall accordingly as respects the United Kingdom have the same rights and remedies, subject to the same conditions, as the proprietor of a patent under this Act;

14. The question would be on whether the publication of the mention of the grant of a patent in the European Patent Bulletin is conclusive for the purposes of section 77 even if that act of publication were *ultra vires* the European Patent Office.
15. But even if the point could not have been raised here, the fact is that the whole question of validity is *res judicata* as far as United Kingdom law is concerned. One is not concerned with issue estoppel but cause of action estoppel, so the fate of a particular issue is immaterial.
16. I turn to the question of the injunction. After the present action commenced, so in full knowledge of the risk it was undergoing, Contour entered into a contract with Delta Airlines for the supply of its seats. No provision was made concerning the possibility of loss of the action. The current position is that Contour wish to supply and fit more seats pursuant to the Delta contract. The proposed work applies to two new aircraft and a retrofit for seven extended range B777s.
17. It is said that none of these planes will be used to fly in competition with Virgin Atlantic's planes on the really important London-JFK route. They will fly long haul in the Pacific. Contour say that, apart from the Delta contract the seats concerned, the Solar Eclipse as they are called, are commercially dead, so it does not contest the grant of a permanent injunction now save in respect of its remaining Delta commitments. They amount to some 400 seats, all of which will have been supplied by the end of June.
18. Miss Pickard puts the case for a carving out of the permanent injunction on three bases: (1) because of the possibility for successful appeal to the Supreme Court; 2) because of the possibility of a successful appeal in a Technical Board of Appeal; 3) and on a "disproportionate" or "runoff" basis if and when the later of these two possibilities of appeal disappears.
19. We were told that inquiries indicated that it takes the Supreme Court about six to eight weeks to rule on an application for permission to appeal. Assuming that such an application is made in early January, one can expect a ruling by about mid-March at the latest and, because the Technical Board of Appeal hearing is on 20 April (subject to the board agreeing to hear both the "*ultra vires*" appeal and the conventional appeal on the same date, which I hope it

will), it is clear that if the Supreme Court refuses permission and that the appeal to the Technical Board of Appeal fails, there could be a period between 20 April and the end of June when Contour have no prospect whatever of a defence.

20. Mr Richard Meade QC for Virgin accepted that until the date of the Technical Board of Appeal result or later (if, contrary to the above estimate, the Supreme Court has not yet ruled on the question of permission or has ruled in favour of permission) the court should apply what I will call “balance of convenience” principles. Mr Meade’s concession therefore covers a period when the Supreme Court has refused permission to appeal (say by mid-March) but before the Technical Board of Appeal result (expected on 20 April, because the practice there is to give the result on the day of the hearing). Whilst the concession is sensible in the present case given the short period involved, I wish to make it clear that I express no view as to whether the concession was rightly made. If there is a final decision in our courts when a result of the EPO is a long way off (some oppositions last ten years or more) it may be that the correct approach is to treat the question as simply one of a final injunction with no possibility of appeal. Otherwise the patentee could be put in an impossible position -- for instance, although having finally won here, being required to give a cross-undertaking over an extended period if he really wants to enforce his monopoly.

21. I must explain what the two differing principles are. “The balance of convenience principle” was explained by Buckley LJ in Minnesota Mining and Manufacturing Company v Johnson and Johnson [1976] RPC 671 at page 676:

“It is not in dispute that where a plaintiff has at first instance established a right to a perpetual injunction, the court has a discretion to stay the operation of the injunction pending an appeal by the defendant against the judgment. On what principles ought such a discretion to be exercised. The object, where it can be fairly achieved, must surely be so to arrange matters that, when the appeal comes to be heard, the appellate court may be able to do justice between the parties, whatever the outcome of the appeal may be. Where an injunction is an appropriate form of remedy for a successful plaintiff, the plaintiff, if he succeeds at first instance in establishing his right to relief, is entitled to that remedy upon the basis of the trial judge’s findings of fact and his application of the law. This is, however, subject to the defendant’s right of appeal. If the defendant in good faith proposes to appeal, challenging either the trial judge’s findings or his law, and has a genuine chance of success on his appeal, the plaintiff’s entitlement to his remedy cannot be regarded as certain until the appeal has

been disposed of. In some cases the putting of an injunction into effect pending appeal may very severely damage the defendant in such a way that he will have no remedy against the plaintiff if he, the defendant, succeeds on his appeal. On the other hand, the postponement of putting an injunction into effect pending appeal may severely damage the plaintiff. In such a case a plaintiff may be able to recover some remedy against the defendant in the appellate court in respect of his damage in the event of the appeal failing, but the amount of this damage may be difficult to assess and the remedy available in the appellate court may not amount to a complete indemnity. It may be possible to do justice by staying the injunction pending the appeal, the plaintiff's position being suitably safeguarded. On the other hand it may, in some circumstances, be fair to allow the injunction to operate on condition that the plaintiff gives an undertaking in damages or otherwise protects the defendant's rights, should he succeed on his appeal. In some cases it may be impossible to devise any method of ensuring perfect justice in any event, but the court may nevertheless be able to devise an interlocutory remedy pending the decision of the appeal which will achieve the highest available measure of fairness. The appropriate course must depend upon the particular facts of each case."

22. It should be noted the question is not the same when one is considering what to do on an application for an interim injunction pending trial. In that case the patentee has yet to establish his right, whereas after successful trial he has *prima facie* done just that. So in general, when an appeal is pending, the patentee will get his injunction provided he gives a cross-undertaking in damages against the possibility that the defendant's appeal would be successful. The question, however, remains one of a balance of convenience.
23. Once one comes to a final injunction with no possibility of appeal, things are very different. For now one is concerned with what, if the defendant is given any latitude, is permission to do what is unarguably the wrongful act of infringement. Even in such a case English law does not take an absolutist view. It does not say that an injunction must be awarded. An injunction is always a discretionary remedy. On top of that, however, in the special context of enforcement of intellectual property rights, the remedy to be granted should be proportionate. Article 3 of the Enforcement Directive 2004/48/EC provides :

"General obligation

.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.”

24. It is clear, even given that, that it would have to be a very strong case for an injunction to be withheld. Pumfrey J put it well in Navitaire Inc v Easy Jet (No 2) [2006] RPC 4 213 at page 250. After referring to the two well known non-intellectual property cases of Shelfer v City of London Electric Lighting Co [1895] 1 Ch 287 and Jaggard v Sawyer [1995] 1 WLR 269, he said :

“Accordingly, the grant or refusal of a final injunction is not merely a matter of the balance of convenience. Justice requires that the court observe the principles enunciated in *Shelfer's* case and remembers that if the effect of the grant of an injunction is not oppressive the defendant cannot buy his way out of it, even if the price, objectively ascertained, would be modest. My understanding of the word 'oppressive' in this context is that the effect of the grant of the injunction would be grossly disproportionate to the right protected. The word 'grossly' avoids any suggestion that all that has to be done is to strike a balance of convenience.”

25. So although the case for withholding the injunction has to be strong, it is clear that a permanent injunction can be withheld, indeed even on a permanent basis. The test is whether enforcement would be “grossly disproportionate”.
26. We asked counsel to research past cases, for example where a permanent injunction was withheld. The closest was Illinois Tool Works Inc v Autobars Co (Services) Limited [1974] RPC 337. The patentee had a substantial part of the market, partly through its own manufacture and also through a licensee. In considering whether the final injunction should bite immediately or there should be a runoff period, Graham J found in favour of a runoff period, principally on the basis of the public interest concerning the possibility of the loss of employment in times of great economic stress. They come around from time to time.
27. He withheld the injunction for a period of three months in a situation where the defendant wanted that time to launch a non-infringing product. So in one sense it was a stronger case than that which is sought here. I am not entirely convinced that one would go quite that far these days.

28. Turning back to the present case, given Mr Meade's concession, it is clear that up until 20 April it will be the balance of convenience principle which applies. But thereafter until the end of June we cannot know whether that principle or the grossly disproportionate principle should be applied. We do not know whether the Supreme Court will grant permission to appeal or not. If it does then the balance of convenience principle will continue to apply. If not the position will have moved into "grossly disproportionate territory".
29. Given that uncertainty, what should we do? It seems to me we have to consider Mr Meade's scenario that the patent is beyond all question valid and infringed. Contour would then be seeking a just over two-month period of "runoff" of infringing acts. Over that period we must apply the "grossly disproportionate test".
30. I turn to the contentions of the parties. First it is important to bear in mind what is involved. (1) Contour have already supplied 2,800 seats for which, subject to permission to appeal and subsequent reversal by the Supreme Court, it will have to pay damages. (2) The number of seats it wishes to supply to Delta pursuant to the contracts is 400. (3) Contour is currently a subsidiary company of Seton House Group Limited, a company which is itself financially solvent. Contour is not financially stable on its own and depends on guarantees from Seton. (4) Virgin Atlantic is solvent and there is no question of its being unable to repay any sums which turn out after any inquiry to damages to have been overpaid. (5) Virgin Atlantic has licensed this patent along with a number of others and the design of the flipover seat to Air New Zealand for a confidential sum. Air New Zealand does not fly on routes competitive with Virgin Atlantic. (6) The proposed supply to Delta during the runoff period (and indeed generally, given that the two new aircraft have already been fitted or nearly so) will be by way of retrofitting to B777 extended range aircraft currently intended for use over the Pacific, again routes not in competition with Virgin Atlantic. (7) However, although the planes are not intended for the important New York-London route and indeed would not be economic if put on it, it cannot be said at present that Delta would not put them on that route if it suited it commercially, for example if for some reason it had a shortage of aircraft for that route. (8) Contour are obliged under their contract with Delta to finish the work by September and have no earlier delivery requirements. (9) A failure to perform by Contour will result in a £1 million penalty charge under its contract with Delta.
31. Mr Meade advanced Virgin Atlantic's position thus. There should be a permanent injunction out of which there should be certain activities permitted provided certain conditions were met. As outlined by him, they related to the new aircraft only. The retrofitted planes would be in a different position. For those Contour could manufacture the seats but not fit them. Mr Meade's conditions were as follows: (a) Contour should pay to Virgin the sum of £10,000 per seat, (b) Contour's parent company Seton should give a guarantee to Virgin Atlantic to pay any damages ultimately held payable in respect of these seats over and above that sum of £10,000. (c) Delta should give Virgin Atlantic a contractual undertaking that the planes concerned would

not be used on the London-JFK route. After 20 April, assuming both a loss in the Technical Board of Appeal and a refusal of permission to appeal by the Supreme Court, Mr Meade submitted there should be no carve-out from the injunction and the seats manufactured meanwhile could not be fitted. For then Contour would simply be wrongdoers. If the injunction were to be suspended that would amount to a compulsory license and Virgin Atlantic would have lost the full power of its negotiating weapon -- the injunction.

32. Miss Pickard has submitted in response. (1) the sum of £10,000 per seat was disproportionately high, not far off from that which Air New Zealand was paying for the full package. So she offered about £500 a seat. She said that a figure of £10,000 would mean that, on the contract as a whole, Contour would have been making a loss. Even the sum she was offering represented over half the profit. 2) The parent company only considered its support for Contour at its annual meeting in April, so a guarantee could not be offered now. (3) It was not necessary for Delta to give a contractual undertaking because the likelihood of the planes concerned flying JFK-London was remote. (4) The injunction on all the proposed terms was so onerous that there was a real likelihood of job losses if it were granted.
33. All these various factors have to be weighed against the background that we have held that the activities concerned are infringing. I have come to the conclusion that the conditions proposed by Mr Meade only for the two new aircraft are appropriate for all of them and that the injunction should be subject to these conditions to the end of June not merely for the period up until 20 April.
34. My reasons briefly are as follows. The £10,000 per seat sum is indeed substantial. It will amount to £4 million. There may well be some force in saying it is too high judging by the Air New Zealand rate as a comparison, but this is no place to make any evaluation of that. Mr Meade submitted that the patent was fundamental. He may be right. On the other hand Air New Zealand's main interest may have been the flipover bed which is supposed to be particularly comfortable. I am not impressed by Miss Pickard's "more than the profit" point. Contour negotiated the contract with Delta knowing the risk if it priced that too low and without regard to Virgin Atlantic's intellectual property rights. That explains but does not justify the position it finds itself in. Besides if the sum is too much compared with the sum ultimately held appropriate, on the inquiry to damages not only would Virgin Atlantic be able to repay but more significantly that inquiry would also cover the 2,800 seats already supplied. Any overpayment on the 400 will most likely not amount to an overpayment altogether, so in a way the overpayment, if such it proved to be, would be in the nature of interim damages.
35. I see no reason why the parent company should not have to give a guarantee. The excuse that it does not meet until April is pathetic indeed. If, as Contour contends, the damages ultimately awarded will be lower, then the guarantee will not be called upon. I also think that Virgin Atlantic's requirement that Delta give a contractual undertaking to Virgin Atlantic not to fly the planes on

the London-JFK route is reasonable. If there is no real risk of Delta ever doing it then there should be no difficulty. If there is some risk then the contract is needed.

36. All the above seem to me perfectly in accordance with the exercise with the balance of convenience approach. They are a carve-out to the injunction which is the least likely to cause injustice if the Supreme Court grants permission to appeal and our decision is subsequently reversed. More difficult is the position after 20 April, Mr Meade's "loss of a negotiating weapon" point.
37. Only on balance do I conclude the same carve-out should continue to apply during this period. I think, just, that an imposition of the injunction would be grossly disproportionate.
38. There are a number of facts which lead me to this conclusion. First and most important is that the infringing seats will not be used in competition with Virgin Atlantic. Second, there is only a limited number of them, 400 when already 2,800 have been supplied. Third, the period of infringement would be very short, a little shorter than that in Illinois Tool Works. That case was, if anything, more favourable to the defendants than the present because of the possibility of a springboard. Fourth, there is the significant effect of the £1 million penalty clause which could otherwise bite. Fifth, there is the potential effect on employment. I only give slight weight to this not because people losing their jobs is not a very significant matter for it is. The reason I give slight weight is because the ultimate decision in this case lies with the parent company Seton which is supporting Contour. If jobs are lost it will be the parent company's decision, just as it has been the parent company's decision to support Contour up until now which has prevented job losses until now. We had no evidence from the parent company as to how far it is willing to support Contour.
39. Given this decision in principle, if my Lords agree I propose that counsel be asked to draw up a minute to reflect it. Subject to anything else they may say I propose that any dispute about the detail, and I hope there is none, be dealt with on paper by myself acting for the court as a whole.

Lord Justice Patten:

40. I agree. All I wish to add is that I too share Jacob LJ's doubts as to whether Mr Meade's concession that one should apply a balance of convenience test in relation to the grant of injunctive relief post the decision of the Supreme court but in the period leading up to the disposal of the appeal to the TBA accurately represents the law. It seems to me that once all domestic appeals up to and including the Supreme Court have been determined in favour of the patentee, he would be entitled *prima facie* on Unilin principles to an unqualified permanent injunction even pending an outstanding appeal to the TBA. In such a case the refusal of injunctive relief is not granted on balance of convenience principles and could only be justified by the application of the substantive rules about proportionality set out in cases like Shelfer and Jaggard.

Mr Justice Kitchen :

41. I agree with both judgments.

Order: Further judgment given