



Neutral Citation Number: [2021] EWHC 1035 (Ch)

Case No: HP-2016-000018

**IN THE HIGH COURT OF JUSTICE**  
**BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES**  
**INTELLECTUAL PROPERTY LIST (ChD)**  
**PATENTS COURT**

Rolls Building  
7 Rolls Buildings  
Fetter Lane, London  
EC4A 1NL

Date: 04/05/2021

**Before :**

**THE HONORABLE MR JUSTICE FANCOURT**

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**Between :**

**(1) Anan Kasei Co., Limited**  
**(2) Rhodia Operations SAS**

**Claimants**

**- and -**

**(1) Neo Chemicals & Oxides (Europe) Limited**  
**(2) Neo Performance Materials, Inc.**  
**(3) Neo Cayman Holdings Limited**

**Defendants**

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**Thomas Mitcheson QC and Tim Austen (instructed by Hogan Lovells International LLP)**  
**for the Claimants**

**Hugo Cuddigan QC, Kathryn Pickard and Professor Lionel Bently (instructed by Bird and Bird LLP) for the Defendants**

Hearing dates: 26, 29 March 2021  
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**Approved Judgment**

I direct that pursuant to CPR PD 39A para 6.1 no official shorthand note shall be taken of this Judgment and that copies of this version as handed down may be treated as authentic.

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**THE HON. MR JUSTICE FANCOURT**

**Mr Justice Fancourt :**

**Introduction**

1. In this action, the defendants (together “Neo”) seek summary judgment on three separate legal issues pursuant to CPR Part 24 and permission to withdraw admissions pursuant to CPR rule 14.1(5) and 14PD para 7. The action is now an inquiry into damages caused by Neo’s infringement of the claimants’ patent in the UK. The validity of the patent and Neo’s infringement were established by order dated 6 June 2018, following a trial before Mr Roger Wyand QC sitting as a deputy judge of the High Court. Neo had made admissions in its Defence that meant that liability would be established if the validity of the patents was upheld.
2. After the trial, the claimants (together “Rhodia”) elected to claim damages rather than an account of profits. The Court of Appeal later dismissed Neo’s appeal against the order of Mr Wyand QC.
3. It is generally unnecessary for the purposes of this judgment to distinguish between the individual claimants and defendants.
4. The infringement alleged by Rhodia relates principally to the importation from China of high surface area cerium oxide, which is used in making catalytic converters for diesel motor vehicles. Some of the product imported by Neo was sold to Johnson Matthey (“JM”) in the United Kingdom. That part of Rhodia’s claim to damages has been settled. A substantial quantity of the rest of the product was sold to Umicore in Germany and elsewhere. Rhodia alleges that importation of the product from China before its export was “importation” within the meaning of section 60(1) of the Patents Act 1977 and therefore an infringement of its patents, which caused other loss. There are other respects in which Rhodia alleges that samples of the products were wrongly imported or kept by Neo for development and research purposes, amounting to infringement and causing loss.
5. Neo’s summary judgment application was issued on 9 February 2021, with a view to its being heard at a case management conference listed for 24 February 2021. The issues of law identified by Neo for summary determination are the following:

*“1. Whether goods brought from China into and stored in a bonded warehouse in the UK are imported and/or kept within the meaning of s.60 of the Patents Act 1977.*

*2. Whether goods brought from China into and stored in the UK for the purpose of export and distribution overseas are imported and/or kept within the meaning of s.60 of the Patents Act 1977.*

*3. Whether the defendants are entitled to assert that:*

*a. but for the infringing importation and keeping of goods into the UK, Neo UK would have routed those same goods through a non-UK port, such as Oslo, Norway, and accordingly not have infringed the patent in suit;*

*b. but for the infringing importing, keeping and/or disposal of Development Samples in the UK, Neo UK would have disposed of Development Samples to customers outside the UK without importing into and/or keeping the Development Samples in the UK and accordingly not have infringed the patent in suit.”*

6. The first and second issues both relate to high surface area cerium oxide brought into the UK by Neo, and the first relates to product that was then exported to a non-EU country (“third state”). Neo maintains that this category of product is non-Union goods that in fact remained within the EU’s external transit customs procedure, designated for export outside the EU, such that there can have been no infringement of Rhodia’s intellectual property rights. The second issue relates to product that cleared customs in the UK for the purpose of export principally to Germany. Neo maintains that this treatment of goods does not amount to “importing” or “keeping” the goods in the UK within the meaning of the statute because there was no importation *for the purpose of* making, disposing of, offering to dispose of or using the goods in the UK.
7. The first and second issues therefore relate to mixed questions of law and fact about the extent of Neo’s infringement of Rhodia’s patents. The first issue was considered by Rhodia (without dissent from Neo) to relate to only about 5% of the products that remain in dispute, which were exported to a third state. The second issue relates to almost all the rest of the disputed products and is therefore by far the more important issue.
8. The third issue relates to what loss was caused to Rhodia by any such infringement that is proved. Neo’s case, in this regard, is that no loss of profit was caused to Rhodia by importation of any product into the UK (other than the product that was provided to JM in the UK) because, without any infringing importation, Neo could and would have sold exactly the same products to Umicore by routing them via a non-UK port, such as Oslo (as it claims that it did from early 2018). It maintains that it is not only entitled to argue but correct in law to assert that the availability of a non-infringing alternative of this kind means that Rhodia would have suffered exactly the same losses even if its patents had not been infringed by importation or keeping of certain product in the UK, and so no loss was caused by the infringement. This argument involves the proposition that a long-standing decision of the House of Lords on a Scottish appeal, United Horse Shoe and Nail Co Ltd v John Stewart & Co (1888) 13 App Cas 401 (“United Horse Shoe”), is wrong and should not be followed.
9. Neo’s attempt to obtain summary judgment on these questions of law raises a number of difficulties, the first of which is that its statements of case in this action contain admissions of infringement by importation and keeping in the UK. This was pointed out to Neo, in the course of applications that I heard in December 2020, in connection with draft amended statements of Neo’s case that had been provided to Rhodia before that hearing. The summary judgment application had not been issued at that stage. It was therefore issued in the knowledge that the admissions remained in place. Neo takes the approach (which Rhodia disputes) that the admissions are unspecific and inconsequential and so do not amount to an obstacle to its taking the point that there was no infringement in relation to products that were marked and intended for export to Germany or a third state.

10. Nevertheless, when Rhodia objected to Neo's approach Neo issued its application for permission to withdraw admissions. That application was issued on the day that the case management conference was due to be heard, with a time estimate of one day. The draft order annexed to the application seeks relief in the following terms:

*"1. The defendants have permission to assert the facts relating to their dealings or lack thereof with HSA cerium oxide products pleaded in the Amended Points of Defence (the "Facts") attached at exhibit...*

*2. The defendants have permission to serve the Re-re-re-re-re-Amended Defence attached...*

*3. To the extent that any earlier statements of the defendants, including in pleadings, evidence and submissions, are inconsistent with the Facts and constitute admissions, the defendants have permission to withdraw those admissions."*

Neo's application therefore does not properly identify the admissions that it seeks permission to withdraw. This does not appear to me to be accidental. Neo does not wish to accept that there are relevant admissions that need to be withdrawn, but it does wish to be able to pursue its amended pleaded case without being at risk of admissions being held against it. As a result of that approach, considerable time had to be spent at the hearing before me (and in skeleton arguments) identifying what were said to be relevant admissions (about which there was disagreement). It is an inappropriate and unsatisfactory way to present such an application, which the court in other circumstances might have refused to hear for that reason.

11. Nevertheless, at the hearing of the case management conference Zacaroli J was told that the summary judgment application and the admissions application needed to be heard urgently. There was no objection as such by Rhodia to the hearing of the summary judgment application, nor could it properly object to the hearing of the admissions application. The reason for the urgency (asserted by both sides) was that any decision on summary judgment might need to be appealed and determined by the Court of Appeal in advance of the trial date, January 2022. On that basis, Zacaroli J acceded to the request for expedition. He did not have to consider in any detail the nature of the issues, though he warned Neo that the judge hearing the application might take the view that they were better left to be determined at trial.
12. As a result, the applications were listed urgently before me, just before the end of the Lent term, for a 3 day hearing, including pre-reading.

### **The Admissions**

13. In view of the way that the argument on admissions developed, it is necessary to deal first with what those admissions are and what they mean. If Neo is right to contend that they are limited and inconsequential then there is unlikely to be difficulty in granting permission to withdraw them. If, on the other hand, they are significant admissions on which Rhodia has relied, the withdrawal of which would substantially change the issues for trial, the withdrawal at this stage might be far from automatic.

Further, as Neo accepts, if there are admissions about importation and keeping in the UK, Neo's summary judgment application on issues 1 and 2 cannot succeed.

14. The claim in its original form sought declarations and injunctions in respect of alleged infringement of UK and German designations of Rhodia's European patent and the usual consequential relief. The Particulars of Infringement alleged disposing of, offering to dispose of, importing and keeping products in the UK in accordance with specified claims in the patent. They asserted that: Rhodia sells HSA cerium oxide products to customers in the UK and Germany; there are three large customers for the product in Europe; Rhodia's sales to two of the three customers are significantly reduced, and the inference is that Neo has been selling its product to those customers. Details are then given of six shipments to the UK in 2014/2015 worth almost US\$300,000, and:

*“so far as the claimants are aware, there is no party other than the defendant that is supplying (or is in the position to supply) into Europe a HSA cerium oxide product suitable for (and in the volumes required for) use in the manufacture of catalysts for diesel engine passenger vehicles. The claimants infer that the defendant is the second source of supply for the said supply to customers referred to... above”.*

It is then alleged that Neo supplied such products to one of the three customers in the UK. As a matter of inference, therefore, the allegation appears to be that the second customer was supplied in Germany, though Rhodia did not identify it expressly.

15. Neo's original defence was served on 1 July 2016. It asserts invalidity of the material claims of the UK designation of the patent. Paras 6 and 7 were in the following terms:

*“6. It is admitted that subsequent to the date on which the UK Patent was granted, the defendant has without the consent of the claimants carried out the following acts in the United Kingdom in relation to high surface area cerium oxide materials consisting essentially cerium oxide:*

- (1) Imported, kept, offered to sell and sold to a third party two such materials (hereinafter “the Commercial Products”). Samples of the Commercial Products have been or will be supplied to the claimants pursuant to paragraph 1(a) of the Order of Arnold J dated 23 June 2016.*
- (2) Imported and kept eighteen such materials (hereinafter “the Development Samples”) solely for the purpose of being evaluated by a third party in collaboration with the defendant. The defendant has never offered for sale or sold any of the Development Samples.*
- (3) Offered to dispose of and disposed of eight Development Samples.*

*(4) Imported and kept a number of such materials (hereinafter “the R&D Samples”) solely for the purpose of being tested and/or analysed by the defendant. The defendant has never offered to dispose or disposed of any of the R&D Samples.*

*7. In the light of the foregoing admissions, the defendant does not further plead to the Particulars of Infringement.”*

16. There were therefore admissions made by Neo at an early stage in relation to the importation, keeping and sale of two different products sold on a commercial basis, development samples that were not sold but were imported and kept for the purpose of being evaluated by a customer, other development samples that were disposed of (or offered to be disposed of), and further samples kept for Neo’s own research purposes.
17. These admissions need to be considered in context. On 23 June 2016, Arnold J ordered the provision to Rhodia of samples of each of the two types of product imported into the UK and sold to customers, and required confirmation to be provided in a witness statement. These were the C100 and C100N products, as confirmed by Neo at a further hearing before Arnold J on 8 July 2016. Neo’s solicitors confirmed in writing on 29 June 2016 that samples would be provided of each product “imported into the United Kingdom and sold to customers” and by letter dated 14 July 2016 that they would be representative of products “imported in commercial production quantities into the UK and sold to customers”. The letter made clear that Neo understood that it was obliged by Arnold J’s amended order to provide samples of products that had been imported and sold anywhere in the world, but not development samples or R&D samples.
18. The witness statement (made by Karen Brown, the managing director of the First Defendant (“Neo UK”)) confirming the nature of the samples was made on 14 July 2016, and a second witness statement of Ms Brown was provided on 12 September 2016 in relation to a confidentiality dispute. In that statement, she confirms at para 4 that a matter pleaded by Rhodia related to “two cerium oxide products which have been sold in commercial quantities to two different customers”. Neo thereby admitted formally that products had been sold in commercial quantities to each of two customers, as alleged by Rhodia in its Particulars of Infringement.
19. Neo stressed in argument that, at the stage of the claim before validity had been tried, it was not concerned with the extent of infringement, only with making such admissions as would establish liability in the event that the claims in the patent were upheld at trial. Mr Cuddigan QC on Neo’s behalf stressed the convention that only admissions sufficient to establish contingent liability are made before the trial of validity, with issues about the extent of infringement being left to be resolved at the second stage of trial, when the losses or profits are quantified. He pointed to para 7 of the Defence in support of that argument.
20. While accepting that such an approach is generally taken, the following two points are also material. First, if a case of trivial infringement only was to be made one would expect that to be unambiguously advanced at an early stage, as it would have implications for the conduct of both parts of the trial and settlement of the dispute.

Second, notwithstanding para 7 of the Defence, Neo did not in fact take the course of only admitting sufficient infringement to justify a finding of liability if the patent was judged to be valid. It was careful to identify and admit different types of infringement: two separate classes of imported product, sale, offers of sale and keeping of commercial products, and exact numbers of development samples that were kept (specifying the purpose) and those that were disposed or offered for disposal, and a separate category of R&D samples.

21. In relation to the development samples, Neo was ordered to provide a further statement of case clarifying its Defence on the 26 development samples originally identified in para 6(2) and (3). By that stage, the Defence was in re-re-amended form and remained in that form until after the liability trial. The statement of case on samples dated 6 January 2017 admits importing, keeping, offering for disposal and disposing of 30 samples to a third party customer for the purpose of evaluation, but denies sale of any of them. Neo did not advance any positive case on non-infringement. Here are therefore further admissions in relation to the development samples, contingent on the validity of claims 1-5 of the patent being upheld. The re-re-amended Defence also admitted importing and keeping two other samples (para 6(5)).
22. The next event of significance was the seizure of a shipment of Neo's products in July 2017. In relation to that, Neo's solicitors wrote on 26 July 2017 confirming that the shipment was already the subject of this claim and said:

*"We have been informed by our client that the Commercial Product known as C100N when sold to a customer in the UK, is sold under a different product designation when sold to customers outside the UK (the "Alternative Designation"). Material with the Alternative Designation has been physically brought into the UK, including a subset of the Detained Goods. It is initially stored in a customs warehouse and then offered for sale and sold by the defendant (i) to customers in the European Union (other than the UK), in which case it clears customs in the UK before onward shipment to the EU customer or (ii) to customers outside the EU, in which case it does not clear customs in the EU before onward shipment to the customer.*

*Our client proposes that the issue of whether there has been an act in the UK for the purposes of section 60 of the Patents Act 1977 (as amended) in relation to the Alternative Designation material should be determined at the quantum stage, if C100N is found to infringe and the Patent is held to be valid."*

At that stage, therefore, it is clear that Neo had in mind the argument that goods exported for sale in other EU countries (or to a third state) after shipment through the UK did not infringe the UK designation of the patent, but (understandably) the matter was not taken forward at that particular time, when the focus was on the issue of validity.

23. The liability issues were tried in January 2018 and, following the order of Mr Wyand QC on 6 June 2018, Island v Tring disclosure was given by Neo in the usual way to enable Rhodia to elect whether to pursue damages or profits. At that stage, an issue arose about joinder of the second defendant (“Neo Canada”), which was refused by the court. On 9 October 2019, the Court of Appeal dismissed Neo’s appeal against the finding of validity and infringement and allowed Rhodia’s appeal against the refusal to join Neo Canada. As a result, Rhodia then served re-re-amended particulars of claim and particulars of infringement. The latter alleged that Neo Canada was jointly liable with Neo UK in relation to matters complained of after 31 August 2016, including the July 2017 shipments that were seized in July 2017 and later released to Neo UK and exported (in part) to Germany. Neo pleaded a re-re-re-amended defence on 13 January 2020 and admitted (in para 16) Neo Canada’s joint liability with Neo UK for those matters.
24. This was therefore a further unambiguous admission by Neo in January 2020 that the patent had been infringed by importation into the UK of Commercial Product, without differentiating between the part that was subsequently exported to Germany and the part that was sold in the UK. Further, in a response to a request for further information dated 12 July 2019, Neo confirmed that a small quantity (3-4kg) of Commercial Product had been kept at Neo’s Abingdon headquarters; that small amounts of each of the Commercial Products were imported and kept there, and that both products had been sold but only one in the UK.
25. In view of these further admissions, Rhodia was entitled to believe that Neo was not pursuing the case that it had identified in July 2017.
26. On 26 June 2020, Rhodia served its points of claim for the quantum trial. These claim loss and damage under several heads including, specifically, supply outside the UK of Commercial Products imported into and/or kept in the UK. In that regard, it pleaded that Neo had imported and/or kept in the UK products that it then supplied to customers outside the UK, and referred to Neo’s admission of importing, keeping, offering to sell and selling two commercial products only one of which (C100N) was supplied in the UK.
27. In its points of defence served on 11 September 2020, Neo admitted that Neo UK sold C100, C100N and C201 as Commercial Products to JM, Umicore and Hereaus outside the UK, some of which shipments were not brought into the UK, some of which were brought into the UK but not released for circulation in the EU, and some of which were brought into the UK and released for circulation in the EU. It then pleads as follows in relation to these Commercial Products:

*“25. Neo denies that bringing in Commercial Products to a bonded warehouse for export and keeping them there and/or releasing them from the bonded warehouse for circulation in the European Union are acts of importation within section 60 PA ’77, properly construed in accordance with Article 29 of the Community Patent Convention 76/76/EEC.*

*26. Further or in the alternative, Neo denies that bringing in Commercial Products to a bonded warehouse and keeping them there without having those Commercial Products released*

*for circulation in the European Union are acts of importation within section 60 PA'77, pursuant to the customs suspension arrangement in the Community Customs Code (2008/450/EC) including (but not limited to) Articles 144, 148, 162 and 168 thereof."*

28. In relation to the heads of claim relating to the Development Samples, Neo admitted that it supplied JM in the UK and that it brought into the UK and kept Development Samples prior to supply to Umicore outside the UK, while denying importation in that regard.
29. In relation to the heads of claim relating to the R&D Samples, Neo admitted keeping some R&D Samples in the UK (but denied importing them) and admitted importing three other samples into the UK and keeping and supplying them to associated companies.
30. At this stage, Neo had therefore pleaded the argument relating to whether Commercial Products, Development Samples and R&D Samples exported from the UK were previously "imported" within the meaning of the statute, but had not addressed (or removed) its previous admissions or pleaded that it did not "keep" products in the UK.
31. Following the joinder of the Third Defendant ("Neo Cayman") in December 2020, Neo served a Re-re-re-re-Amended Defence and Counterclaim on 29 December 2020 without changing the substance of the admissions made in para 6 of the Defence but purporting to withdraw the admissions previously made in relation to the 2017 shipment and substituting an admission by Neo Canada and Neo Cayman that they are jointly liable for any section 60 acts of Neo UK in the relevant periods (para 20A). That was designed to accept Neo Cayman's joint liability in principle but deny any relevant infringement. Neo did not have permission to withdraw the admissions previously made in its Re-re-re-Amended Defence and Counterclaim.
32. The case that Neo now wishes to argue at trial is revealed in its current draft amended points of defence. These seek to withdraw the admissions of importation, save in respect of the C100N goods sold or made available to JM in the UK. Otherwise, it pleads that C100 and C201 were "brought in" to the UK and held in a bonded warehouse for export either in the EU (to Germany) or to a third state, and that such dealings are not acts of importation or keeping within the statute. Neo seeks to plead that no testing or certification of the products was carried out in the UK, and no testing of development samples was carried out in the UK, but it admits that on 3 occasions C100N originally directed to JM was re-directed to Umicore. Neo denies that any development samples were provided to Umicore in the UK. It denies that bringing in R&D Samples for export or keeping them are acts of importation or keeping within the statute, properly construed.
33. The effect of that changed case will be that all the supplies of Commercial Product in Head 2 (Supply outside the UK of Commercial Products imported into and/or kept in the UK) will be non-infringing if at trial Neo proves its case, first, about the meaning and effect of s.60 of the 1977 Act (on which legal issues it now seeks summary judgment), and second that (as it alleges as fact) all the product in question remained in a bonded warehouse, designated for export, until it was either shipped to a third

state while still under the external transit procedure or alternatively released from bond in the UK for the immediate purpose of being exported to Germany. This is clearly a significant change in Neo's pleaded case as regards the Commercial Products.

34. As regards the Development Samples, the effect of Neo's new case will be that it denies importation of any of the 30 samples that were exported to Umicore. This is inconsistent with the admission in its Statement of Case on Samples and it therefore may not advance that case without withdrawing its admission. The same applies to Neo's case that the R&D Samples were not imported.
35. Neo contends that there is no substance to the admissions that it previously made (in relation to Commercial Products) and that Rhodia cannot reasonably have relied upon them for two reasons. First, there was nothing stated about the quantum of the admitted infringement and therefore nothing that can bind Neo at trial even if permission to withdraw the admission were to be refused. Second, the admissions were not specific about whether there was product exported to Germany or to a third state, as distinct from product that was disposed of in the UK, and so Rhodia could not have understood that an admission was being made that bringing product into the UK for the purpose of then exporting it was an infringing act. Mr Cuddigan called these the "quantity point" and the "insufficient information" point and I am happy to adopt those labels.
36. As to the insufficient information point, Mr Cuddigan submits that the original admission in para 6(1) of the Defence was ambiguous as to whether one or more third parties were being supplied and ambiguous as to whether, if there was more than one third party, that person was outside or inside the UK. It could have been one third party (such as JM) buying significant quantities of one product and either nothing or an insignificant quantity of the other product, or it might have been two customers both in the UK making similar purchases.
37. That may be a viable interpretation if one looks at the pleaded Defence in isolation, as Mr Cuddigan did. But the statement of case was a response to Particulars of Infringement that made it reasonably clear that the allegation was that Neo had supplied two customers, one of whom was in the UK and, inferentially, the other abroad, in Germany. By mid-July 2016, Ms Brown had clarified in confirmatory evidence that there were two customers and Neo's solicitors had confirmed supply of commercial quantities; and by September 2016 Ms Brown confirmed in evidence that each of the customers had been supplied in commercial quantities. By July 2017 the Alternative Designation product for export to the EU and to third states had been acknowledged.
38. By this time, given the knowledge that Rhodia already had (and had pleaded in its Particulars of Infringement) about the three European customers, for two of which it had suffered reduced sales, it cannot plausibly be said that Neo's admissions could reasonably be understood as relating to one or two UK customers only. They clearly also encompassed (though did not name) Umicore in Germany. The Defence and Counterclaim was then further amended and re-served with a renewed statement of truth in January 2020, confirming the existing admissions and adding admissions in relation to the 2017 shipment. The renewed admissions in relation to Commercial Products must be read as encompassing a UK customer and a European customer,

whom both parties knew to be Umicore, particularly in view of the admission of the allegation about the importation of the 2017 shipment partly for export to Germany. In my view, therefore, the admissions would reasonably have been understood as relating to importation of products prior to their export as well as to importation for disposal in the UK.

39. As for the quantity point, I reject the argument that the admission is consistent with the quantities admitted being *de minimis* only. Given the content of the Particulars of Infringement and the Defence, it is implausible that what was being admitted was the importation of no more than a trivial amount of two Commercial Products. The Defence was not pleading the bare minimum for the purposes of a liability trial: it was attempting to be quite specific about different heads and types of infringement. The admission in relation to two commercial products rather than one demonstrates that. In any event, it was confirmed shortly after the original Defence was served that each of the products was sold in commercial quantities. Thus, by the date of the further iterations of the Defence in which the same admissions appear, that is clearly what was being admitted.
40. As for the effect of that admission – if it remains – at trial, it will prevent Neo from advancing any case that is necessarily inconsistent with the admission that commercial quantities of each of the two products were imported, within the meaning of s.60 of the 1977 Act. If there is no material factual distinction between shipments or batches of the same product exported to Umicore, Neo will be unable to argue that the admission applies to some but not all of that exported product. If on the other hand there are such distinctions in the way that some of the export product was treated, it may then be possible for Neo to argue that some of the Umicore product was not imported, provided that there remains a distinct commercial quantity of the product to which its admission applies.
41. As for the Development Samples, Neo has admitted importing, keeping, offering for disposal and disposing of 30 development samples to a customer, including samples that are now identifiable as having been shipped in quite substantial quantities to Umicore in Germany. Neo seeks to argue that none of the samples shipped to Germany were imported into the UK. That case is clearly inconsistent with its admissions and could not be pursued at trial. The same applies to the R&D Samples.
42. I therefore reject Neo's argument that it is entitled to withdraw its admissions because they are ambiguous or do not amount to anything of substance. I shall address in due course the extent to which Rhodia relied on the admissions made at various times since the original version of the Defence.
43. The admissions that exist and that Neo needs permission to withdraw are therefore in my judgment the following:
  - i) Para 6(1) to (4) of the Defence and Counterclaim, as repeated in all amended versions that were served up to and including the Re-re-re-re-Amended Defence and Counterclaim dated 29 December 2020;
  - ii) Witness statement of Karen Brown dated 12 September 2016, paras 4, 6;
  - iii) Statement of Case on Samples dated 6 January 2017;

- iv) Re-re-amended Defence and Counterclaim para 6(5) and subsequent iterations;
- v) Re-re-re-amended Defence and Counterclaim para 16;
- vi) Further information provided (in response to request for further information dated 3 July 2019) in paras 1, 4 of letter from Neo’s solicitors dated 12 July 2019;
- vii) Points of Defence dated 11 September 2020 as regards “keeping” but not “importing” in the UK

**Should permission be given for the admissions to be withdrawn?**

44. The withdrawal of admissions with the permission of the court is governed by CPR 14PD at para 7. This provides:

*“7.1 An admission made under Part 14 may be withdrawn with the court’s permission.*

*7.2 In deciding whether to give permission for an admission to be withdrawn, the court will have regard to all the circumstances of the case, including –*

*(a) the grounds on which the applicant seeks to withdraw the admission, including whether or not new evidence has come to light which was not available at the time the admission was made;*

*(b) the conduct of the parties, including any conduct that led the party making the admission to do so;*

*(c) the prejudice that may be caused to any person if the admission is withdrawn;*

*(d) the prejudice that may be caused to any person if the application is refused;*

*(e) the stage in the proceedings at which the application to withdraw is made, in particular in relation to the date or period fixed for trial;*

*(f) the prospects of success (if the admission is withdrawn) of the claim or part of the claim in relation to which the admission was made; and*

*(g) the interests of the administration of justice.”*

45. In American Reliable Insurance Company v CAN Insurance Company Limited [2008] EWHC 2677 (Comm), David Steel J was concerned with an application to withdraw admissions that had been made in view of a judgment given in a different case where there was significant factual overlap. The defendant had considered that it was not realistic to “challenge” the findings in that judgment at a further trial. When, later, the

defendant took a different view and applied to withdraw its admissions, the Judge said:

*“16. There is, it seems to me, a serious threshold difficulty with regard to this application. Although it is only one of the circumstances which the court must have regard to in considering whether to give permission for a party to withdraw an admission, it nonetheless seems to me to be an important one. It is the first one in the list, namely ..... [PD14 para 7.2(a)]*

*17. There is, as I have already indicated, and this is accepted, no new evidence whatsoever. What is entirely absent, it seems to me, is any real explanation of the reasons why and justification for the application. All that is asserted is that, by way of re-examination of the material that was before Mr Justice Thomas, the conclusion has been reached that he was wrong in the findings that he made. But this is devoid of any particularity of the material on which that assertion is made. Notably, even then the outcome is that the admission is being withdrawn and replaced ... with a non-admission. That is to say, putting the claimant to proof of the matters which were proved to the satisfaction of Mr Justice Thomas, without indicating in any respect what piece of evidence is being relied upon of what document is being relied upon in support of the conclusion that the finding that was originally made was wrong.*

*18. This, it seems to me, is, as I put it, a formidable threshold difficulty. Where a party makes an application of this kind in circumstances where highly important and, it must be accepted, prejudicial admissions are made, the court is entitled, it seems to me, to receive a fairly full and frank explanation of how things have gone wrong, or at least appear to have gone wrong, namely to identify the basis upon which the background to the admission is to be withdrawn, the reasons for it, how it came about that the admission was made in the first place, and so on.”*

46. That approach was endorsed and followed by Phillips J in Aldersgate Investments Limited v Bank of Scotland plc [2018] EWHC 2601 (Comm). It too related to facts found in other proceedings, in that case by US and UK financial regulatory authorities. The judge concluded that the defendant had simply changed its mind about what was in its commercial interests in relation to the allegations made against it and refused permission.
47. In Lufthansa Technik AG v Astronics Advanced Electronics Systems [2020] EWHC 83 (Pat); [2020] FSR 18, a defendant sought to withdraw an admission that it was responsible for the supply of goods that were alleged to infringe patents. The argument it sought to raise was that, based on the facts alleged, as a matter of law it was not liable for the supply of the offending goods. The application was made 3

weeks before trial and would have necessitated a partial adjournment of the trial. Nugee J considered that this was a case where a particular argument had not been thought of previously and that no new evidence had any bearing on it. He considered that “prejudice” in the Practice Direction encompassed both substantial prejudice, in terms of having to deal with an issue at trial that had previously been admitted, and procedural prejudice arising from the consequential need, if the defence succeeded, to address bringing a claim against others, with associated limitation problems. The Judge also took into account that even if the defendant could succeed on the direct claim against it, it might be indirectly liable if the claimant sued others, and that the application was made at a very late stage. Unsurprisingly, the application was refused.

48. With the benefit of those examples of how the factors indicated in para 7.2 of PD14 may play out on particular facts of other cases, I must consider how each of them applies here, but in the context of all the circumstances of the case, and in particular the implications for case management and the overriding objective of granting or refusing permission to withdraw the admissions.
49. Mr Cuddigan accepts that (on my conclusions about the meaning of the admissions) Neo is at fault for having proceeded with a case involving significant admissions when it wished to pursue a different case, and for not having sought formally to regularise the position before it made its application on 24 February 2021. He accepts that this is not a case of new evidence having come to light that justifies a different defence, or of Rhodia being in any way responsible for the course that Neo took. There is no evidence on behalf of Neo that explains why the admissions were made in the terms that they were, at what stage Neo decided that it wished to run a case that was inconsistent with the admissions, or why the matter was not addressed before 2021. Evidence on behalf of Neo, made by its solicitor, Mr Neil Jenkins, simply accepts that the course that Neo has taken is “unsatisfactory” and that the fault is Neo’s.
50. Mr Mitcheson QC on behalf of Rhodia disclaimed any suggestion that Neo was acting tactically. He was willing to accept an inference that Neo had simply overlooked the argument when filing its original Defence (though Neo has not said so in terms), but he pointed out that that cannot be the case after July 2017. He submits, rightly in my judgment, that Rhodia was entitled after July 2017 to proceed and plan its litigation strategy on the basis of the statements of case as they stood, and not on the basis of what steps Neo had indicated in correspondence in July 2017 it might take after the liability stage of the proceedings was concluded. In my judgment, Rhodia was further entitled to infer, in January 2020, that Neo was not going to pursue a case that products supplied to Umicore in Germany, or kept in the UK for Umicore to use, did not infringe the patent. The position became unclear only in September 2020 when Neo filed its Points of Defence pleading that what was done as regards products supplied to or kept for Umicore were not “imported”, but without addressing the admissions that it had previously made in this regard.
51. The grounds on which the application is made by Neo must therefore be taken to be: failure in 2016 to consider the issue of whether there had been importation or keeping within the meaning of the statute, and failure to plead and pursue its intended case and seek to withdraw its admissions between July 2017 and September 2020 (with the failure to seek to withdraw admissions continuing until early 2021) owing to oversight

or a misappreciation of their impact. There is no real explanation or excuse offered in Neo's evidence: it has not engaged with providing an explanation to the court. It was not suggested by Mr Cuddigan that privilege prevented Neo from saying more. As in the American Reliable case, therefore, the lack of any proper explanation and the conduct of Neo both count against the application to withdraw the admissions.

52. The next consideration is the prejudice that would be caused by withdrawal or non-withdrawal. As far as prejudice to Rhodia is concerned, that includes the prejudice of having to deal with issues at trial (on which Neo might succeed) that were previously admitted by Neo and, second, prejudice caused by loss of the opportunity to have acted differently earlier if the admissions had not been made. As explained by Nugee J in American Reliable, that first kind of substantive prejudice appears to be within para (c) of para 7.2 of the Practice Direction.
53. As far as that is concerned, the prejudice to Rhodia is obvious and prejudice of this kind will always exist in some measure if admissions are withdrawn, unless the admissions were of no real significance. That is not the case here, where the withdrawal of the admissions would mean that different issues will have to be tried, including the first two legal issues on which Neo seeks summary judgment and the related factual issues, namely how the product that was in fact eventually exported to Umicore or to customers in a third state was treated, kept and used between its arrival in the UK from China and its departure from the UK.
54. As far as the procedural prejudice is concerned, the evidence on behalf of Rhodia was very limited. The only evidence was provided by a solicitor at Hogan Lovells, describing herself as Counsel, Ms Stella Wong. There was no evidence of how anyone at Rhodia in fact understood the admissions that were made or what anyone at Rhodia decided to do in view of that understanding. Ms Wong does not suggest that as a consequence of the admissions Rhodia took any particular step, or desisted from taking steps. Instead, it is asserted that Rhodia "might have" done various things, such as start infringement proceedings in China or France, if admissions had not been made and Neo had pleaded a case that any product exported from the UK was not "imported" or "kept" there. This evidence, so far as it concerns Rhodia's state of knowledge and intention, is said to have been given on the basis of Ms Wong's instructions from Dr Suzanne Wassmann, though nothing was said about Dr Wassmann's understanding of the meaning and effect of the admissions or about any decision that was in fact taken by Rhodia (or might have been taken) in reliance on it. When it emerged that Dr Wassmann had only been responsible for these proceedings this year, Ms Wong made a further witness statement explaining that Dr Wassmann's predecessor, Mr Mross, had confirmed Rhodia's state of knowledge and intention prior to that time.
55. Mr Cuddigan was critical of the approach that Rhodia has taken in this regard and suggested that the evidence had deliberately been limited to that of external lawyers because employees of Rhodia could not give evidence of their understanding of the admissions or of anything that had been done in reliance on them. The evidence he suggested was an exercise in retro-fitting the facts to an understanding that did not exist at the time. Mr Mitcheson disputed this and pointed to para 50 of Ms Wong's tenth witness statement (made on the basis of Dr Wassmann's information):

*“All the steps that Rhodia has taken in this Action have been based on the belief that they were owed damages for Neo’s two Commercial Products that infringed the patent family from which the Patent was derived and that Rhodia could obtain compensation in the UK for the infringing acts taking place in other jurisdictions in relation to both Commercial Products. This belief has been based at least in part on Neo’s admissions and the subsequent finding that its Patent was valid and infringed.”*

56. This was the high watermark of Rhodia’s evidence of prejudice resulting from reliance on the existence of admissions, but it does not reach very high at all. It is essentially assertion, without any proper source for the belief and understanding asserted (as distinct from what Rhodia knew and intended), and does not prove that any step was taken or not taken based on a particular understanding of the admissions. There is no indication of when anyone at Rhodia had the relevant belief. I can however accept, because it is obvious, that Rhodia is likely to have formed and pursued a litigation strategy and invested in these proceedings on the basis of the pleaded case against it. As a result, the focus of the quantum stage of the trial, once liability was established, was likely to have been the issue of causation of loss to Rhodia by admitted infringement, rather than a dispute about the extent of infringement. There must be a degree of prejudice in having a litigation strategy undermined at a relatively late stage by the need to address serious issues of law and some factual detail that were not, until recently, likely to be live at trial. But I reject the argument that Rhodia suffered prejudice by having lost the opportunity to do something different as regards other proceedings or actions between 2016 and 2021. Proper evidence to support that argument is simply not present. There is only assertion that certain things might have been done, which was not properly substantiated by a source from Rhodia,
57. The prejudice that will be caused to Rhodia by withdrawal of the admissions will be increased by a summary determination of issues of law if that leads (as the parties have expressly recognised) to an appeal to the Court of Appeal on some or all such issues. That appeal would need to be expedited (if the Court of Appeal saw fit) in order to maintain the trial date. Even if it could be expedited, the need to conduct the appeal and uncertainty about issues for trial would inevitably interfere with orderly preparation for trial in January 2022. It might lead to loss of the trial date in any event.
58. As for prejudice to Neo if the admissions are not permitted to be withdrawn, I accept that there would probably be substantial prejudice. I have explained why it might be the case that the admissions as they stand would preclude Neo from arguing that any part of the Commercial Products exported to Germany (and the identified samples) did not infringe. They would therefore prevent Neo from arguing the first and second issues raised on the summary judgment application. I am satisfied, based on the arguments that I have heard, that Neo has a strongly arguable case on each of these points though, despite the beguiling simplicity of the wording of the issues, they raise complex points of law. (For reasons given below, I am unpersuaded that Rhodia has no realistic prospect of success.)

59. Neo believes that the facts relating to the treatment in the UK of the shipments then exported to Germany and third states and the use of the samples supports its argument, such that if the legal issues are determined in Neo's favour its defence will succeed at trial. I am in no position to assess that. There are no agreed facts. The facts have not been pleaded in any detail in relation to the individual shipments or samples and, as Rhodia has sought to demonstrate in argument on the legal issues, questions of the *purpose* for which goods are held and whether despite being within the external transit system goods may be used in a way that amounts to an infringement are subtle points that do not admit of a simple answer. Nevertheless I am satisfied that there would be real prejudice to Neo if its admissions were to shut it out from arguing these points of law, on which it might well establish a defence to Rhodia's damages claim.
60. As for the lateness of the application for permission to withdraw the admission, although there are 9 months before the intended start of a 14-day trial in January 2022, the application to withdraw the admissions was made some 4½ years after the principal admissions were first made, 3½ years after Neo first identified the argument that it now seeks to advance, and 2½ years after the order of the court that disposed of the liability trial. Thereafter, despite the appeals to the Court of Appeal, the parties proceeded with initial disclosure in preparation for the quantum trial. It would have been appropriate for Neo at that stage at the latest to have brought its pleaded case into proper order. Instead, it repeated its previous admissions and made further admissions in 2019 and in January 2020. The application to withdraw the admissions therefore came at a relatively late stage of the proceedings – a full year after the appeal had been disposed of and the parties had revised their statements of case to prepare for the quantum trial.
61. Given that there is a strongly arguable case that Neo's admissions were wrongly made in law (assuming the facts are found in its favour), I must consider the interests of the administration of justice. The due administration of justice requires all relevant issues to be decided as efficiently and quickly as possible, so as to reach a fair decision on the merits of the case. It would, on the face of it, be harsh if Neo were prevented at trial, 9 months hence, from taking points of law that might enable it substantially to succeed on the main parts of the infringement claim that remain live. On the other hand, withdrawal of the admissions will significantly add to the issues to be tried, causing prejudice to Rhodia. Neo has other defences, in particular the non-infringing alternative causation argument to which the third issue raised for summary judgment relates, namely that no relevant loss was caused by any infringement. Refusal of permission to withdraw the admission would not therefore leave Neo with nowhere to turn, though it would remove what can now be seen to be a main plank of its defence to the extent of infringement alleged. If it were to lose the causation issues at trial, Neo would be left with a sense that substantial justice had not been done.
62. Rhodia does not suggest that it would be in difficulty in preparing for a trial if the first two legal issues that Neo has raised are determined at trial in January 2022, in the proper context of the facts relating to the products that were held in the UK for export overseas or as samples. Although Rhodia is prejudiced in that it will have to address issues that were previously admitted, it has not persuaded me that it took steps to its irretrievable prejudice because of the admissions. Rhodia is entitled to complain about Neo's conduct, but any actual prejudice can be relieved to some extent by the imposition of terms on Neo.

63. This has clearly been hard fought litigation throughout, with no quarter given on either side. If Neo’s attempt to withdraw its admissions had been made closer to the trial date, or if Rhodia were able to prove some distinct prejudice as a result of relying on the admissions, there would be much to be said for allowing the prejudice to fall on the party that caused the problem. However, notwithstanding the lack of proper explanation from Neo, it is possible – by imposing terms – to mitigate some of the prejudice that Rhodia suffers so that the paramount interests of justice can be served by allowing a full trial of all issues. It is, I consider, material that the admissions encompass important points of general law and not merely facts within the knowledge of Neo on which Neo previously formed a considered opinion but now wishes to change its mind.
64. What seems to me to be necessary, in order avoid unnecessary prejudice to Rhodia, is to protect it from having to mount or respond to an appeal on the legal issues raised by Neo’s new case on non-infringement at the same time as preparing for a trial on other issues in January 2022. Removing procedural prejudice that would otherwise be caused by having to deal with an appeal on general issues of law of some importance in the period leading up to trial is an important factor that tips the balance in favour of allowing Neo to withdraw the admissions.
65. Neo must also bear any costs of these proceedings that can be identified as wasted as a result of the admissions having been made at various times. I will also require Neo to pay the costs of the application for permission to withdraw them, subject to any admissible material that I may later be shown that has a bearing on that question. Neo only made the application for permission to withdraw belatedly and, it appeared, reluctantly, on the basis that Rhodia really should have accepted that the admissions were insubstantial and that Neo should be free to pursue all defences. I am satisfied that Neo was wrong in that judgement: the application should have been made, properly identifying the admissions sought to be withdrawn, at the latest when Neo was preparing its Re-re-re-Amended Defence and Counterclaim in January 2020.
66. In all the circumstances of the case, I am persuaded, by a fine margin, that the interests of justice are better served by permitting Neo to withdraw its admissions on appropriate terms than by refusing it permission to do so. The terms are that the first and second issues of law will be determined at trial and not as preliminary issues, and the orders as to costs that I have indicated.
67. I would in any event have declined to grant summary judgment on the first and second legal issues (identified in para 5 above) on the ground that they are in truth preliminary issues of law that the court would not have directed to be tried as such, and that the application is not properly a summary judgment application; alternatively on the basis that, treating it as a summary judgment application, Rhodia has a realistic chance of succeeding on each of the issues. I explain these conclusions below.

### **The first and second legal issues**

68. Neo’s case is that there was no “importation” or “keeping” in the UK of the products in question, within the meaning of the statute, because they were brought into the UK and kept for the purpose of export to an EU state, or alternatively were brought into the UK but retained within a special customs procedure at all times until they were exported to a third state, such that there could be no infringement of Rhodia’s patent.

69. Neo's argument on the first issue is that, by virtue of s.130(7) of the 1977 Act, the words "makes, disposes of, offers to dispose of, uses or imports the product or keeps it whether for disposal or otherwise", being the infringing acts specified in s.60(1)(a) of that Act, have to be read as if there were substituted for them words equivalent to the language of article 29 of the Community Patent Convention, signed on 15 December 1975:

*"A Community patent shall confer on its proprietor the right to prevent all third parties not having his consent:*

*(a) from making, offering, putting on the market or using a product which is the subject-matter of the patent, or importing or stocking the product for these purposes."*

The official French and German text of the Convention makes it even clearer than in the English version that the acts of importing or stocking are only offending acts if they are done for the purpose of doing one of the principal offending acts (making, offering, putting on the market or using) within the territory of a member state.

70. Section 130(7) of the 1977 Act provides:

*"Whereas by a resolution made on the signature of the Community Patent Convention the governments of the member states of the European Economic Community resolved to adjust their laws relating to patents so as (among other things) to bring those laws into conformity with the corresponding provisions of the European Patent Convention, the Community Patent Convention and the Patent Co-operation Treaty, it is hereby declared that the following provisions of this Act, that is to say, sections 1(1) to (4), 2 to 6, 14(3), (5) and (6), 37(5), 54, 60, 69, 72(1) and (2), 74(4), 82, 83, ...100 and 125, are so framed as to have, as nearly as practicable, the same effects in the United Kingdom as the corresponding provisions of the European Patent Convention, the Community Patent Convention and the Patent Co-operation Treaty have in the territories to which those Conventions apply."*

71. So interpreted, the consequence would be that an act of importing or stocking a product would only infringe the patent if it was imported or kept *for the purpose of* doing one of the substantive acts of infringement in the UK. Neo submits that the territorial requirement of s.60 has to be read into the language of the Convention, such that both the importing or keeping and the substantive act that is its purpose must be done within the UK.
72. In support of that argument, Neo relies principally on a decision of the Court of Appeal, Yeda Research and Development Co Ltd v Rhone-Poulenc Rorer International Holdings Inc [2006] EWCA Civ 1094, which concerned entitlement to a patent and turned on the meaning of s.37(5) of the 1977 Act. That subsection, like s. 60, is one of the statutory provisions to which s. 130(7) applies. Jacob LJ held that s.130(7) meant that the statute had to be read in the same way that the corresponding provision of the Convention was framed, notwithstanding that the Convention was

never ratified by the member states. He disagreed with the *obiter dicta* of Neuberger LJ in *Coflexip v Stolt Offshore (No.2)* [2004] EWCA Civ 213 that there seemed to be real force in the point that a statutory provision could not be given the same effects as a provision of a Convention that had never been ratified and so had not come into force. Sir Anthony Clarke MR and Keene LJ agreed with Jacob LJ. The reasoning in that case was part of the *ratio* of the decision, which is binding on me.

73. Rhodia argues that Neuberger LJ's instinct was right and consistent with previous decisions of high authority under the Patents Act 1949 and that accordingly the language of the Convention does not assist the construction of s.60(1) of the 1977 Act. Even if it is an aid to interpretation, there is no double territoriality to be read into s.60(1), that is to say that it suffices if the act of importing or keeping is performed in the UK for the purpose of an act of making, disposing, offering for dispose or using elsewhere. Rhodia points out that articles 29(b) and 30(1) of the Convention, unlike article 29(a), expressly include a territoriality provision, and that the purpose of the Convention was to create unitary rights that were not limited to individual member states. In this regard, Rhodia observes that there is no consistent interpretation in other member states in their statutory provisions enacted (as the 1977 Act was) in compliance with the terms of the Convention, even when purporting to apply the meaning of relevant provisions of the Convention.
74. Neo's case on the second issue is that intellectual property rights generally are not to be regarded as being infringed by the holding of goods within the external transit procedure of the EU Customs Code (i.e. goods that are not released into the EU market at all). The Union Customs Code (Reg (EU) No. 952/2013) creates three types of customs procedure: release for free circulation; special procedures; and export. One of the special procedures is the external transit procedure (art. 226), which suspends duties and charges on non-Union goods that are in transit from a customs office of departure outside the EU to a customs office of destination outside the EU. (It is common ground that the cerium oxide products from China are non-Union goods.)
75. In parallel, the Borders Measures Regulation (Reg. (EU) No. 608/2013 (in succession to previous regulations) provides for enforcement of intellectual property rights against goods held by customs authorities. Neo submits that EU jurisprudence establishes that goods that are not to be released for free circulation within the EU (such as goods subject to the external transit procedure) are not susceptible to enforcement under these Regulations and, more generally, cannot therefore amount to acts of infringement of national patent rights.
76. In *Case C-405/03 Class International BV v Colgate Palmolive Co* [2006] Ch 154, the CJEU held that entry of non-EU goods into Community customs territory under the external transit procedure did not amount to use of a trade mark or importation of the goods. That decision was followed in *Joined Cases C-446/09 & C-495/09 Philips/Nokia* [2012] ETMR 13, in which the Court nevertheless observed that the operation of a suspensive customs procedure does not compel the conclusion that no commercial act directed at EU consumers has been done, and that a risk of diversion of goods into free circulation, whether lawfully or unlawfully, may justify action under the Borders Measures Regulations even if the goods are under a suspensive special procedure.

77. Neo relied strongly on a decision of the Bundesgerichtshof in Germany in case X ZR 72/13, generally referred to as the Electric Kettles case. It concerned a shipment of kettles from China intercepted in Bremen en route for Poland. The Bundesgerichtshof, upholding the decision of the Oberlandsgericht Hamburg, held that a German manifestation of a European patent was only infringed by a sale transaction within Germany or an importation for that purpose, and that since the goods were destined for Poland the mere transit of the goods through Germany did not amount to an infringement, whether they were under a suspensive procedure or released for free circulation. The critical finding was therefore that the goods were destined for sale in Poland, not in Germany, and that on the basis of German law (section 9 of the Patentgesetz) release into the EU for free circulation in Poland did not amount to infringement of a patent in Germany. The appellant had unsuccessfully argued below that the German statute did not properly take account of the predecessor of the Borders Measures Regulation of 2013. This decision therefore does not turn on the effect of the external transit procedure.
78. Rhodia meets this argument by submitting that English case law under the 1949 Act establishes that importation has a different meaning in English law, but that in any event the fact that a suspensive customs procedure was being used (if in fact it was) does not mean that there is no infringement of a UK patent. If the goods were sold while in transit, or re-purposed – as Neo admits happened in relation to three consignments of product that were imported for JM but then re-directed to Umicore in Germany – or some other act was done to them (all of which are permitted by the rules applying to the external transit procedure), there would be infringement.

### **The summary judgment application**

79. There was no application for the trial of preliminary issues. Mr Mitcheson said that Rhodia would strongly have objected to a suggestion that there should be preliminary issues determined at this stage, but it was content to take the summary judgment application on the chin on the basis that, in relation to each point of law, Rhodia clearly has at least a realistic prospect of success at trial. Mr Cuddigan implied that the difference between preliminary issues and summary judgment was of no consequence because, since Order 14A of the Rules of the Supreme Court 1965 was introduced, it has been possible to seek summary judgment on a question of law and the court will make a final determination of the question raised in an appropriate case.
80. The difference is not however a matter of semantics, nor has the difference been erased by the development of a broader summary judgment jurisdiction. A party is free to issue a summary judgment application, subject to compliance with the rules, and the court will determine it, whether it depends on an issue of law, fact or mixed fact and law. Whether a preliminary issue should be determined is a matter for the court to decide, and any party may apply for a direction in that regard. The court has various case management considerations and guidance from appellate courts to weigh when deciding whether the overriding objective is best served by directing the trial of a preliminary issue at that stage. The likelihood that resolution of such an issue may assist the parties to settle the claim or part of the claim is one of the relevant considerations, in modern case management.
81. The justification for allowing the parties to bring forward a summary judgment application is the asserted strength of the case against the respondent and the fact that

a final trial of at least part of the claim will be disposed of (CPR 24PD, para 2(3): “*The application notice or the evidence ... must – ... (b) state that it is made because the applicant believes that on the evidence the respondent has no real prospect of succeeding on the claim or issue or (as the case may be) of successfully defending the claim or issue to which the application relates, and ... states that the applicant knows of no other reason why the disposal of the claim or issue should await trial*”).

82. The “issue” to which rule 24.2 (“*the claimant has no real prospect of defending the claim or issue*”) and PD24 refers is a part of the claim, whether a severable part of the proceedings (e.g. a claim for damages caused by particular acts of infringement or non-payment of several debts) or a component of a single claim (e.g. the question of infringement, or the existence of a duty, breach of a duty, causation or loss). It is not any factual or legal issue that is one among many that would need to be decided at trial to resolve such a claim or part of a claim. If the determination of an issue before trial has no consequences except that there is one fewer issue for trial then the court has not given summary judgment and the application was not for summary judgment. If it were otherwise, parties would be able to pick and choose the issues on which they thought their cases were strong and seek to have them determined in isolation, in an attempt to achieve a tactical victory and cause the respondent to incur heavy costs liability at an early stage.
83. The fact that the summary judgment application raises for determination issues of law does not make a relevant difference. Legal issues are often the only relevantly disputed question in a claim or part of a claim. Where the issue of law is relatively straightforward and the court is satisfied that it has before it all relevant material and that a trial judge would be in no better position to decide it, the court generally decides the issue of law finally, on a balance of probabilities, and not merely on the basis of whether the respondent has a realistically arguable case: see per Lewison J in Easyair v Opal Telecom [2009] EWHC 339 (Ch) at [15]. That does not mean that any issue of law can properly be the subject of a summary judgment application.
84. The relief that Neo seeks in the draft order annexed to its application is declarations that:
- “1. Goods brought from China into and stored in a bonded warehouse in the UK, and subject at all times to the external transit procedure before export from the UK, have not been imported or kept within the meaning of s.60 of the Patents Act 1977.*
- 2. Goods brought from China into and stored in the UK for the purpose of export and distribution overseas are not imported or kept within the meaning of s.60 of the Patents Act 1977”*
85. These broad declarations of law are not part of the relief claimed by Rhodia or Neo in the proceedings. They reflect part of Neo’s amended defence to the claim for damages but are not specific to the particular facts of this case. The making of such declarations would not finally resolve any part of Rhodia’s claim for damages and interest because the following questions would remain live for trial: whether at all times the products in issue were brought into the UK and stored with the purpose of exporting them; whether at all times the products were and remained subject to the

external transit procedure; and whether any acts were done to or in respect of the products before they were exported that amounted to infringing acts in any event.

86. Neo has not yet pleaded how or where the products were stored, how they were handled after arrival and what was done to or with them before they were exported to Germany or a third state, nor has it given disclosure on these issues. Neo denies Rhodia's pleaded allegation that Neo inspected and tested the Commercial Products in the UK and that Development Samples were evaluated and/or validated by customers in the UK. Even if the declarations were made, everything would depend on the finding of the facts in issue at trial and the facts found might be different from those implied by the terms of the declarations.
87. For these reasons, Neo's application is either one that does not fall within Part 24 at all, as I consider to be the case, or it is one that the court should only entertain to the extent that it is appropriate to determine it as a preliminary issue.
88. Had Neo's application been for a trial of preliminary issues of law, the court (if otherwise minded to approve that course) would have required agreed facts or at least realistic assumed facts against which to determine the questions of law. It is rare that the Court makes general declarations of public law without regard to the facts of the case. Yet that is effectively what Neo seeks here: declarations as to the meaning of s.60 of the 1977 Act and the legal effect of the EU customs external transit procedure on infringement of intellectual property rights.
89. Although Neo may appear on a relatively brief review to have the better of the argument on the first issue, in light of the Yeda v Rhone-Poulenc decision, Rhodia's argument on the proper application of article 29(a) of the Convention is not without some merit. It would however be wrong in principle to decide the issue and make a general declaration of law based on generalised facts without deciding the real facts relating to the purpose of the importation and keeping of the various consignments of cerium oxide. The facts so found might make a material difference to the result.
90. Regardless of the true legal position in English patents law and EU law, there are also factual questions at the heart of resolution of the alleged infringement by exporting of goods from the UK to third states, namely whether the goods in question were at all times within the external transit procedure, where and how they were kept, and what was done to or in relation to those goods while they were in transit or in a bonded warehouse. The declaration sought by way of summary judgment is too general to determine any of the issues in the claim. More so than with the first legal issue, the legal position is genuinely unclear, in the absence of any authority on the meaning of the Patents Act 1977 in this context and no EU authority that deals with infringement of patents (other than a German decision that did not involve the external transit procedure). The EU Regulations on which Neo relies are complex and lengthy and it is not possible to conclude, on a relatively swift survey of some of the provisions, that English law must be construed so as to align with EU decisions on infringement of trade marks and design right and the decision of the Bundesgerichtshof. The meaning of the statute and the application of principles of EU law should be examined on the basis of the facts found at trial, and with the benefit of a more thorough analysis of the laws of EU member states.

91. Further, it would be unwise to decide such issues only 9 months before the trial of the action, absent an assurance that a decision and an appeal are likely to dispose of the proceedings whichever way they are decided. There is obviously a real risk that an appeal will not have been disposed of before the start of the trial. Given that Rhodia does not accept Neo's interpretation of the relevant facts, it is also difficult to assess whether Neo's conviction that resolution of the questions of law is likely to lead to a settlement is justified, though I accept that the first and second legal issues may well prove to be important issues in this claim. In any event, there has been no application for the trial of preliminary issues and Rhodia did not prepare its argument on that basis (and indicated that it would wish to make further reference to the law of other EU member states if issues of law were being finally determined).
92. I would therefore have dismissed the application for summary judgment on the first two legal issues in any event.

### **The third legal issue**

93. The third legal issue is different in kind. It is unconnected with Neo's admissions and concerns whether loss was arguably caused to Rhodia by any relevant infringement of its patent. Neo contends that even if there was further infringement by the supply outside the UK of Commercial Products imported or kept in the UK, or by the supply of Development Samples, any such supply caused Rhodia no loss.
94. In its Points of Claim, Rhodia pleads that but for the importation and keeping of cerium oxide products by Neo in the UK it would have supplied cerium oxide products to the customers outside the UK instead of Neo, thereby making a profit; or alternatively, it would have had the chance to sell and make profit on sales outside the UK instead of Neo. Neo, in its amended Points of Defence, pleads that its overseas sales are too remote in law to be caused by any infringing acts in the UK, and then in para 33C:

*“Further or in the alternative, the alleged importation and keeping are not the factual cause of those overseas sales. Those sales would otherwise have been made by Neo UK without importation and keeping of the material. In particular, but for the said acts of importation and keeping, Neo UK would have imported the infringing products into the EU via a non-UK port, before arranging transport thereof to the jurisdiction in which they were, in reality, sold or supplied. Hereunder Neo will rely on its trading practice from the first quarter of 2018 to use Oslo, Norway as the point of entry into the EU for the products in issue.”*

Similar pleas are made by Neo in relation to the supply of Development Samples outside the UK.

95. Rhodia's response in para 11 of its draft amended Points of Reply is:

*“As to paragraph 33C, the second to fourth sentences are irrelevant in law.”*

The irrelevance asserted is based on the decision of the House of Lords in United Horse Shoe.

96. In its summary judgment application, the relief sought by Neo is a declaration that:

*“The following factual assertions by the Defendants are not irrelevant in law:*

- a. That but for the infringing importation and keeping of goods into the UK, Neo UK would have routed those same goods through a non-UK port, such as Oslo, Norway, and accordingly have caused the same or some of the same losses to the Claimants as are asserted by the Claimants in this inquiry; and*
- b. That but for the infringing importing, keeping and/or disposal of Development Samples in the UK, Neo UK would have disposed of Development Samples to customers outside the UK without importing into and/or keeping the Development Samples in the UK and accordingly have caused the same or some of the same losses to the Claimants as are asserted by the Claimants in this inquiry.”*

and an order that paragraph 11 of the Points of Reply shall be struck out.

97. Mr Cuddigan clarified that he does not simply seek to strike out paragraph 11 of the Reply so that Neo can advance its case on causation at trial – he does not in other words seek to establish only that the facts pleaded by Neo are relevant in the sense that they are admissible at trial. He seeks judgment at this stage on the legal issue disclosed by para 33C of the Points of Defence (and the equivalent paragraphs relating to Development Samples), to the effect that an alternative course of non-infringing conduct of the kind alleged by Neo is the proper counterfactual basis for assessing what loss was caused to Rhodia. It is not suggested by Mr Cuddigan that the facts relating to what Neo could or would have done should be resolved now, just the question of what in law is the right approach to a plea of ‘non-infringing alternative’.

98. In United Horse Shoe, the defenders admitted infringing the pursuer’s letters patent by using the pursuer’s special machinery as part of their processes of making and selling horse shoe nails. The pursuer claimed damages on the basis that if the defender had not sold those nails, it would have done so. The defender sought to meet that argument by contending that it would have made and sold the nails in any event, by a different method, since the patented invention added no value to the manufacturing process and was not necessary to make and sell nails. The House of Lords determined that the defender could not dispute the materiality of the patent, because infringement had been admitted. Once it was established that the pursuers’ sales were affected by the sales of the infringing goods (which was not in dispute on the appeal), it was irrelevant that the defender might have made and sold nails by some other means (per Lord Halsbury LC at p.409). Lord Watson considered that the defender could not deny the utility of the patents, but that the fact that it was in the market selling other

nails in any event could not be left out of account in assessing the pursuer's losses (p.414). Lord Macnaghten considered that in view of the admitted infringement it was "beside the mark to say that the [defender] might have arrived at the same result by lawful means", and that the sole question was what loss was caused by the infringement. That loss had to be the natural and direct consequence of the infringement (p.416).

99. It appears to me that there were two connected questions in United Horse Shoe. First, could the defender argue that the invention added nothing of value so that the infringement of the patent gave it no advantage and can have caused no loss. The answer was that it could not. Second, given that infringement was admitted, was it material that the defender could have sold a different or differently-made product that could have competed with the pursuer's sales in any event. It is not clear that their Lordships had the same opinion on this question. Lord Halsbury considered that this was immaterial, even if the loss to the pursuer would have been the same. Lord Watson was of the opinion that the defender's pre-existing trade in nail sales had to be taken into account, along with other competitors in the market, in determining what loss was caused to the pursuer by the infringing sales. Lord Macnaghten approached the assessment of loss by considering the sales that the pursuer would have made without the infringing conduct of the defender and finding these to be somewhat less than the aggregate sales of both. His Lordship did not as such make an allowance for the sales that the defender might have secured by other means. Thus, the majority decision appears to be that what the defender could and would lawfully have done was irrelevant; and the minority view was premised on the existence before the infringement of the defender's nail manufactory.
100. In Coflexip SA v Stolt Offshore Ltd (No.2) [2003] EWCA Civ 296; [2003] FSR 41 ("Coflexip"), the Court of Appeal held that it was at least arguably sufficient in law for a patentee to claim damages for a contract by the defendant to provide services using an infringing method and to allege that but for that contract it would or might have obtained the contract. It was properly arguable that it was irrelevant that the contracting party might lawfully have provided the contracted services by a non-infringing means. The Court declined to decide as a question of law an issue of causation that had not been properly defined and where none of the facts had been found (per Aldous LJ at [32], [37] and [41], per Kay LJ at [45] and per Jonathan Parker LJ at [47], [48]: "causation cannot be isolated from liability").
101. In MVP 3 APS (formerly Vestergaard Frandsen A/S) v Bestnet Europe Ltd [2016] EWCA Civ 541; [2017] FSR 5 at [81] ("Vestergaard"), Floyd LJ referred to the United Horse Shoe principle as a rider to the general principle that a patentee who exploits the patent by manufacturing can recover for the lost profit on sales that it would have made but for the infringement: "the court does not allow the defendant to seek to establish that it could have caused the same damage without infringing the patent". He referred to the observation of Jacob J in Gerber Garment Technology Inc v Lectra Systems Ltd [1995] RPC 383 at 394 that the courts have consistently rejected any such approach; that it follows from the general compensation principle; and that the focus is on compensation for what the defendant has done by acting improperly, citing United Horse Shoe. Floyd LJ continued at [82], by way of summary:

*"For brevity I will refer to this as the 'Horse Shoe' rule. In applying the 'Horse Shoe' rule, the court is treating all the*

*damage consequent on the defendant's infringing act as being within what would now be called 'the scope of the duty'. The law does not limit the damages to the added or incremental consequence of the act being an infringing, as compared to a non-infringing, act."*

At [90], his Lordship recognised that such a rule is regarded as exceptional as an approach to compensation and was justified by policy considerations.

102. Mr Cuddigan suggested that there was no issue in Vestergaard about the correctness of the rule. That is in a sense true, because the contest was whether the rule applied in relation to sales that were the indirect consequence of an infringement making use of confidential information; but Floyd LJ expressed no doubt about the rule and explained its basis and effect.
103. Mr Cuddigan further relied on the position where the basis of damages claimed is not lost profits but negotiating damages: a fee or royalty that would reasonably have been negotiated for a licence. There, it is clear that in seeking to identify where the reasonable negotiations would have ended up, the court is entitled to weigh any argument of the putative licensee that they could go elsewhere to get a similar licence, or conduct their business differently so that they do not need a licence: see the discussion of the principles and cases by Newey J in 32Red plc v WHG (International) Ltd [2013] EWHC 815 (Ch) at [34] – [42]. He submitted that, in principle, if a 'non-infringing alternative' argument is available to a defendant in assessing the quantum of loss in a negotiating damages case, it should equally be available in a case where loss of profits is claimed. Loss of profits, the going royalty rate and negotiating damages are all different means of trying to compensate a claimant for losses caused by the infringement.
104. Mr Cuddigan submits that United Horse Shoe has been generally misunderstood, and is a decision that depended on the inability of the defender to contend that the invention was useless; that those arguments were not before the Court of Appeal in the Coflexip and Vestergaard cases; that the decision as generally understood is inconsistent with basic principles of the law of causation, in particular that there must be a sufficient causative connection in law between the breach and the loss, not merely that the loss would not have occurred but for the breach; and that the Court should follow American and Canadian jurisprudence where United Horse Shoe has been discredited.
105. The argument was attractively and persuasively developed and Mr Cuddigan took me very briefly to the interesting decisions of the Canadian Supreme Court in Monsanto Canada Inc v Schmeiser [2004] 1 SCR 902, the decision of the Federal Court of Appeal in Apotex Inc v Merck & Co Inc [2015] FCA 171 and academic commentary on the cases. However, Neo seems to me to have two substantial obstacles to obtaining summary judgment at this stage.
106. First, though a decision of the House of Lords on an appeal from the Inner House in Scotland and therefore technically persuasive rather than binding, the decision in United Horse Shoe is nevertheless in point and strongly persuasive, not only for the fact of its having been decided by the House of Lords but for having been acknowledged more recently in two cases in the Court of Appeal in England and

Wales and generally understood to be the law. On any view, it is very difficult to see how it can really be said that the decision in that case, establishing that in principle a defendant cannot argue that it could and would have found another non-infringing way to compete with the claimant's business, is not realistically arguable by Rhodia in law such that the argument should be decided against it now. That is particularly so if it is recognised that departing from United Horse Shoe would involve a change in policy.

107. Second, in so far as Neo seeks to have the issue determined now as a preliminary issue of law – which it does in the same indirect way that it sought to have the first two legal issues decided on a balance of probability – it runs up against the difficulty that an issue of causation is *par excellence* the kind of issue that should be decided on the basis of the actual facts of the case, not as an abstract proposition of law about what counterfactual is or is not relevant or is or is not determinative in assessing whether loss (and if so what loss) was caused by particular infringement. Causation is necessarily linked to findings about the extent of liability and depends on factual findings that are relevant to the counterfactual advanced by the tortfeasor.
108. Further, Neo's approach may well be too black and white in suggesting that any available non-infringing alternative is always the proper basis for an assessment of what loss was caused. The difference between an established business already selling non-infringing nails and the possibility of establishing a new competing business to sell nails may be material. How any difference or distinction would apply in a case where the counterfactual involves the same product but a different, non-infringing means of delivery to customers is another question that has not been addressed at a trial (the similar issue in the Coflexip litigation appears never to have been resolved at a final hearing of the inquiry). Where the true position is to be found, if not as determined in United Horse Shoe, is an issue that, characteristically, the common law will assess by considering the justice of one conclusion or another on the facts of a real case, not as an abstract proposition of law.
109. For these reasons, I dismiss the application for summary judgment on the third legal issue.