

United Kingdom

Recent developments in patent law

Recent decisions from the High Court and the Patent Office have shed light on several topical patent law issues. In a decision concerning the validity of a sandwich packaging patent, the High Court held that a failure to apply the structured approach in *Pozzoli* did not mean that there had been an error of principle in the Patent Office's decision. For the second year in a row, the High Court also heard a rare case on employee compensation, this time providing clarification of the employee compensation calculation under the Patents Act 1977 in cases where a patent assignment or licence has been made to a connected person, such as a subsidiary of the employer. Finally, the Court of Appeal upheld a ruling that prior disclosure to a customer rendered a patent invalid.

Flexibility in *Pozzoli* test

In *Nampak Cartons Limited v Rapid Action Packaging Limited* the High Court upheld a decision of the Patent Office refusing an application to revoke a patent relating to sandwich packaging on the grounds of lack of inventive step. Of interest in this case was the fact that the court held that a failure to adhere rigidly to the structured test in *Pozzoli SpA v BDMO SA* was not an error of principle by the hearing officer. The decision clarified that there may be flexibility in the application of the *Pozzoli* test.

Rapid Action Packaging Limited, a supplier of packaging to the food industry, owned a patent for a sandwich container. Nampak Cartons Limited, also a packaging provider, applied to have the patent revoked on the grounds of lack of inventive step. Both parties submitted expert reports, but the hearing officer noted that since there was a fundamental difference of opinion between the experts, their evidence was not directly helpful. The attack on the patent was based on three pieces of prior art, the most contentious of which was known as 'Spiral Packs'. The hearing officer applied the four-step test set out in *Pozzoli* to determine whether there was an inventive step and found that the patent

contained steps that would not have been obvious to a person skilled in the art at the priority date. Accordingly, the application to revoke the patent failed.

Nampak appealed to the High Court on the basis that the hearing officer had failed to:

- have regard to its expert evidence;
- construe the teachings of the *Spiral Packs* prior art;
- deal with obviousness in the light of the common general knowledge; and
- follow *Pozzoli*.

As to the claim that the hearing officer had failed to have regard to Nampak's expert evidence, the court disagreed. The court noted that the hearing officer said only that he did not find the expert evidence directly helpful and that the experts were "ultimately" unable to help. This suggested to the judge that the hearing officer was simply recording that the experts employed by the respective parties took opposite stances. Accordingly, this ground of appeal failed. The claims that the hearing officer failed to construe the teaching of *Spiral Packs* and failed to deal with obviousness in the light of common general knowledge also failed. The court held that the two claims were linked and considered them together. It concluded that the hearing officer was entitled to reject the attack based on obviousness in light of *Spiral Packs* or based on common general knowledge.

Nampak's last claim was that the hearing officer had failed to apply the structured approach to a decision on the question of obviousness laid down by the court in *Pozzoli*. The second step of the *Pozzoli* test requires the court to identify the inventive concept of the claim or construe it. The attack on the application of *Pozzoli* was essentially that once the hearing officer had arrived at the inventive concept, when considering obviousness he did not limit himself to differences between the item of prior art in question and the inventive concept. The court dismissed this criticism of the hearing officer, holding that the extent of any alleged error was simply a

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failure to spell out that the flanges of the packaging were sealed all round the lid, and that there was no dispute that as a matter of construction, this was what was required by the claim. The court observed that while the structured approach laid down in *Pozzoli* is of assistance to judges in the analysis of evidence, not every slip in its application opens the decision to attack based on an error of principle. Therefore, the appeal was wholly dismissed.

Compensation for employee inventions

In *Shanks v Unilever plc* the High Court allowed an appeal of a Patent Office decision holding that the hypothetical transaction contemplated in Section 41(2) of the Patents Act in calculating compensation due to an employee to remunerate him or her for an invention of “outstanding benefit” should be between the employer and an arm’s-length buyer, and not a party with all the same attributes as the actual buyer apart from the connection to the inventor’s employer.

Until 1978, employee inventors in the United Kingdom were legally entitled to no more than their salaries, regardless of how successful an invention was. This was amended by the adoption of Section 40 of the Patents Act which, for the first time, introduced a scheme whereby an employee inventor could claim a “fair share” if a patented invention which he or she created was of “outstanding benefit” to the employer.

In 1984 Professor Shanks invented a way of accurately measuring precise quantities of blood which was subsequently used in blood testing kits by diabetics. In June of that year his employer, Unilever UK Central Resources, transferred the patent to Unilever Plc for nominal consideration. Ten years later, Unilever Plc licensed the patent to a number of different licensees,

which led to its widespread use and generated around £23 million in royalties for Unilever Plc.

Shanks brought proceedings against Unilever Plc at the Patent Office to claim compensation under Section 40. Section 41 of the Patents Act sets out the mechanism by which the compensation is calculated and provides as follows:

41 (1) An award of compensation to an employee...shall...secure for the employee a fair share...of the benefit which the employer has derived,...from the assignment, assignation or grant to a person connected with the employer of the property...

41(2) For the purposes of subsection (1) above the amount of any benefit derived...by an employer from the assignment, assignation or grant of-

a) ...any right in...a patent for the invention...to a person connected with him shall be taken to be the amount which could reasonably be expected to be so derived by the employer if that person had been connected with him.

The difficulty faced by Shanks was that his employer, Unilever UK, made no products under the patent and had transferred the invention to Unilever Plc, so Unilever UK had received no outstanding benefit for Shanks to share.

Unilever Plc did not dispute the fact that Unilever UK was connected to it, but attempted to minimise its liability by claiming that the notional counterparty to the hypothetical transaction in Section 41(2) should be the same person, with the same characteristics as the actual counterparty to the transaction minus the connection. Shanks contended that the section referred to a “generic assignee” without all the characteristics of the actual assignee.

Shanks applied to the Patent Office to amend his statement of case to include the argument that any benefit derived from the patent by any company in the Unilever Group should be taken to be the amount that Unilever UK could reasonably be expected to have derived from the patent had the assignment been to an unconnected person. He claimed that if this were not the case, then the construction of Section 41(2) would produce a ridiculous result which would undermine the purpose of that clause.

The Patent Office hearing officer held that this case came to down to the meaning of ‘that person’ in Section 41(2) and found, in favour of Unilever, that it referred to a “person connected with [Unilever UK] ... modified only by considering what that specific person would have done if they were not connected with the employer”. The hearing officer based this conclusion on the use of the phrase ‘that person’, holding that if a hypothetical person had been intended, the legislature could have said ‘a person’ instead of ‘that person’. Therefore, Shanks’s amendment to his statement of case was not allowed because it relied on an unsustainable interpretation of the statute.

On appeal to the High Court, the court held that Shanks was entitled to rely on the principle that if it could be demonstrated that the literal construction of the statute led to an absurdity, one was entitled to consider whether there was an alternative meaning that could be given to the words. The court found that the literal meaning pursued by Unilever Plc gave rise to a very uncommercial result, which was capable of leaving in place the price-depressing factor that the subsection seemed intended to remove.

The court went on to say that the hearing officer’s formulation of ‘that person’ in Section 41(2) was wrong. The court stated that “one does not treat that person as being the precise real person with all the same characteristics (commercial warts and all) as that person has but simply without the connection”. The court thought that Parliament intended to refer to a notional non-connected counterparty operating in the appropriate market at the appropriate time.

Finally, the court held that its view that Parliament may not have intended the literal meaning was supported by the judgment in *Kelly v GE Healthcare Ltd* (the first ever UK decision on employee compensation), in which the court had noted that during the passage of the bill through the House of Lords, one of the law lords had observed that he had “never seen such a collection of vague terms in his life”. Accordingly, the court allowed the appeal, finding that the hearing officer was wrong to strike out Shanks’ amended statement

of case. The case will now go back to the Patent Office for a decision on the merits of Shanks’ claim.

Invalidity for disclosure to customer

Fabio Perini SPA v LPC Group Plc concerned two patents, EP0421929 and EP0699168 (the ‘929 Patent’ and the ‘168 Patent’, respectively), owned by Fabio Perini SpA, a well-known company in the field of paper-converting machinery. The patents were in relation to machinery and methods for sealing the tail ends of rolls of paper, such as lavatory rolls and kitchen towels, so that they remained rolled up. Perini brought proceedings against LPC Group Plc, Paper Converting Machine Company Italia (PCMC), PCMC UK and LPC (UK) Limited, claiming that certain machines sold and marketed by the defendants under the name Rotoseal infringed the two patents. The defendants denied infringement, contending instead that each of the two patents were invalid on grounds of lack of novelty, obviousness and insufficiency.

At first instance, the High Court found the 929 Patent to be valid and infringed. It found the 168 Patent to be invalid on the grounds of obviousness as a result of a disclosure made by a Perini employee to a PCMC employee who had visited a French paper manufacturer which was using Perini machines and who had recorded his observations in a memorandum. The court held that it would have been obvious to apply the disclosure in the memorandum to the Perini machines on the market at that time. As this disclosure was enabling and not made on a confidential basis, it rendered the patent obvious.

The Court of Appeal upheld the decision of Justice Floyd and held that the 929 Patent was valid and infringed by PCMC. In relation to the 929 Patent, Perini argued that the method claims 16 and 17 were infringed by the Rotoseal machines. PCMC made various counterclaims, including that in regard to the use of the word ‘slit’, instead of it being given the ordinary English meaning of the term (a long, narrow opening), the skilled person would have understood it to mean “an opening formed by a pair of inclined plates forming the tip of the nozzle”. The court rejected PCMC’s preferred construction of the patent claims as being artificially narrow and dismissed the objection on the grounds of obviousness, which was raised by PCMC for the first time on appeal. The court held that if it was that obvious, it should have been raised at first instance. A cross-appeal was sought by Perini to find PCMC liable for primary infringement and PCMC UK liable for infringement. The court found PCMC to be a joint tortfeasor along with LPC, which bought the machines from PCMC. PCMC UK was not found liable, as

Perini was unable to produce evidence establishing liability. In relation to the 168 Patent, which related to an improvement of the method of the 929 Patent, the court upheld Floyd's finding in relation to prior disclosure and held that the patent was invalid.

Interpretations of patent claims are a key part of any patent infringement case and as this case highlights,

the court is likely to accept the most obvious interpretation of the claims unless there is a compelling reason to do otherwise. Additionally, this case stresses the danger in businesses delaying the filing of patent applications. It is clear that disclosure of an invention before the priority date, even to a customer, will ruin its novelty and lead to revocation for invalidity.



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