

UK Supreme Court decides when making spare parts amounts to patent infringement, and the consequences for failing to register a patent licence

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Summary and implications

The UK Supreme Court has unanimously ruled on an important commercial activity for patentees and spare part manufacturers, namely when supplying replacement parts constitutes patent infringement.¹ The decision also deals with the consequences of failing to register a patent licence.

- The decision has potentially significant strategic implications for both patent litigation and the question of infringement, and for commercial transactions that require recordal of patent licences and the consequences of failing to do so.
 - The Supreme Court's decision means that patentees are now potentially unable to prevent competitors making replacement consumable parts, as these types of activity will not be patent infringements. It will potentially increase competition in the market for consumable replacement parts such as printer ink cartridges, and certain types of spare parts in the car and domestic appliance sectors (amongst others).
 - The legitimacy of spare parts will depend on a range of factors, including whether the spare part is such a subsidiary part of the patented article that its replacement (when required) does not involve "making" a new article. The Supreme Court laid down a nuanced set of criteria to determine this question.
 - This decision on spare parts follows the trend over recent years of the convergence of the patent law jurisprudence of the English and German Supreme Courts.
- A failure to register a transaction, instrument or event affecting rights in or under patents at the Patent Office will have adverse consequences in any subsequent litigation. The successful patent licensee (in this instance) cannot recover its legal costs attributable to the period before the licence was actually registered. This will also potentially have an impact on due diligence exercises in corporate and commercial transactions.

Background

Schütz is the UK licensee of a patent for intermediate bulk containers ("IBC") for liquids comprising a plastic bottle in a metal cage. Often, the bottle cannot be reused because it contains residues of a toxic liquid or because it has been physically damaged.

The inventive concept of the patent lies in the idea of flexible weld joints to the metal cage to increase its strength and durability. However, the patent's description specifically acknowledges that the plastic bottle can be replaced. The metal cage has a life expectancy of five or six times longer than a bottle, leading to "reconditioners" such as Werit engaging in re-bottling (fitting a new Schütz bottle) or cross-bottling (replacing the bottle with a bottle made by a third party). The reconditioned product is then offered to users in competition with Schütz's original products, and those of other reconditioners.

At trial the Patent Court (Floyd J) held that these cross-bottling activities did not constitute making the patented product, on the basis that the patent's inventive concept is wholly embodied in the Schütz cage. The Court of Appeal (Jacob LJ) considered it inappropriate to determine this issue by reference to the inventive concept. The patented product had to be considered as a whole, comprising the cage and the bottle.

¹ *Schütz (UK) Limited v. Werit (UK) Limited* [2013] UKSC 16, 13 March 2013.

It held that these cross-bottling activities amounted to making the patented product. Its reasoning was that the Schütz IBC ceased to exist on removal of the Schütz bottle, and all that remained at that stage was merely an important component from which a new IBC could be made. Adding a new bottle to the cage was effectively completing the patented product, and therefore constituted an infringement.

The decision – the meaning of “making”

The Supreme Court ruled that replacing a worn out part is not necessarily an act of “making”, with the result that Werit had not infringed the patent. It unanimously overturned the Court of Appeal’s decision.

The central issue in the appeal concerned the correct meaning of the infringing act of “making”, specifically what is meant by the word “makes” in section 60(1)(a) of the Patents Act 1977. This provides that a person infringes a patent for a particular product if that person “makes” the product without the patentee’s consent. The key factual question was whether the defendant “makes” a patented article when it removes a damaged Schütz bottle from a Schütz cage and replaces its own bottle.

The Supreme Court held that it is both legitimate and helpful to consider the question of whether the bottle is such a subsidiary part of the patented article that its replacement, when required, does not involve “making” a new article. The correct approach was a nuanced question of fact and degree, bearing in mind the need for certainty on the boundaries of public monopolies and the need to give a proper balance to the different interests of patentees and their competitors.

In determining that question the Supreme Court held that the following factors will be significant.

- Does the replacement part have a significantly lower life expectancy than the article as a whole? In this case the bottle would, on average, be replaced five or six times during the life of the cage. The fact that one would expect such regular replacement reinforced the notion that it is a subsidiary part.

- Does the replacement part include any aspect of the inventive concept of the patent? The extent to which a component of an article is a subsidiary part, so that its replacement is more “repairing” than “making” the article, is a matter of degree. It is therefore legitimate to consider whether that part includes the inventive concept, or has a function which is closely connected with that concept.

The Supreme Court held that there was no “making”, and hence no infringement, because the bottle is a freestanding, replaceable component of the patented article that has no connection with the claimed inventive concept, and has a much shorter life expectancy than the other, inventive, component (the metal cage). The bottle cannot be described as the main component of the patented article, and apart from replacing it the defendant did no additional work to the patented article beyond routine repair.

The decision – the consequences of failing to register a recordable transaction, instrument or event

Schütz sued in its capacity as the exclusive licensee of the patent, but did not register its licence until more than 14 years after it had been granted, and then only just before it commenced this litigation.

Section 33 of the Patents Act 1977 provides that “transactions, instruments or events affecting rights in or under patents” should be registered on the Register of Patents.

Under section 68 a failure to register carries the sanction (save in certain circumstances) that the proprietor or exclusive licensee of the patent will not be able to recover legal costs or expenses in infringement litigation. The intent behind section 68 is making those who own monopolies get on the register so that the correct position is publicly known.

The Supreme Court determined² that the correct interpretation of section 68 is that where a licensee wins on the issue of infringement of a patent in circumstances where its licence has not been registered, then –

² Strictly, this aspect of the Supreme Court’s judgment is *obiter dicta* given that it had ruled against Schütz on the question of infringement, with the result that the question of disentitlement to legal costs did not formally arise.

the licensee cannot recover its costs in so far as they are attributable to the claim for damages or an account of profits in respect of infringements pre-dating the registration of the licence,

but it can recover costs attributable to such relief in respect of infringements post-dating the registration.

The lesson for potential litigants is a simple one. They should always register their interests, and be alert to whether amendments to licences (for example) amount to the grant of a fresh licence which needs to be registered separately. This point was raised before the Supreme Court, but expressly not ruled upon because it had not been fully argued by the parties. Prudence suggests that additional registration of such a licence would be the correct course of action, not least because the Register is a register of transactions not of parties.

This case will also potentially have an impact upon due diligence exercises in corporate and commercial transactions. Attention should now be paid not just to whether all relevant transactions, instruments or events affecting patent rights have been properly registered, but to whether or not there is any relevant infringement of the patent, given that this will trigger the adverse legal costs sanctions under section 68.

Patentees and licensees should not be deterred from registering through concerns about the world at large finding out the terms of their commercial arrangements. The register only records the date of the licence and the name of the licensee. Whilst the public has a right to inspect the register, those who do so have no right to see, or to be told of the terms of, any licence.

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