

Broad construction of licence agreement upheld by Court of Appeal keeps royalties flowing.

Oxonica Energy v Neuftec

1. Introduction

1.1 Recently, the Court of Appeal announced that Oxonica failed in a challenge to overrule a High Court decision which related to the payment of royalties to Neuftec for the exploitation of a 'green diesel'¹.

1.2 Previously², a High Court judge had said that the licence agreement governing the royalty stream had been drafted in a somewhat mechanical manner using bits of legal "boilerplate" bolted together so that the words shaped the concept rather than the other way round.

1.3 What ensued was an ambiguous contract that left the judge with the very difficult task of trying to unravel the intention of the parties from what was actually agreed.

2. Background to the case

2.1 Neuftec, a company with substantial knowhow in the field of fuel additives, approached Oxonica, a nanotechnology company, for advice in the manufacture of a particular class of additive.

2.2 Subsequently, in a somewhat convoluted manner, Neuftec entered into an exclusive patent and knowhow licence agreement with Oxonica, in which royalties were payable upon sales of "licensed products" throughout the world.

2.3 Licensed Products were defined in the agreement as *any product, process or use falling within the scope of claims in the licensed application or licensed patent*.

2.4 Licensed Knowhow was defined in the agreement as *all technical information owned*

or possessed by Neuftec at the date of the Deed and thereafter, whether patentable or otherwise, relating to the combustion of fuels using cerium oxide, which information is necessary or useful for the development, manufacture, use and/or sale of the licensed products hereunder.

2.5 As can be seen, the context of the term "licensed products" is vague nor is there a clear definition of what constitutes the knowhow being licensed.

2.6 At the time of making the agreement, no patents had granted and all that existed was an international (PCT) patent application which claimed priority from two earlier GB applications, both of which were subsequently allowed to lapse.

2.7 Therefore, said the judge, there was no convenient yardstick to measure the scope of Neuftec's technology. Firstly, it was unclear whether royalties should always be based on the scope of the application as filed or, if an application granted, the scope of that granted patent. For example, if the latter (e.g. a patent granted in country A), how would royalties be calculated for the sale, act or use of a licensed product in country B where no patent had granted? Furthermore, if the scope of the technology was to be measured by the granted patent (remember, no patents had granted at the time the agreement was signed), there was the potential for the scope of the licensed technology to reduce over time, e.g. as the claims of the application were amended during prosecution. Moreover, there was also the potential for the scope to differ substantially from one country to the next should different claims be granted in different countries.

2.8 Secondly, to add further confusion, the concept of knowhow needed to be addressed. As the agreement stood, there was an argument that the rights conferred by the knowhow could have outweighed the rights conferred by the patent or patent application because the scope determined by the knowhow would remain constant over time whereas the scope determined by the patent or patent application would not.

¹[Oxonica Energy Ltd v Neuftec Ltd \[2009\] EWCA Civ 668 \(09 July 2009\)](#)

²[Oxonica Energy Ltd v Neuftec Ltd \[2008\] EWHC 2127 \(Pat\) \(05 September 2008\)](#)

3. Dispute

3.1 As can be seen, there was no clear definition of what constituted a licensed product.

3.2 Equally, there were question marks in relation to the sale, act or use of products in countries where no patent had granted, even though that country was designated when the PCT application was filed. As a result, this could have paved a way for Oxonica to at least in part circumvent payment of royalties by manufacturing in a country where no patent was in force.

3.3 Among other things, the judge had to decide the most sensible way to measure the scope of the licensed technology. In doing so, he had to construe the agreement to put into effect the interpretation that made most business common sense.

3.4 Agreements of this kind are regularly scrutinised by the courts and precedence states that if a reasonable and informed reader envisages only a single interpretation that makes sense then this interpretation is clearly the resolution³. However, where two or more interpretations are possible then the court must find a resolution that best accords with business common sense⁴. The present case was one of the latter.

3.5 Oxonica claimed that any product falling within the scope of the claims of the patent (if granted) **or** the application (if pending) would constitute a licensed product. In effect, Oxonica claimed that a patent and an application for a patent could not coexist.

3.6 Neuftec counterclaimed that the licensed application would remain in existence in perpetuity. In effect, Neuftec claimed that a licensed product meant any product falling within the scope of the claims of the published PCT application, the granted patent *or both*.

4. Judgment

4.1 The Judge rejected Oxonica's claim that a patent naturally displaces the patent

³ [Mannai Investment Co Ltd v. Eagle Star Assurance \[1997\] UKHL 19](#)

⁴ [Investors Compensation Scheme v. West Bromwich Building Society \[1997\] UKHL 28](#)

application when it is granted in a particular country. It would appear to us that this has to be the case because in the UK a patent application can provide so called 'provisional protection' from the date of its publication.

4.2 Provisional protection allows in the UK the proprietors of a patent to backdate damages to include infringements occurring between publication of the application and publication of grant⁵.

4.3 Furthermore, the judge upheld Neuftec's construction that royalties are payable in respect of any product, process or use falling within the scope of any claim of the PCT application and nothing else.

4.4 The Court of Appeal agreed⁶.

5. Conclusions

5.1 The judge concluded that the drafting of this agreement was an example of when the literal meaning of the words should not be relied upon should the outcome defy business common sense. Interpretation should therefore be one which is most likely to put into effect the commercial purpose of the agreement⁷.

5.2 Clearly, the Courts played a major role in determining on what the royalties relating to this agreement should be paid. However, this dispute would not have happened had the licence been drafted clearly so as to follow Oxonica's presumed requirements.

5.3 Neuftec emerged as big winners from this case – however, the decision was never clear cut. In general, a party is more likely to emerge the stronger if the draftsman is well versed with both knowledge of Intellectual Property matters and the overall commercial goals of the party involved.

⁵ Section 69 UK Patents Act 1977 (as amended)

⁶ [Oxonica Energy Ltd v Neuftec Ltd \[2009\] EWCA Civ 668 \(09 July 2009\)](#)

⁷ [Investors Compensation Scheme v. West Bromwich Building Society \[1997\] UKHL 28](#)

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