

Ambiguities in Oxonica Licence result in additional royalty payments.

The Court of Appeal was recently called on to interpret the meaning of a patent and know-how licence between Oxonica Energy Ltd and Neuftec Ltd relating to fuel additive technology. Giving the lead judgment, Lord Justice Jacob criticised the drafting of the agreement, describing the document as ‘*appallingly drafted*’ and the drafter as ‘*inept or lacking in understanding of the legal background*’. The consequence for Oxonica was expensive litigation and an adverse ruling.

The dispute centred on whether a royalty was payable by Oxonica in connection with revenue received from the sale of a particular product (Envirox 2) not in existence at the time the Licence Deed was executed. To determine this issue, the court had to construe the contract to work out whether Envirox 2 was caught by the definition of licensed products. Approaching the issue of construction, the court stressed that the starting point was what was said in the agreement itself not what the parties had intended it to say or what they thought they had agreed to, but rather what the words of the signed Agreement meant to a reasonable person with an adequate knowledge of the background.

The court began by looking at the royalty provisions which stated that payment was due in respect of Licensed Products which were defined as ‘... *any product etc falling within the scope of claims in the Licensed Application or Licensed Patent*’ and the Licensed Patent meant the PCT application filed by Neuftec ‘*and any continuation, continuation-in-part or divisional applications thereof as well as foreign counterparts and re-issues thereof*’ and Licensed Patent meant ‘*any patent issuing from the Licensed Application thereof as well as foreign counterparts and re-issues thereof*’.

The Court of Appeal found the definition of Licensed Product capable of being interpreted in three different ways. The first, that any product covered by the widest claims of the PCT application as filed (i.e. as enumerated in the PCT application itself) would be regarded as a Licensed Product, thus a royalty would be payable irrespective of whether the final granted (and possibly amended) patent actually covered the product or territory where sales took place. Alternatively, the reference to ‘*the Licensed Application or Licensed Patent*’ indicated alternatives such that royalties would be payable only if the product fell within the claims of the PCT application or any later patent claim that was wider than the original PCT application – this was the

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interpretation put forward by Neuftec. Oxonica's position was that the reference to Licensed Patent should be read as though the phrase 'as the case may be' were added so that if the PCT application were superseded by a national application then one had to look at that national application or at the granted patent if one existed. Thus whether royalties were payable might vary from country to country and would depend on whether Envirox 2 fell within the scope of the claims of the national patent application (or granted patent if one existed) in the country concerned at the time of the transaction.

On balance the Court found Oxonica's interpretation untenable because of the practical difficulties it would entail in determining whether in any given situation royalties were payable and also the practical effect of only paying a royalty if a valid patent existed at the time of the transaction which did not take into account the benefit of the world-wide know how licence that Oxonica had received. Instead, having regard to the context, both the trial Judge and the Court of Appeal, accepted the first interpretation, namely that a royalty was payable if any product fell within at least one claim of the PCT application as filed (a copy of which was appended to the Licence Deed). The PCT document itself provided a succinct summary of Neuftec's technology at the date of the Deed. Such an interpretation had the practical benefit of not needing to reassess the status of the product as new applications were filed. Unfortunately for Oxonica, Envirox 2 fell within the broadest claims of the PCT, although it fell outside the broadest claims of the granted patents in some important countries.

Impact

In reaching their decisions both courts highlighted the dangers of drafters not being familiar with either the factual situation or a deep understanding of the relevant area of law, in this case the patent system and the way in which PCT applications operate. Both courts confirmed that in the event of a contractual dispute the role of the court is not to discern the original intentions of the parties but rather to ascertain the meaning which the document would convey to a reasonable person having all the background knowledge reasonably available to the parties at the time of the contract.

The important lesson from this case is that whilst it may be tempting to modify or re-use existing agreements in an effort to save costs, the saving may prove temporary or indeed illusory if the resulting agreement is seriously ambiguous or hard to interpret. When drafting agreements it is of paramount importance that the parties (and those involved in the drafting process) understand what their respective contributions are to the agreement and what benefit each is deriving from it. Once this is fully understood it is easier to frame the agreement.

Please note that this case summary has been prepared for information purposes only and does not constitute legal advice. We would be pleased to provide additional details or advice about specific situations of concern to you.

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