Neutral Citation Number: [2019] EWHC 1009 (Pat)

Case No: HP-2016-000013

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

Royal Courts of Justice
The Rolls Building
7 Rolls Buildings
London, EC4A 1NL

Date: Monday, 15th April 2019

Before:
MR. JUSTICE HENRY CARR

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Between:

NAPP PHARMACEUTICAL HOLDINGS LIMITED	**Claimant/ Respondent**
- and -	
(1) DR REDDY'S LABORATORIES (UK) LIMITED	**First Defendant**
(2) SANDOZ LI	**Purported additional Defendants/ Applicants**
(3) HEXAL AG	
(4) SALUTAS PHARMA GmbH	
(5) SANDOZ AG	

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MR. ALAN MACLEAN QC (instructed by **Powell Gilbert LLP**) appeared for the **Claimant/Respondents.**

MR. ROBERT-JAN TEMMINK QC (instructed by **Cameron Mckenna Nabarro Olswang LLP**) appeared for the **Defendants/Applicants.**

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Approved Judgment

Transcript of the Stenographic Notes of Marten Walsh Cherer Ltd.,
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MR. JUSTICE HENRY CARR:

Introduction

1. This is an application by the second defendant, Sandoz Limited ("Sandoz"), together with Hexal AG, Salutas Pharma GmbH and Sandoz AG, to fortify the claimant's cross-undertaking for damages, which was given by the claimant, Napp Pharmaceutical Holdings Limited ("Napp") in respect of an interim injunction which was subsequently discharged by the Court of Appeal.

2. I should say that whilst on the application notice, Hexal AG, Salutas and Sandoz AG describe themselves as additional defendants, they are not. There is an issue in the damages enquiry as to which parties can recover loss, and those three parties, as I understand the position, have not been made defendants.

3. The application is supported by a witness statement of Mr. Trust, who states that the applicants have concerns that the existing cross-undertaking provided by Napp in 2016 is no longer adequate and require fortification. He explains that the applicants are concerned that the undertakings do not adequately protect Sandoz's position in the damages enquiry. He further suggests that fortification of the cross-undertaking will provide the protection to which Sandoz is entitled as the quid pro quo for the grant of the injunction in the first place.

4. Mr. Trust explains some of the history of the main proceedings at paragraph 1.4 of his witness statement. He states that from 22nd February 2016, Napp obtained undertakings which were given by Sandoz to the Patents Court and later an interim injunction that restrained the launch of Sandoz transdermal buprenorphine patches, which were to be manufactured by Hexal AG and sold in the UK under the brand name Reletrans. At the time that Napp obtained the measures restraining this product launch, it provided a cross-undertaking in damages to compensate Sandoz in the event that it was found that Sandoz's transdermal buprenorphine patches did not infringe Napp's patents.

5. On 28th June 2016, the Patents Court delivered judgment in Sandoz's favour, finding that the patent was not infringed. On 2nd August 2016, the Court of Appeal dismissed Napp's appeal, and on 8th May 2017, Sandoz served its Points of Claim in respect of the inquiry under the cross-undertaking in damages. The combined duration of the undertaking which was given by Sandoz and the injunction was somewhat under six months.

Jurisdiction

6. The first question is, in circumstances where the injunction has been discharged, whether there is jurisdiction to grant fortification for the cross-undertaking in damages. The leading textbooks on the subject suggest not. As Sir David Bean says in his textbook *Injunctions*, 13th edition, at 307:

> "It is too late to apply for security to fortify an undertaking in damages when the relevant interim injunction has been discharged."

The authorities cited in support of that proposition include *Commodity Ocean Transport v Basford Unicorn Industries ('The Mito*'), to which I will shortly return.

7. The proposition of law set out in that textbook, which is also supported by *Clerk & Lindsell on Torts* at paragraphs 29-48, was considered and the relevant authorities were set out by Popplewell J in *Thai-Lao Lignite (Thailand) Co., Ltd. v Government of the Lao People's Democratic Republic* [2013] 2 All.E.R (Comm) 883, at paragraphs 43-45:

> "43. In *Commodity Ocean Transport Corporation v Basford Unicorn Industries Ltd ('The Mito')* [1987] 2 Lloyds Rep 197, Hirst J refused to order fortification of a cross undertaking by the claimant in favour of the defendant following discharge of a Mareva injunction. So far as my experience goes, this has represented the settled practice in the Commercial Court since then. Hirst J's main reasoning expressed at pp 199-200 was:
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> > 'When such security is originally sought it is sought as a condition for the grant of the injunction, in other words the plaintiff is told if you want this injunction you have to pay the price by fortifying the undertaking to damages. The plaintiff can then either agree or disqualify himself in obtaining the injunction.... Mr McClure says that the plaintiff has already paid a price here when the cross undertaking was given, which is perfectly correct as far as it goes. The plaintiffs did not ever agree nor were they ever asked to pay the extra price that is the fortification of the undertaking. If they had been asked to do so, it may very well be that they would.... have declined to take an injunction. Of course Mr McClure accepts, as he must, that the court has no power to impose an undertaking on the plaintiffs and herein I think if I were to make this order I would in essence ex post facto be imposing a conditional term to the undertaking without any knowledge one way or the other as to what the situation would have been if it had been sought by the defendant in the first place. That is something which I think is wrong in principle to do.'
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> 44. This reasoning was cited with approval by Neuberger J in *Miller Brewing Company v The Mersey Docks and Harbour Company* [2005] EWHC Ch 1606, [2004] FSR 5 at [49] ….
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> 45. The Court cannot require a claimant to give an undertaking. When fortification of a cross undertaking is required, it is not imposed by an order of the court that it must be given. It is part of the undertaking offered by a claimant, and the grant of the order is conditional upon the undertaking being complied with. This is reflected in the standard wording of the Commercial Court freezing order. Requiring fortification is an adjunct to the

> undertaking offered by a claimant, and is only 'required' in the sense of being the price which the claimant will have to pay if he wants his order to operate in futuro. The fortification now sought by the Central Bank is an adjunct to the undertaking originally voluntarily given by the Claimants, and to attach a fortification requirement to such undertaking now, after the Central Bank accounts have been removed from the scope of the Freezing Order, would be in substance to impose upon the Claimants an undertaking they did not give. Moreover it would be to impose a retrospective burden upon the Claimants whilst at the same time depriving them of the opportunity of considering whether to assume that burden as the price of obtaining the Freezing Order over the Central Bank accounts."

8. Mr. Temmink QC, who appeared on this application for the applicants and presented its case with considerable skill, disputed that was no jurisdiction to fortify a cross-undertaking in damages after the injunction had been discharged. In summary, his submissions were that: the undertaking has already been given and continues to subsist; Napp's financial position has now changed such that there is a risk that its assets could be removed before the outcome of the damages enquiry is known; the court has a general power to require the claimant to identify specific assets and to verify that in an affidavit (see CPR rule 25(1)(g)); the court also power to order preservation of those assets; alternatively, that the court has the power to grant a freezing order over assets to a particular value (see CPR rule 25(1)(f)). He also submitted that it would be inequitable if a claimant could avoid its obligations to pay damages under a cross-undertaking by reason, for example, of potential insolvency, because of events which have occurred after the discharge of the injunction and there was no jurisdiction for the court to prevent this.

9. I do not accept these submissions. This is not an application to preserve property under the rules, nor could it be. The property needs to be a defined property. There is no such property in the present case. Nor is it an application for a freezing order and, given that no dishonesty is alleged, nor any significant risk of improper dissipation is established by the evidence, it could not be such an application.

10. In my view, the submissions are misconceived. The starting point is that the court has no power to order a party to give a cross-undertaking in damages. A cross-undertaking in damages is the price that a claimant is willing to pay in return for the grant of an injunction. Once the injunction has been discharged, there is no price that is worth paying because the claimant is not asking for the injunction to continue. In my view, it follows that an application for fortification of a cross-undertaking needs to be made whilst the injunction in respect of which it is given is continuing. This is not inequitable, since the court will not order security for damages, and fortification of the cross-undertaking does not amount to such an order. As Popplewell J said in *Thai-Lao Lignite* (supra), *"[r]equiring fortification is an adjunct to the undertaking offered by a claimant, and is only 'required' in the sense of being the price which the claimant will have to pay if he wants his order to operate in futuro*." It follows that there is no jurisdiction to grant this application.

Discretion

11. In case I am wrong about that, I shall go on to consider whether it would be appropriate to grant the relief sought on the facts of this case. In summary, the Sandoz's case is as follows. Napp is a UK pharmaceutical company within the Mundipharma network of independent associated companies. Sandoz says it is part of the network of companies associated with Purdue Pharma. Since November 2018, Sandoz has sought, through its lawyers, fortification of the undertaking given by Napp in respect of damages. Since that time, it is said that the financial problems facing Purdue Pharma and other companies owned by the Sackler family arising from the opioid scandal have only become more public and worse.

12. The scandal, if that is what it is, which has been very widely reported, relates to a drug known as OxyContin. OxyContin, it is said, has caused people to become addicts and the Sackler family and/or Purdue Pharma are facing considerable litigation in the United States because of this. Various press statements are found in the exhibit to Mr. Trust's statement; for example, a report which he has exhibited states that in the early 1970s scientists at the Sackler's British company, Napp Pharmaceuticals, developed a new type of pill, known as the Contin delivery system, which could continuously release a drug into the body over a period of 12 hours. Purdue used this system to make a novel tablet version of morphine called MS Contin.

13. The applicants allege that the connection between Napp and Purdue Pharma is close, and they suspect or are concerned that what they describe as the catastrophic failings of Purdue will either be a catalyst to similar litigation against Napp; or Purdue's collapse, taken with what they consider to be at least a risk of extraction of funds by the Sacklers will render any award of damages against Napp nugatory. They contend that correspondence between the parties in March 2019 sought information about the effect of insolvency on the claimant's ability to comply with its undertakings as to damages and confirmation that its assets would not be transferred or dissipated outside the ordinary course of business, and requested an undertaking confirming as much.

14. The applicants were not satisfied with the responses that they received, and therefore brought this application. These allegations which were put forward in the witness statement of Mr. Trust, which Mr. Temmink (rightly in my view) described as suspicions. They were answered in witness statement from a Mr. Jamieson, who is a director of Napp. Mr. Jamieson explained the financial position of Napp at paragraphs 15-24 of his statement. In summary, for the year ended 31st December 2014, Napp had cash of approximately £28 million, an operating profit of approximately £72 million, a declared dividend of £30 million and net assets of approximately £133,400,000. At the time the cross-undertaking was given by Napp, there was no application for the cross-undertaking to be fortified or secured. Since then, Napp's financial position has improved. I shall only set out the overall figure of net assets for the years ending 2015, 2016 and 2017, which are respectively £150,931,000, £141,117,000 and £191,744,000. Since the accounts for 2017 were filed, Napp's financial position has improved still further. I shall not read out the figures for Napp's 2018 accounts, which have not yet been completed, but drafts have been disclosed in a letter, marked confidential, which was sent to Sandoz's solicitors

on 29th March 2019. The figures for 2018 show net assets which have significantly increased since 2017.

15. Sandoz's claim for damages in these proceedings is more than £100 million. It relies on the fact that whilst the injunction was in force, Napp launched its own generic and thereby deprived Sandoz of the opportunity to be first on the market Napp's position is that the correct level of recovery in respect of an interim injunction, which lasted less than six months, is £400,000 but they have alternative cases which put the figure in some millions of pounds. It is necessary for Sandoz to establish a good arguable case in respect of whatever damages it is seeking fortification for. Were it necessary to reach a decision on this, having considered summaries of the forensic accountants' reports, I would say that Sandoz have no more than a good arguable case for the sums which have been set aside in Sandoz's latest accounts of approximately £14 million of damages and £5 million of costs. Indeed, the figure may in the end be considerably less than that. As against that, it seems to me that there is no material risk that Napp's assets will drop below a figure which it is obviously able to pay. It has net assets far in excess of that figure.

16. Furthermore, Mr. Jamieson has answered the allegations, such as they are, as to risk of dissipation of assets at paragraphs 32-39 of his statement. In summary, he points out that the articles which have been exhibited to Mr. Trust's statement, do not concern Napp, but rather are concerned with Purdue Pharma. Purdue Pharma LP and Purdue Pharma Inc are US pharmaceutical companies which are independent of Napp. He points out that he is not aware of any basis upon which any purported activity or legal claims against Purdue Pharma, or individuals within the Sackler family in the USA, has or might have any effect on Napp's ability to carry on its business. Indeed, as I have explained, the financial condition of Napp is very healthy and has steadily improved since the injunction was granted. He also points out that the article in a pharmaceutical publication known as STAT is based upon speculation, which Purdue Pharma maintains is baseless. Finally, he points out that the suspicions of Sandoz have already been answered in Powell Gilbert's letter of 29th March, where they explained that: both Purdue Pharma LP and Purdue Pharma Inc are limited liability entities and Napp is independent of Purdue and Napp is not a subsidiary of either of them; Napp's solvency is independent of that of Purdue; Purdue has no right to call on Napp for any assistance; there are no outstanding loans from Napp to Purdue; and Napp does not receive any income from Purdue. He therefore says that in the light of these facts, for there to be any unjustified transfer of assets from Napp, he would need to take an active decision to transfer such asset, contrary to his duties as a director of Napp, and he has no intention of acting in that way.

17. Mr. Temmink was careful to avoid any suggestion of impropriety on the part of any existing directors of Napp, but suggested that despite that evidence, they could be removed at the behest of the Sackler family or Napp could be required by individuals within the Sackler family to transfer assets.

18. I do not accept that contention, which I regard as speculation upon speculation. Therefore, even if I considered that there was jurisdiction to grant this application, which I do not, I would dismiss it in the exercise of my discretion on the facts.

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