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Case No: HP-2021-000039

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

Royal Courts of Justice, Rolls Building
Fetter Lane, London, EC4A 1NL

Date: 3 May 2022

**Before** :

**Ian Karet (sitting as a Deputy High Court Judge)**

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**Between :**

**OTSUKA PHARMACEUTICAL CO., LTD** **Claimant**
**(a company incorporated under the laws of Japan)**

**- and –**

**(1) GW PHARMA LIMITED**
**(2) GW PHARMACEUTICALS LIMITED**

**Defendants**

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**James Segan QC and Ravi Mehta** (instructed by **Powell Gilbert LLP**) for the **Claimant**
**Tom Sprange QC, Ruth Byrne QC** (elect) **and Kabir Bhalla** (instructed by **King & Spalding International LLP**) for the **Defendants**

**Hearing date: 4 March 2022**

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# JUDGMENT

## Ian Karet:

## Introduction

1. This is an application by the Defendants under CPR Part 11 contesting jurisdiction. It raises the question whether this court has jurisdiction to hear a dispute about a patent licence in circumstances where the licensee has indicated it will challenge the validity of licensed patents granted outside the UK.

2. The Claimant ("Otsuka") is a Japanese pharmaceutical company involved in the research and development of healthcare products. The Defendants ("GW Pharma" and "GW Pharmaceuticals", together "GW") are two English companies which undertake research, development and manufacture in the UK of pharmaceutical preparations including cannabinoids.

3. Otsuka commenced these proceedings on 29 October 2021 and served them on GW in the jurisdiction as of right. Otsuka's claim relates to a Research Collaboration and Licence Agreement with GW made on 9 July 2007 and amended on 14 March 2008 and 29 June 2010 (the "Agreement"). Otsuka claim (i) declarations as to the interpretation or application of the Agreement and (ii) payment of royalties.

4. GW object to this Court's jurisdiction on the principle in *British South Africa Co v Companhia de Moçambique* [1893] AC 602 and because the grant of a patent is an act of a sovereign state with which this court should not interfere. GW also say this court should decline to exercise jurisdiction on the ground of *forum non conveniens*.

5. The Agreement is governed by New York law and GW have commenced competing proceedings in New York. Both sides submitted significant evidence on relevant US law and practice.

6. Tom Sprange QC, Ruth Byrne QC (elect) and Kabir Bhalla appeared for GW. James Segan QC and Ravi Mehta appeared for Otsuka.

## The Agreement

7. The Agreement provided for a collaboration between Otsuka and GW Pharma in the research and development of pharmaceutical preparations based on botanical extracts from chemovars (chemical products derived from plants) of *Cannabis sativa* for the treatment of central nervous systems and cancer indications. GW Pharmaceuticals is party to the Agreement to guarantee the obligations of GW Pharma.

8. Under the Agreement Otsuka contributed financial and technical resources to the collaboration. Part of that occurred in the UK and included a grant of over £1 million to a team at the University of Reading to conduct research into the

anti-seizure properties of cannabinoids. The inventors of the patents relevant to this dispute include scientists at the University of Reading.

9. Otsuka had the choice between taking forward the clinical development of any candidate medicinal product identified as a result of the collaboration or giving up its right to do so. If Otsuka retained ownership of a candidate and developed it, then Otsuka would pay royalties to GW.

10. The Agreement also provides that GW might obtain ownership of a candidate drug. GW agreed to pay to Otsuka royalties on net sales of any "GW Pharma Product" which is "Covered" by patents or know-how arising from the collaboration. Broadly, a product is Covered if its exploitation without a licence would infringe the relevant rights. Where that right is a patent, the product must be Covered by a Valid Claim; broadly, that is one that has not been held invalid by a court of competent jurisdiction.

11. The Agreement is governed by the law of the State of New York. It does not provide that any court will have jurisdiction.

12. There is a mechanism for good faith dispute resolution through discussions between senior office holders for a period of 30 days. If good faith discussions are not successful then the issue should be resolved by arbitration.

13. The arbitration agreement provides for arbitration of disputes under the International Arbitration Rules of the International Centre for Dispute Resolution. That agreement excludes disputes about "patent scope, validity or infringement". Arbitration proceedings are to be held in New York if commenced by GW and in London if commenced by Otsuka. Discovery in any arbitration is agreed to be as if the arbitration were a civil suit in the New York Supreme Court.

14. At the conclusion of the research period in 2013 Otsuka elected not to pursue clinical development of any product candidate.

15. GW did proceed with development, but they dispute in these proceedings the connection between the collaboration under the Agreement and their current product.

16. Since June 2018 GW or their affiliates have obtained marketing authorisations and commenced sales in the US, the European Union, the UK, Australia, Switzerland and Israel for Epidyolex (in the US and Israel, Epidiolex) a drug for the treatment of seizures associated with various conditions or epileptic syndromes. The active ingredient in Epidyolex is cannabidiol ("CBD").

17. Net sales of the product were US$296 million in 2019 and around US$510.5 million in 2020. Otsuka say that GW have indicated an intention to sell the product more widely.

18. Otsuka say that Epidyolex falls within the scope of at least two jointly-owned patent families which arise from the collaboration so that under the terms of the Agreement GW should pay royalties on sales of the product. GW disagree.

19. In May 2019 the parties held negotiations about one jointly owned patent family, but those were not successful.

20. In June 2021 Otsuka commenced an arbitration under the Agreement in London claiming royalties under patents from the first patent family. This includes the patents US 9,066,920 ("US 920") and EP 2 448 637 ("EP 637"). Otsuka's claim was on the basis that these patent claims cover the Epidyolex product, and that GW are estopped from denying that by reason of various public statements they have made (including to the US Securities and Exchange Commission) that the patents would cover the product and that royalties would be payable.

21. In August 2021 GW filed a reply in the arbitration challenging jurisdiction on the basis that Otsuka's claim raised questions of patent scope and infringement and so was outside the scope of the parties' agreement to arbitrate.

22. In August 2021 Otsuka wrote to GW to allege that the claims of a second European patent arising under the Agreement also covered Epidyolex.

23. GW complain that Otsuka refused to provide details about the second patent family. Otsuka say that GW were unwilling to engage in further negotiations. As a result, Otsuka commenced this claim and served on GW in the UK. GW have responded by challenging jurisdiction. The claim includes further UK and foreign patents from the two patent families.

24. GW say that Otsuka failed to observe the good faith dispute resolution provision of the Agreement. Their skeleton argument on this application (but not their Application Notice or draft order) sought a stay of these proceedings as a consequence of Otsuka's breach.

25. The prosecution and defence of the jointly-owned patents have been conducted by GW Pharma and funded by Otsuka. GW Pharma has successfully defended claims of US 920 against third-party Inter Partes Review proceedings before the US Patent and Trademark Office. GW Pharma was also successful in defending opposition proceedings against EP 637 before the European Patent Office.

26. In July 2021 GW Pharma assigned a security interest in US 920 and EP 637 (together with other patents relied upon by Otsuka in these proceedings) to a US bank as collateral for a security/financing arrangement.

27. Much of the collaboration under the Agreement took place in the UK and Epidyolex is now manufactured here.

28. As this is a challenge to jurisdiction made at an early stage, GW have not yet pleaded a defence to Otsuka's claim. However, GW's solicitors indicated in a letter dated 1 March 2022, written shortly before this hearing, that GW's intended defence to the claim would be as follows:

    i) Epidyolex did not result from the collaboration under the Agreement; it was the result of work by GW (and third parties working together with GW) carried out independently.

    ii) GW applied for and obtained "Orphan Drug" designations from the US Food & Drug Administration for CBD for the treatment of particular conditions (Dravet syndrome and Lennox-Gastaut syndrome). GW worked with another researcher to devise a dosage regime of CBD that was surprisingly effective in treating children with intractable seizures from these conditions. Following clinical trials the product is now licensed. The vast majority of sales are in the US.

    iii) The collaboration under the Agreement did not lead or contribute to GW's development of the product as a treatment for rare, treatment-resistant childhood-onset epilepsies. The collaboration encompassed a range of compounds and conditions, and to the extent the parties sponsored and oversaw or conducted research related to epilepsy under the Agreement, that research was not focused on the use of CBD specifically to treat epilepsy. Rather, it encompassed pre-clinical (i.e., non-human) research of various cannabinoids using animal models and experimental techniques that were well-known to researchers in the field.

    iv) It was known generally before the collaboration that CBD had anti-epileptic activity in conventional animal models; and CBD was also shown to have utility in treating seizures in human patients, including as an adjunct to standard anti-epileptic drugs.

    v) Otsuka had the option under the Agreement of selecting CBD for human clinical research and development as an epilepsy treatment. Otsuka elected not to pursue such clinical research and development of CBD. None of the research that the parties conducted or sponsored under the Agreement concerned the potential use of CBD or other cannabinoids for treatment-resistant childhood-onset epilepsies. It was understood that the conventional animal seizure models (such as those used to study various cannabinoids during the collaboration) could not reasonably

predict whether drugs would be suitable for childhood-onset treatment-resistant epilepsies.

vi) Accordingly, Epidyolex is not "Covered" by the relevant patent claims under the Agreement. If Epidyolex were so covered by a patent claim, the claim would be invalid. In any event, Epidyolex is not a product on which royalties are payable under the Agreement.

29. GW have thus said that they would in this court seek declarations that:

> "a. Epidiolex® does not fall within the scope of the Relevant Patents.
>
> b. The Relevant Patents cannot be infringed by GW as co-owner of those patents; and in any event have not and will not be infringed by GW's actual and threatened actions in any asserted territory.
>
> c. Epidiolex® is not "*Covered*" by any "*Valid Claim*" of the Relevant Patents.
>
> d. In the alternative, the claims of the Asserted Joint Patents are invalid under the patent laws of their respective jurisdictions, including under 35 USC § 112, ¶ 1 [for failure to meet the "written description" and "enablement" requirements of United States patent law] and § 103 [as obvious under United States patent law] in the US, and analogous provisions in the non-US jurisdictions;
>
> e. Further in the alternative, Epidiolex® is not a "*GW Pharma Product*" under sections 7.4 and 9.1 of the RCA;
>
> f. Royalties are not and shall not be payable under the RCA in respect of Net Sales of Epidiolex®."

30. GW also say they would counterclaim against Otsuka for breach of the Agreement.

31. The term "Asserted Joint Patents" is not defined in the letter. Based on the use of the same term in the New York proceedings (see below) I take it to mean all those patents under which Otsuka base their claim in these proceedings in those territories in which they are granted. That includes patents granted in the US, the European Patent Office (which will have national designations), Israel, Australia and the UK.

**US proceedings**

32. On 7 January 2022 GW commenced proceedings against Otsuka in a state court in New York. There is a significant overlap between the matters raised in the New York claim and this claim (as GW have indicated they will defend it). GW

seek a declaration that under the Agreement none of the relevant patents Covers Epidyolex, including because the patents are invalid.

33. The invalidity argument is framed as a squeeze by which GW argue that if Otsuka is right that Epidyolex is "Covered" by one or more claims of the licensed patents, then any such claims would be invalid because none provides sufficient disclosure to support claims to treatment of treatment-resistant, childhood-onset epilepsy conditions such as Dravet syndrome, Lennox-Gastaut syndrome or tuberous sclerosis complex. GW thus cannot be liable to Otsuka for royalties under the Agreement based on any patent claim found to "Cover" Epidyolex, because any such patent claim would accordingly be invalid.

34. Accordingly GW seek the following relief by reference to "Asserted Joint Patents", which are the patents under which Otsuka bases its claim in these proceedings in the Asserted Territories, i.e. where they are granted:

> "a. A declaration that none of the Asserted Joint Patents "Cover" Epidiolex®, and that Plaintiffs therefore owe Defendant no royalty payments or other amounts for Net Sales of Epidiolex® based on the Asserted Joint Patents in any of the Asserted Territories;
>
> b. Alternatively, a declaration that the Asserted Joint Patents are invalid, and that Plaintiffs therefore owe Defendant no royalty payments or other amounts for Net Sales of Epidiolex® based on the Asserted Joint Patents in any of the Asserted Territories;
>
> c. A declaration that Epidiolex® is not a "GW Pharma Product" under the [Agreement], and that Plaintiffs therefore owe Defendant no royalty payments or other amounts for Net Sales of Epidiolex® based on the Asserted Joint Patents any of the Asserted Territories;
>
> d. A declaration that Otsuka has breached Section 15.1 of the [Agreement];
>
> e. An award of damages to remedy Otsuka's breach of the [Agreement]…".

35. There were a number of differences between the parties on the position under US law. Each instructed US counsel. Evidence for Otsuka was given by Bruce Wexler, a partner of Paul Hastings LLP. Evidence for GW was given by Evan Diamond, a partner of King & Spalding LLP. Both are qualified New York lawyers with significant experience of intellectual property law.

36. Otsuka say that under US law an "assignor estoppel" prevents GW from raising the validity argument because GW cannot claim the invalidity of a patent which it obtained and owns and has successfully defended. This is on the basis of US Supreme Court authority including *Minerva Surgical, Inc. v. Hologic, Inc.,* 141 S. Ct. 2298 (2021).

37. GW say that this is not the correct analysis and that the US Supreme Court decision in *Lear, Inc. v Adkins* 395 U.S. 653 (1969) establishes that as a matter of "overriding federal policy" a licensee will always be entitled to assert the invalidity of a licensed patent as a defence to a contractual claim for royalties. The invalidity defence may also be run by co-owners of patents.

38. In *Lemelson v Synergistics Research Corp.*, 669 F Supp. 642, 644-646 (SDNY, 1987) the US District Court for the Southern District of New York found that the "public interest in the validity of all outstanding patents allows scrutiny of patents, unconstrained by the contractual relationship between the parties".

39. There was also a difference between the parties as to the significance of a case concerning validity before the state court in New York.

40. Mr Wexler said that a US state court cannot completely invalidate a US patent. A state court finding of invalidity would not have preclusive effect and would not prevent a US Federal court later asked to rule on the validity of the patent from coming to a different decision. Similarly, a state court judgment would not be binding on the US Patent and Trademark Office if, in the future, a third party sought to invalidate US 920.

41. Mr Diamond said that while the infringement and validity of US patents are issues governed by US federal patent law, state courts have jurisdiction to rule on those issues when properly before them in a contract or other state-law action. He relied for example on *Eastman Kodak Co.*, 419 N.Y.S. 2d at 373. Thus, a New York state court could and would hear and rule on the entirety of the parties' dispute, including GW's *Lear* doctrine invalidity defence.

42. Mr Diamond accepted that New York state courts do not have the power to invalidate US patents *per se*, but said that a New York state court can rule that a US patent is invalid, and accordingly, that a licensee or co-owner does not owe royalties that would otherwise be due based on that US patent under a patent license or co-ownership agreement.

43. There was a further dispute about whether the New York court would accept a case in which the issue of validity was hypothetical. Mr Wexler said that such a claim would not be "ripe" for determination. Mr Diamond disagreed.

44. There were at the date of the hearing outstanding questions whether the New York court has jurisdiction to hear GW's New York claim and whether it has yet been effectively served on Otsuka by personal service on an individual in the US.

45. GW's position is thus that the dispute is one that sits naturally in New York. The vast majority of the sales are made in the US; the Agreement is governed

by New York law; and in any arbitration the parties are entitled to discovery as if the arbitration were a civil suit in the New York Supreme Court.

## The law

*Approach to determining an application challenging jurisdiction*

46. In *VTB Capital plc v Nutritek International Corpn* [2013] 2 AC 337 and *Okpabi v Shell* [2021] 1 WLR 1294 the Supreme Court stressed the need for proportionality in relation to the litigation of jurisdiction issues. This may be achieved by focusing on the pleaded case and whether that discloses an arguable claim. The court should avoid being drawn into an evaluation of the weight of the evidence and the exercise of a judgement based on that evidence.

*The Moçambique rule*

47. The *Moçambique* rule is that an English court has no jurisdiction to adjudicate a claim of title to foreign land. The principle arises where "[…] the facts relied on as the foundation of the plaintiff's case have [a] necessary connection with a particular locality". In such cases "the grounds upon which the Courts have hitherto refused to exercise jurisdiction in actions of trespass to lands situate abroad [a]re substantial and not technical" (pp.618 and 629 *per* Lord Herschell LC).

48. The rule does not apply in cases concerning personal obligations such as a contract, even if the subject matter of the obligation relates to foreign land, see *Hamed v Stevens* [2013] ILPR 37 at [19], per Lloyd-Jones LJ.

49. In *Lucasfilm Ltd v Ainsworth* [2012] 1 AC 208 the Supreme Court considered the application of the *Moçambique* rule to infringement of foreign copyright. Lords Walker and Collins said:

> "101. The issue on this appeal is a very narrow one because the claimants do not take issue with the application of the *Moçambique* rule to intellectual property so far as it is limited to patents and other intellectual property rights dependent on the grant or authority of a foreign state, and to cases where what is in issue is the validity of the patent, as opposed to its infringement.
>
> 102. As recorded by Mann J, the trial judge [2009] FSR 103, para 272, the dispute relating to the United States copyright was as follows. The subsistence of copyright and ownership of all drawings was accepted by Mr Ainsworth, although the existence of some drawings was disputed. Infringement was denied so far as some drawings are concerned, on the footing that they were not copied, or not copied closely enough. Because three dimensional items were produced, it was argued that under United

> States law there was no infringement because copyright in the drawings would not be infringed by the production of a utilitarian or functional device. Lucasfilm claimed copyright in physical helmets and armour, which was disputed by Mr Ainsworth because they were said to be functional or utilitarian. According to the judge, at one stage it had also been suggested that if there was copyright it was vested in Mr Ainsworth and not in Lucasfilm, but this point was not ultimately persisted in.
>
> 103. Although at trial the infringement arguments sometimes merged into a subsistence argument, the substantial dispute has always been about the ownership of the relevant copyrights and their infringement rather than about their subsistence.
>
> 104. Were these claims justiciable? Mr Ainsworth argued that the principle behind the *Moçambique* rule (as extended in the *Hesperides* case [1979] AC 508 to include actions in which no issue of title arises) still subsists and applies to claims for infringement of all foreign intellectual property rights, including copyright, because such claims are essentially local and must be brought in the place where the rights have been created, irrespective as to whether there is any claim to title. But to describe the claims as local is simply to beg the question whether as a matter of law they must be brought in the place where the rights originate and are effective.
>
> 105. We have come to the firm conclusion that, in the case of a claim for infringement of copyright of the present kind, the claim is one over which the English court has jurisdiction, provided that there is a basis for *in personam* jurisdiction over the defendant, or, to put it differently, the claim is justiciable. It is clear that much of the underpinning of the *Moçambique* rule and the decision in *Potter v Broken Hill Pty Co Ltd* [1905] VLR 612 has been eroded. All that is left of the *Moçambique r*ule (except to the extent that it is modified by the Brussels I Regulation) is that there is no jurisdiction in proceedings for infringement of rights in foreign land where the proceedings are "principally concerned with a question of the title, or the right to possession, of that property." So also article 22(1) of the Brussels I Regulation does not apply to actions for damages for infringement of rights in land."

50. The Supreme Court also observed at [108] that "the modern trend is in favour of the enforcement of foreign intellectual property rights".

51. In *Chugai Pharmaceutical Co Ltd v UCB Pharma SA* [2017] Bus LR 1455, Henry Carr J considered the application of the *Moçambique* rule in a case concerning a patent licence which included a US patent. Chugai sought a declaration that it was not obliged to pay royalties under the licence. UCB alleged that the proceedings, although framed as a claim for a declaration

relating to a contract, in substance concerned not only the scope but also the validity of the licensed US patent. Consideration of the claim would thus infringe the *Moçambique* rule and/or the foreign act of state doctrine, which prevents the English court determining issues relating to sovereign acts of a foreign state.

52. Henry Carr J rejected that argument and held that where validity was not challenged the *Moçambique* rule did not affect the jurisdiction of the English court in respect of claims for infringement of a foreign patent. Chugai was not claiming that the relevant US patent was invalid but instead raised the question of validity as part of the argument on construction of the licence. The validity argument was incidental to the essential nature of the claim, which concerned Chugai's royalty obligations under the licence.

53. At [29] he noted that:

> "…the court should carefully examine the substance of the dispute in the context of challenges to jurisdiction under articles 24 and 27 of the recast Brussels I Regulation. However, not every infringement dispute is concerned with, or principally concerned with, a challenge to validity of the patent in suit. For example, if a party has undertaken not to challenge validity, and only to pursue a case of non-infringement."

54. Accordingly, he rejected UCB's submission that Chugai was challenging the validity of the licensed US patent by formulating its claim as a contractual one for a declaration concerning royalties or by characterising it as one concerned with infringement. He accepted Chugai's submission that it was not claiming that the US patent was invalid, but only required the court to ask, as a guide to construction, what would be the hypothetical consequences for validity of the rival interpretations.

55. Henry Carr J went on to consider, *obiter*, what the position would have been if Chugai had attacked the validity of the licensed US patent (referred to as the "771 Patent"):

> *"Direct challenges to validity of foreign patents*
>
> 70. In case this application goes further, it may be helpful for me to indicate the course that I would have taken, if I had considered that Chugai was seeking to invalidate the 771 Patent in the English court. That, in my judgment, would have been contrary to the Licence, whereby the parties have agreed that the validity of patents within its scope should be adjudicated on by the courts where they were granted. Furthermore, a declaration or finding of invalidity would not affect the obligation to pay royalties, which would remain unless and until the US courts held that the 771 Patent was invalid. Therefore, I would not have allowed the claim to proceed.

71. That leaves the wider question of whether, in the absence of agreement, direct challenges to the validity of foreign patents which are outside the scope of article 22(4) of the Brussels I Regulation (for example claims for revocation or declarations of invalidity) are justiciable here. Professor Briggs in *Civil Jurisdiction and Judgments (6th Ed, 2016)* states at [4.09]:

> "The grant of a patent is closer to an act of sovereign power than many; if a court considers that a patent should be held to be invalid and cancelled as a result, it is hard to see how this can be done and made effective by a court other than at the place where the patent was granted and must now be cancelled. Moreover, as the Brussels 1 Regulation reserves proceedings which have as their object the validity of a patent to the courts of the Member State under which it was granted, it would be difficult to attack a rule of the common law which was built on the same foundation."

72. Mr Raphael, who recognised that his case would be considerably more difficult if Chugai was mounting a direct challenge to validity in the English court, did not dissent from this reasoning, apart from the suggestion that the act of state doctrine might preclude challenges to validity. He suggested that such challenges might be precluded by the rule in *Moçambique* or by the use of the public policy exception which applies at common law; the latter possibility is referred to in *Dicey* at [34-027].

73. In my view, there are powerful arguments that such direct challenges, where validity is the principal issue, are not justiciable. In particular:

> i) There is basis for drawing a distinction between claims for infringement and invalidity of patents. A claim of infringement is an action *in personam*, which affects the parties to the action. A patent is a monopoly right *in rem*, which applies to the entire population of the territory in which it is granted.
>
> ii) This distinction is reflected in the allocation of jurisdiction in the Brussels I Regulation. Article 24(4) compulsorily allocates jurisdiction over a dispute concerning the validity of a patent to the courts of the Member State in which (or for which) that patent is registered; the article does not apply to claims for infringement.
>
> iii) The rule in *Moçambique* no longer applies to claims for damages for trespass. However, it continues to apply to actions for the determination of the title to, or the right to possession of, foreign land. Infringement of patent is analogous to trespass, whereas validity is analogous to a challenge to the title to or right to possession of land.
>
> iv) As well as comity, the *Moçambique* rule is founded on the principle of territoriality. Lord Neuberger stated in *Shergill v Khaira* [2014] UKSC 33; [2015] AC 359 at [41] that the rule was "*probably best regarded as depending on the territorial limits of the*

> *competence of the English courts or of the competence which they will recognise in foreign states*".
>
> v) Patents are local monopolies which involve local policies and local public interest. Their effect is territorially limited. Their validity should be matters for the local judges of the country in which the patent right was first created: see *Lucasfilm* [2009] EWCA Civ 1328; [2010] Ch 503 at [175] *per* Jacob LJ.

74. So, whilst my provisional view is that direct challenges to the validity of foreign patents should not be justiciable in the English courts, it is not necessary for me to reach a conclusion on this important question, which should be decided in circumstances where it matters to the result."

56. The Seventh edition of Briggs says, at 21.09:

> "A fair reading of [*Lucasfilm*] would suggest that where a genuine dispute over the validity of a patent is raised, whether as a claim or a defence to an allegation of infringement the [common law] exclusionary rule [applicable to issues of foreign intellectual property] may still apply. The grant of a patent is closer than many to an act of sovereign power; if a court considers that a patent should be held to be invalid and cancelled as a result, it is hard to see how this can be done and made effective by a court other than at the place where the patent was granted and must now be cancelled; the proposition that it might be 'treated as done as between the parties to the litigation' is tenable, but is not very attractive from the point of view of legal certainty."

57. In *Unwired Planet International Ltd v Huawei Technologies (UK) Co Ltd* [2020] UKSC 37 the Supreme Court said at [58] that it is undisputed that questions as to the validity and infringement of a national patent are within the exclusive jurisdiction of the courts of the state which has granted the patent. At [63] the court confirmed that the English courts have jurisdiction to determine the terms of a licence involving disputed or potentially disputed foreign patents, but that if the English courts "had purported to rule on the validity or infringement of a foreign patent, that would be beyond their jurisdiction".

*Act of state doctrine*

58. In *Lucasfilm* the Supreme Court considered the act of state doctrine as part of its analysis of the treatment of foreign intellectual property rights:

> "66. …The classic statement of the act of state doctrine was enunciated by Fuller CJ in the United States Supreme Court in *Underhill v Hernandez* (1897) 168 US 250, 252:

> "Every sovereign state is bound to respect the independence of every other sovereign state, and the courts of one country will not sit in judgment on the acts of the government of another done within its own territory. Redress of grievances by reason of such acts must be obtained through the means open to be availed of by sovereign powers as between themselves."

67. This principle had its origin, as appears clearly from the decision of the lower court in that case, in the decision of the House of Lords in *Duke of Brunswick v King of Hanover* (1848) 2 HL Cas 1, 17, in which it was said that "the courts of this country cannot sit in judgment upon an act of a sovereign, effected by virtue of his sovereign authority abroad": see *Underhill v Hernandez* (1895) 65 F 577 (2d Cir). As restated by the US Supreme Court, the act of state doctrine was re-imported into English law in *Aksionairnoye Obschestvo AM Luther v James Sagor & Co* [1921] 3 KB 532.

…

69. Consequently the effect of the decision in *Potter v Broken Hill Pty Co Ltd* was to apply the *Moçambique* rule and, especially, the act of state doctrine to actions for patent infringement. It received no attention in the English case law until it was mentioned by Lord Wilberforce in *Hesperides Hotels Ltd v Aegean Turkish Holidays Ltd* [1979] AC508, 536 as authority for the proposition that the *Moçambique* rule applied in Australia. It was only from the 1980s that it came to be regarded as a significant authority in the field of transnational intellectual property litigation: *Def Lepp Music v Stuart-Brown* [1986] RPC 273; *Tyburn Productions Ltd v Conan Doyle* [1991] Ch 75 (both copyright cases)."

59. In *Chugai* Henry Carr J considered the approach of the Supreme Court in *Lucasfilm* and held at [68 - 69] that a challenge to the validity of a patent in court proceedings was quite different from an attempt to challenge legislation or government acts. Accordingly the act of state doctrine was not an impediment to action for infringement of foreign intellectual property rights even if the validity of a grant was in issue.

*Forum non conveniens*

60. In *Spiliada Maritime Corporation v Consulex* [1997] AC 460 the House of Lords set out the principles by which *forum conveniens* may be assessed. They may be summarised as follows:

> i) It is upon the party seeking a stay of the English proceedings to establish that it is appropriate;

> ii) A stay will only be granted where the court is satisfied that there is some other forum available where the case may be more suitably tried for the interests of all parties and the ends of justice. Thus the party seeking a stay must show not only that England is not the natural and appropriate forum but that there is another available forum that is clearly and distinctly more appropriate;
>
> iii) The court must first consider what is the 'natural forum', namely that place with which the case has the most real and substantial connection. Connecting factors will include not only matters of convenience and expense but also factors such as the relevant law governing the proceedings and the places where the parties reside; and
>
> iv) If the court concludes having regard to the foregoing matters that another forum is more suitable than England it should normally grant a stay unless the other party can show that there are circumstances by reason of which justice requires that a stay should nevertheless be refused. In determining this, the court will consider all the circumstances of the case, including those which go beyond those taken into account when considering connecting factors.

61. In *Unwired Planet* the Supreme Court noted at [96] the importance of a person challenging jurisdiction identifying some other forum that does have jurisdiction to determine the dispute.

## Discussion

*Jurisdiction*

62. As this is an application under CPR 11, GW have not yet pleaded a defence. I approach the issues on the basis the defence will be as indicated in GW's letter which I have described above and bearing *VTB Capital* in mind.

63. GW will in this court claim a series of declarations. The first is that GW's product does not fall within the scope of the licensed patents. The second is that GW does not infringe those patents because it is a co-owner and that in any event GW's actions are non-infringing. Third is a claim that as a matter of construction GW's product is not "Covered" by any "Valid Claim" of the licensed patents. Fourth and in the alternative GW will argue that the claims of the patents are invalid because if the licensed patents cover the product then they must be invalid.

64. The declarations go to all of the relevant jointly-owned patents in Europe, Israel and Australia as well as the US patent, US 920.

65. GW say that, for the purposes of this application this is a challenge to validity of the patents, in particular US 920, so that this court does not have jurisdiction.

66. Otsuka say that the court has jurisdiction over GW as of right; the claim has been validly served; and that this court has jurisdiction because the action is an *in personam* claim in respect of an agreement.

67. There is no indication that GW intend in any event to challenge the validity of the relevant patents in the national courts of their grant, whether by an action for revocation or by seeking to surrender the patents because they believe that they are invalid (for example as is possible in the UK under s.29 Patents Act 1977). GW's position on invalidity is thus conditional and depends on them failing to establish their proposed application of the Agreement to their product.

68. The Supreme Court decisions in *Lucasfilm* and *Unwired Planet* show that while the UK courts have moved significantly towards the enforcement of foreign intellectual property rights, questions as to the validity and infringement of a national patent remain within the exclusive jurisdiction of the courts of the state which has granted the patent.

69. The question for determination at this application is what sort of case the court will have to consider. Not every case in which a party raises an argument about patent validity should necessarily cause this court to decline jurisdiction. That will depend on how that argument features in the case.

70. In *Chugai* Henry Carr J considered the consequences of a "direct" challenge to patent validity. By "direct" he appears to have had in mind the description of *Moçambique* in *Lucasfilm* as concerning claims "principally concerned with a question of the title, or the right to possession, of that property".

71. This is not a distinction between claims *in personam* and *in rem*. A claim *in personam* might raise issues that were of sufficient significance directly to affect the validity of a patent and thus be the principal issue for determination. For example, consider a licensee who defends in the UK court a claim for royalty under an agreement covering a foreign patent by arguing only that the foreign licensed patent is invalid. This argument would in effect be asking the UK court to rule on the validity of that patent, and, if the patent was valid, infringement. That, to my mind, would be "direct" in the sense considered by Henry Carr J.

72. In *Unwired Planet* the Supreme Court said "infringement and validity" were matters that should be decided by the courts where a patent is granted. The court did not say that any case that raised these issues in any way was one solely to be decided by national courts of patent grant. It is thus for the court to assess what the case is in essence about.

73. In my view GW's intended challenge to a foreign patent in this case is not direct in the sense suggested in *Chugai* and the rule in *Moçambique* is not engaged. That is for the following reasons.

74. First, GW's principal defence in this court (as mirrored in its claim in New York) will be that the product in dispute is GW's own later-conceived invention that is outside the terms of the Agreement so that no royalty arises. Patent validity is not the principal issue. That is seen from the hierarchy of declarations GW will seek here; the claim about validity is made only in the alternative should GW fail in their principal argument. GW do not seek a ruling on the validity of foreign patents no matter what the Agreement might say, but only if they cannot avoid paying royalty some other way.

75. This is strengthened by GW's formulation of their claim in New York.

76. Secondly, a court may be able to decide the dispute before having to consider a validity argument. That could include deciding that the collaboration did not cover the GW product or that GW are estopped from arguing validity. That would not offend any jurisdictional principle. If proceedings were to get to a stage where the court does have to consider the validity of patents granted outside the UK it would be possible to avoid straying into improper considerations of foreign validity through case management, for example by dealing first with the UK patents and then managing what was left of the dispute or by staying UK proceedings while foreign validity was determined.

77. Thirdly, GW's US claim appears likely to meet an objection similar to the one raised here - that the US court is not able to rule on the validity of foreign, i.e. non-US, patents. It seems unlikely that the parties intended the Agreement to be one which could not be disputed anywhere. GW have already refused to arbitrate, and a dispute of this type should be capable of resolution somewhere.

78. Bringing these together, I conclude that the conditional nature of GW's validity defence indicates that for the purposes of jurisdiction the claim is not directly concerned with patent validity. This dispute is thus not as formulated by GW principally about the validity of patents granted outside the UK. The action might be concluded without the question of validity of a foreign patent having to be determined, either because that issue does not fall to be decided or through case management.

79. It follows that I do not need to come to a view on the questions of US law as to the nature of an attack on validity in the New York state courts or the extent of the *Lear* doctrine. The central question in this application is the effect of a consideration of validity in the UK and not in the US courts.

*Act of state*

80. Following *Chugai*, the grant of a patent is not an act of state which would require this court to decline jurisdiction. Henry Carr J concluded this following his

consideration of the discussion in *Lucasfilm*, and there does not appear to be any other objection under this heading to prevent this court hearing this dispute.

*Forum non conveniens*

81. In order to succeed in the application for a stay on the basis of *forum non conveniens* GW must show that it is appropriate and satisfy the court that there is some other forum available where the case may be more suitably tried for the interests of all parties and the ends of justice.

82. GW say that forum is New York. The factors which GW say support that are as follows.

83. First the Agreement is governed by New York law. While the UK courts are used to dealing with agreements governed by foreign law, this point is in favour of the dispute being heard there. However, it is not of great weight as the arbitration agreement shows that GW were prepared to be involved in proceedings in London. Arguments about the *Lear* doctrine can be fairly heard in this court.

84. Secondly, sales of the product in the US are by far the most substantial. Otsuka suggests that the relative percentage of US sales is declining, and that GW have not demonstrated that sales take place in New York State. In my view this point is neutral. The issues to be decided do not depend on the location of the sales. Once any sale is made the question of whether it is Covered will arise, and the number of sales does not change that.

85. Thirdly, GW Pharma's ultimate parent Jazz Pharmaceuticals PLC is an Irish company that is listed in the US. However, that company is not a party to proceedings. A listed company with foreign subsidiaries would not be prejudiced by litigation taking place in the domicile of the subsidiaries. During the arbitration Otsuka sought to bring in as parties both Jazz Pharmaceuticals and GW Pharma's US affiliate, Greenwich Biosciences Inc. GW objected to that.

86. Fourthly, GW also allege that Otsuka is in breach of the relevant pre-action procedure because it failed to observe the terms of the Agreement. This appears to be more of an argument about breach of the Agreement than which jurisdiction is suitable to entertain a claim once it is commenced.

87. There are to be a number of matters that Otsuka say show that this court is more convenient.

88. First, the proposed defence raises issues of what happened during the collaboration between Otsuka and GW. Much of that work took place in the UK and it would be convenient for any witnesses involved to be cross-examined

here. Otsuka also argued that the presence of documents in the UK would assist disclosure; but it seems to me that given the tools now available for handling disclosure documents electronically this factor is neutral.

89. Secondly, this court is already seised of the claim and so is ahead of the process in New York. The history of the claim so far suggests that Otsuka is more interested in seeing the matter resolved through proceedings. If so, continuing the claim here is more likely to focus the parties' minds on a settlement.

90. Thirdly, Otsuka say that resolution of the claim in this court will be more cost efficient. That appears to beg the question how an issue about dispute of a US patent would be resolved.

91. Fourthly, at the time of the hearing there was a dispute as to whether it was possible to serve Otsuka in New York. It is not possible to say at this stage how significant an issue this might be, but if a significant dispute develops over this then it may take significant time to resolve, and GW have not demonstrated that the New York court clearly has jurisdiction.

92. In my view GW have not demonstrated that New York is a more suitable forum. Two points in particular favour this court. First, the questions at the centre of the dispute about the nature and extent of the collaboration under the Agreement appear likely to be resolved by witnesses located in the UK. Secondly, the greater progress already made in this court and the lack of certainty that there will be jurisdiction in New York indicate that New York is not a more suitable forum than the UK.

## Case management

93. GW invited me to stay this action on the basis that Otsuka had failed to take part in good faith negotiations concerning those patents that Otsuka had not raised with GW before starting this claim. I decline to do so. GW were aware of the dispute over the nature of its product and Otsuka's claim that it was covered by the Agreement. GW had refused to take part in the arbitration which Otsuka commenced as a result. GW were thus well aware of the nature of the dispute and the introduction of further patents was not such as to raise a new dispute.

94. The agreement to hold good faith discussions was, in any event, meant to lead to an arbitration if it was not successful. As I have said, GW had already indicated that they would not arbitrate this dispute as they considered it to fall outside the scope of the arbitration agreement. There is thus no point in staying proceedings because GW's position is clear. If there has been an actionable breach of the Agreement that can be decided as part of the claim.

## Conclusion

95. GW's application contesting jurisdiction fails. The claim will not be stayed as a matter of case management.