



Because the licensee is worth it, L'Oréal v RN Ventures Limited

Claiming costs and expenses in UK High Court litigation as a licensee

We have previously written about some of the [reasons to record assignments and licences](#). In a recent decision the High Court of England & Wales reduced a licensee's damages award by 35% because it had failed to promptly record its exclusive licence - a costly consequence of ignoring the requirements of s. 68 Patents Act 1977.

In the first instance decision of *L'Oréal Société Anonyme & L'Oréal (UK) Limited v RN Ventures Limited* [2018] EWHC 173 (Pat), Mr Justice Carr decided in favour of the claimants (collectively L'Oréal) that RN Ventures Limited (RN) had infringed L'Oréal's patent and registered design rights. He also determined in L'Oréal's favour in relation to the validity of L'Oréal's patents – defeating RN's claim that L'Oréal's patents were invalid.

L'Oréal had roundly succeeded on the substantive issues but the court still had to decide on costs. In litigation in the English & Welsh courts, the “loser pays” principle applies. The winner can expect, therefore, to recover a proportion of its costs from the loser. The exact proportion of costs awarded will vary depending on the rules of the court and are generally subject to judicial pruning (judges have wide discretion in relation to cost awards – they may refuse to award “unreasonable” or “disproportionate” costs). As a result, the winner can expect to recover only a proportion, not 100% of its costs, from the defendant.

The cost decision ([\[2018\] EWHC 391](#)) is our focus in this article.

The UK's approach to licences and cost awards pre-L'Oréal

Under the Patents Act 1977 (PA 1977) it is not obligatory to record assignments or licences. Instead, the PA 1977 provides a stick to encourage parties to record assignments and licences, namely, s. 68, which states:

“Effect of non-registration on infringement proceedings. Where by virtue of a transaction, instrument or event to which section 33 above applies a person becomes the proprietor or one of the proprietors or an exclusive licensee of a patent and the patent is subsequently infringed [...] **before the transaction, instrument or event is registered, in proceedings for**



such an infringement, the court or comptroller shall not award him costs or expenses unless—

- (a) the **transaction, instrument or event is registered within the period of six months** beginning with its date; or
- (b) the court or the comptroller is satisfied that it was **not practicable to register the transaction**, instrument or event before the end of that period and that it was registered as soon as practicable thereafter.” (our emphasis and selection)

The wording of s. 68 was amended by statute in 2006 and the current wording (above) has only rarely been the subject of judicial consideration.

Prior to the 2013 decision of the UK Supreme Court in *Schutz v Werit* [2013] UKSC 16 it was considered possible that a successful licensee could reclaim all costs as from the date on which the transaction was recorded. The practical effect of this interpretation was to make licence (or other transaction) recordal one of a number of “tick box” items that a potential claimant would do prior to issuing an infringement claim. The licence would be recorded and then the claimant would start to incur the significant legal costs of the infringement action.

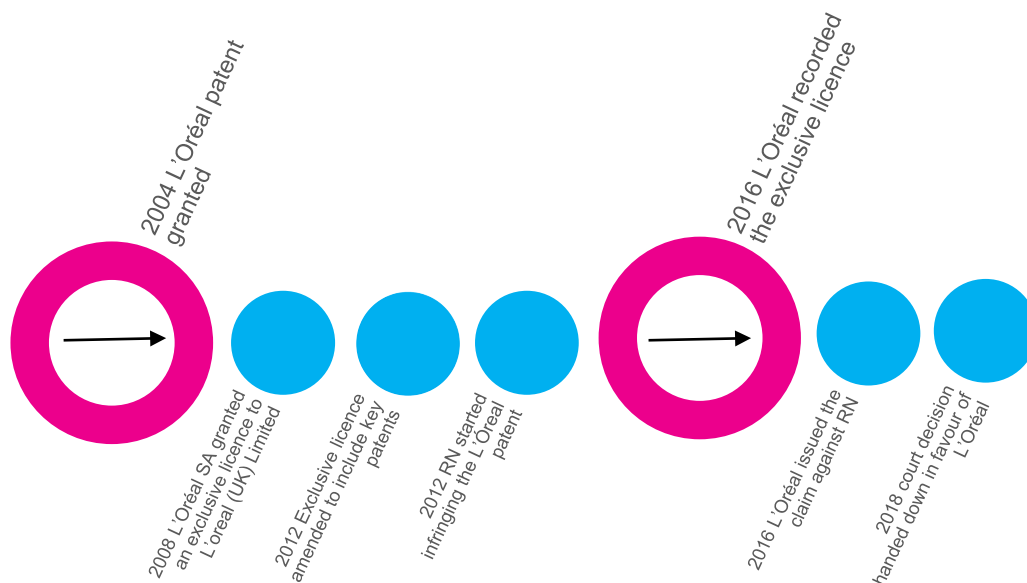
The Supreme Court in *Schutz v Werit* rejected this interpretation because it would “leave [s. 68] with very little bite”. In other words, the section would lack the necessary teeth to act as an effective mechanism to encourage parties to keep the patent register up to date.

The facts in L’Oréal

In *L’Oréal v RN*, the challenge for Mr Justice Carr was how to give s. 68 PA 1977 the appropriate dentures to give an appropriate decision on the apportionment of costs in the case.

Before turning to the judge’s apportionment of costs, a brief summary of the key facts:

The timeline:





There was, therefore, four years during which RN was infringing L'Oréal's patent after the licence was granted but prior to it being recorded. On the other hand, the licence was recorded in the same year that the claim was launched.

So, what proportion of its total legal cost was L'Oréal (UK) Limited and/or L'Oréal Société Anonyme entitled to recover?

Mr Justice Carr allocated the costs in this way:

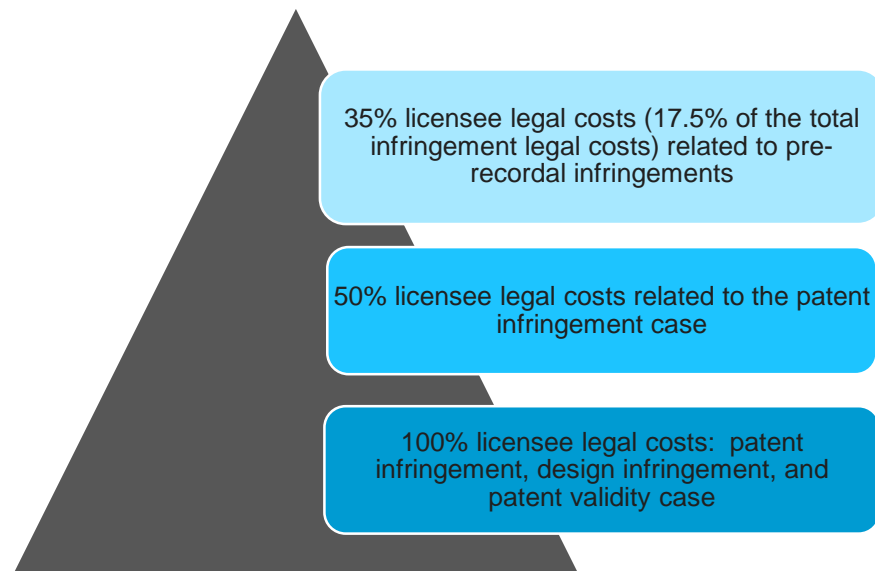
First, he considered the scope of the exclusive licence between L'Oréal (UK) Limited and L'Oréal Société Anonyme. L'Oréal Société Anonyme was the patentee and the scope of the licence was wide enough to enable both the patentee and its exclusive licensee (L'Oréal (UK) Limited) to bring an action as Claimant against RN Ventures and to recover damages.

As a result, because both L'Oréal parties were equally entitled to act as Claimant in the action, the legal costs (and recovery) were split 50/50 and any deduction was solely from L'Oréal (UK) Limited (the licensee).

Second, the judge only penalised L'Oréal (UK) Limited for costs it had incurred in the patent infringement case and which related to infringements that had taken place prior to the licence being recorded.

This meant that L'Oréal (UK) Limited could recover costs incurred in relation to the patent invalidity case, the design infringement case, and for a proportion of the costs of the patent infringement case which related to infringements which had taken place after the licence had been recorded.

The judge apportioned L'Oréal (UK) Limited (the licensee)'s legal costs as set out in the image below.



As shown above, the judge determined that the pre-recordal infringement costs incurred by the licensee related to 17.5% of the total legal costs (i.e. 35% of the licensee's share of the total legal costs). The judge therefore reduced the costs awarded to the licensee by 35% (a reduction on the overall cost award of 17.5%).



Practical tips

Clients often ask us why they should record a licence or what would be the negative impact of failing to record a licence. There are other good reasons for recording and for keeping the register up to date but this case provides a very tangible impact of a failure to record a licence – the threat of missing out on recovering legal costs. In another case the proportion of unrecoverable legal costs may have been higher for example if only the licensee had been a claimant or if there had been no invalidity action.

In our view this case provides two specific actions for patent infringement claims in which a licensee is intended to be a claimant in infringement proceedings:

- **Record the licence as soon as possible after execution.** Ideally within the six month period in s. 68, but if this is not practicable, as soon as possible thereafter and definitely as soon as the potential claimants become aware of a possible infringement – even before instructing counsel in relation to the infringement.
- **Check the terms of the licence – it is exclusive? If so, what is the scope of exclusivity?** Does it permit the licensor to bring proceedings as well as the licensee – if so this may help recover some costs if the licence was not recorded before the infringement commenced.

If you have any questions about licences, either those that you are considering entering into or existing licences which may need to be recorded, please get in touch with our Transactions Team.

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Need advice?

For more information, please contact:
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