

The effect of the principle of *res judicata* in patent litigation: Potentially invalid, but infringed?

The Constitutional Court adjudicated its first patent case in *Ascendis Animal Health (Pty) Limited v Merck Sharpe Dohme Corporation* (“*Ascendis* case”).¹ In 2011, Ascendis, the applicant, filed an application for the revocation of Patent 1998/10975 (“the patent”).² The applicant sought to argue, in terms of section 61 (1)(c) of the Patents Act 57 of 1978 (“the Act”), that the invention concerned was not patentable in terms of section 25 as it was not new and did not involve an inventive step.³ The applicant would argue these two grounds separately, with obviousness raised only if the novelty challenge was unsuccessful. The respondents objected to this approach as procedurally inappropriate. Regardless of the objection, the applicant only dealt with the lack of novelty. The High Court found that all claims lacked novelty and made no determination on obviousness. On appeal, the Supreme Court of Appeal (SCA) held that all claims were novel and ordered certification of the contested claims in terms of section 74 of the Act.⁴

Concurrently, the respondents had initiated an infringement action against the applicant, which was stayed to allow the revocation proceedings to conclude. When the infringement proceedings resumed, the applicant sought to amend its plea and raise obviousness and inutility as defences. The respondents opposed the amendment and sought to enter a plea of *res judicata*, relying on the SCA decision. The High Court agreed with the respondents and held that the certification of the contested claims by the SCA meant that the issue of patent validity was *res judicata*.⁵ Consequently, the application to amend the applicant’s plea was dismissed and leave to appeal was subsequently refused by the High Court and the SCA. As a last resort, the applicant approached the Constitutional Court.

The most important legal question before the Constitutional Court was whether the different grounds of revocation under section 61 constitute a single cause of action, or whether each ground constitutes a separate and independent cause of action.⁶ Furthermore, the *Ascendis* case raised two additional legal questions. The first question was whether an alleged

¹ *Ascendis Animal Health (Pty) Limited v Merck Sharpe Dohme Corporation* 2020 (1) SA 327 (CC).

² *Cipla Agrimed (Pty) Ltd v Merck Sharp Dohme Group*, unreported judgment of Teffo J as the Commissioner of Patents.

³ Novelty is a patentability requirement in terms of section 25(5), read with section 25(6), of the Act. Inventive step is another patentability requirement in terms of section 25(10).

⁴ *Merck Sharpe Dohme Group v Cipla Agrimed (Pty) Ltd* [2015] ZASCA 175; 2016 (3) SA 22 (SCA). The SCA also did not address the issue of inventive step.

⁵ *Merck Sharp Dohme Group v Cipla Agrimed (Pty) Ltd*, unreported judgment of van der Westhuizen J as the Commissioner of Patents (23 March 2018).

⁶ *Ascendis* at para [27] and [49] – [55].

infringer of a patent who was unsuccessful in prior revocation proceedings could raise a defence based on section 65 (4) during infringement proceedings, on any ground not previously raised in revocation proceedings. The second question was whether certification of contested patent claims in terms of section 74 of the Act amounts to certifying the validity of the patent in its entirety.⁷

The Constitutional Court handed down two diametrically opposed judgements. The first judgement written by Khampepe J concluded that the different grounds of revocation under section 61 constitute separate causes of action.⁸ In terms of this legal reasoning, the matter could not have been *res judicata* because defences for the lack of an inventive step and inutility constitute different causes of action. The second judgement penned by Cameron J concurred with the High Court in that the issue between the two parties was *re judicata* because the SCA's decision on revocation was conclusive on the validity of the patent.⁹ Due to the tie, there was no majority decision and consequently the decision of the High Court was not overturned. This article aims to shed light on the (in)correctness of the second judgement and the High Court, and the indirect undesirable consequences that may transpire under the current legal position.

The *ratio* of the second judgement is that allowing an alleged infringer, who unsuccessfully challenged the validity of a patent in revocation proceedings, to raise other invalidity defences during later infringement proceedings would amount to permitting piecemeal litigation. According to Cameron J, cycles of litigation would result in an incoherent patent litigation system where different sets of courts could reach contradictory determinations on the validity of the same patent.¹⁰ This view is partly understandable. However, section 74(2) of the Act permits fresh subsequent litigation over the validity of the same patent. Although this provision discourages cycles of litigation over previously certified claims, by allowing the court to exercise a discretion of granting punitive costs against *any party* that unsuccessfully contests certified claims, it does not prohibit another contestation.

In terms of section 74(1), if the validity of any claim(s) in a patent specification is unsuccessfully contested, the court may certify the contested claim(s) as valid. The certification of claims under this provision is not tantamount to certifying the patent as valid

⁷ *Ascendis* at para [43] – [48], [82] – [86] and [116] – [118].

⁸ *Ascendis* at para [52] and [67]. By extension, even under the single ground of section 61(1)(c), different causes of action arose because the material facts that need to be proven by a litigant in order to succeed differed for novelty and inventiveness objections.

⁹ *Ascendis* at para [139]. The second judgement applies issue estoppel as sub-species of the *res judicata*.

¹⁰ *Ascendis* at paras [108] – [110].

in its entirety.¹¹ This is evident from the fact that the grounds of revocation in section 61 are not all directed towards deficiencies in the claims, but also *inter alia* towards inutility of an invention. Therefore, a patent with certified claims may still be challenged on other grounds. For reasons stated above, it cannot be said that if the validity of a patent has been unsuccessfully challenged on one ground then the validity of the patent is *res judicata*, on all invalidity grounds. By definition, *res judicata* should be applicable to causes of action previously adjudicated on merits. Bearing in mind that a cause of action is made up of every fact which must be proved to give rise to an enforceable claim,¹² the ground of inutility under s 61(1)(d) constitutes a distinctly separate cause of action. This ground is sufficient on its own to give rise to an enforceable claim of revocation or to be raised as a defence in the infringement proceedings. Since the SCA did not adjudicate on and settle it, *res judicata* could not have been raised against the inutility challenge. Instead, the principle could have been raised against section 61(1)(c) challenge, the ground that had been settled on merits by the SCA, although limited to lack of novelty. However, it is debatable whether a single or multiple causes of action may arise under section 61(1)(c), which is a debate not covered by this article.

It is a different question whether *Ascendis* should not have abandoned obviousness and could have raised inutility in the earlier revocation proceedings. This is the question, which should have been the crux of this case as soon as *Ascendis* filed a notice of intention to amend its plea in the infringement action. Answering that question would not require the application of *res judicata*. Instead, it would call for the application of the doctrine of abuse of process.¹³ That would have sufficed in dealing with piecemeal litigation. Summarily, the Constitutional Court's impasse derives from answering an ill-conceived question stemming from the High Court.

In a strict sense, the two judgements concur that the grounds of revocation under section 61 constitute separate causes of action. The implications of this conclusion are that *res judicata*, in its strict form, could not be applicable in the *Ascendis* case. Cameron J resorted to employing "issue estoppel", which is an expansion of the *res judicata* doctrine.¹⁴ In appropriate cases, where the strict requirements of a valid plea of *res judicata* are not

¹¹ This is different from Section 65 of the United Kingdom's Patents Act of 1977, which refers to the certification of unsuccessfully contested patent.

¹² *McKenzie v Farmers' Co-Operative Meat Industries Ltd* 1922 AD 16.

¹³ (i) *Eli Lilly And Company v Genentech, Inc* [2020] EWHC 261 (Pat) at paras [69] – [80] and (ii) *Henderson v Henderson* [1843–60] All ER Rep 378.

¹⁴ Notably, Cameron J employed issue estoppel although the Respondents did not explicitly advance any argument to rely on issue estoppel. Even the High Court decision of van der Westhuizen J is not reasoned in phraseology of issue estoppel.

completely met because of the absence of the same cause of action and same relief, issue estoppel may be applied.¹⁵

To raise issue estoppel successfully, the party relying on it must establish that:

- (a) a final judicial decision has been made on a particular issue between the same parties;
- (b) the issue adjudicated and determined in the earlier proceedings was “necessary and fundamental to the court’s decision”; and
- (c) the issue raised in later proceedings is the same as the issue, which was finally determined in the earlier decision.¹⁶

Despite the second judgement having employed issue estoppel without the respondents having advanced any argument for its application, it is interesting how this principle was applied. Cameron J did not consider the abovementioned requirement (b). Spencer Bower and Handley provide a better explanation of the meaning of this requirement:

*“The determination must be fundamental, not collateral. An express decision will not necessarily create an issue estoppel. Only determinations which are necessary for the decision, and fundamental to it, will do so. Other determinations, however positive, do not.”*¹⁷

The Patents Court of England and Wales recently cited the above-quoted explanation with approval in *Eli Lilly And Company v Genentech*.¹⁸ In this case, issue estoppel and abuse of process were raised. The court upheld issue estoppel against claims previously found to be invalid due to lack of inventive step. However, Genentech was not estopped from arguing the issue of lack of plausibility, which was not previously adjudicated. The court considered the fact that Genentech’s plausibility argument had been filed too late to be adjudicated upon in the earlier decision.¹⁹ Again the inutility should have been regarded in the same manner during infringement proceedings in the *Ascendis* case.

¹⁵ *Prinsloo NO & others v Goldex 15 (Pty) Ltd & another* [2012] ZASCA 28 at paras [12] – [13]. The strict requirements of *res judicata* are that a matter should already have been decided by a competent court on the same cause of action and for the same relief between the same parties.

¹⁶ English law is rich in case law dealing with issue estoppel. The requirements for successfully raising issue estoppel are set out in (i) *Arnold and Others v. National Westminster Bank Plc* [1991] 2 AC 93; (ii) *Test Claimants in the Franked Investment Income Group Litigation v Revenue and Customs* [2020] UKSC 47 at paras [64]–[71]; and (iii) *Eli Lilly And Company v Genentech, Inc* [2020] EWHC 261 (Pat) at paras [49] – [60].

¹⁷ Bower GS and Handley KR *Spencer Bower and Handley: Res Judicata* 5th edition (LexisNexis London 2019) at para 8.23.

¹⁸ *Eli Lilly And Company v Genentech, Inc* [2020] EWHC 261 (Pat) at para. [51].

¹⁹ *Eli Lilly And Company v Genentech* at para [82].

The *Ascendis* case may appear as having little jurisprudential value. In our view, there are indirect undesirable consequences, which may transpire under the current legal position, as per the second judgement and the High Court decision. It may increase the likelihood of enforcing invalid patents. Under the existing position, if a third party were to successfully challenge the validity of the same patent on the grounds Ascendis sought to raise in the infringement action, the patent would be revoked. Since a revocation decision is applicable *erga omnes*, what then would happen if Ascendis had already been ordered to pay damages by the time the patent was revoked by a third party? It would mean the patent holder successfully enforced an invalid patent. In such a situation, the courts would reject claims of restitution, as suggested by foreign case law on patent litigation.²⁰

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²⁰ *LPG Systems v Reginald Wehrkamp-Richter*, Cour de Cassation, Case No 10-24.282, Ass Plen, 17 February 2012. *Eli Lilly Canada Inc. v Apotex Inc.* 2010 FC 952 (T-156-05, T-787-05),