FR – *Mermet v. Chavanoz Industrie*
The largest ever patent infringement damages award in Europe (€25,000,000) overturned on appeal; patent held invalid for lack of novelty because of a public prior use; no "*morning-after pill*" available to erase it

***Mermet v Chavanoz Industrie, cour d'appel de Lyon*, 12 September 2019, Docket № 16/06896**

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On 12 September 2019, the *cour d'appel de Lyon* (court of appeal) overturned a judgment handed down on 8 September 2016 by the *tribunal de grande instance de Lyon* (court of first instance) which found Chavanoz's patent EP 0 900 294 valid and infringed by Mermet.

The patent is for a composite yarn comprising a core composed of a continuous yarn made of glass and a coated sheath composed of a matrix consisting of PVC, and a fire-retarding filler incorporated into and distributed within the said matrix; such yarn is used for making solar protection fabrics (sunscreens).

In first instance, the *tribunal* set the damages to be paid by Mermet to Chavanoz at more than €25,000,000, the largest ever patent infringement damages award reported in Europe.

However, the court of appeal found the patent invalid for lack of novelty because Chavanoz sold the patented product before the priority date of the patent; to reach this conclusion, the court of appeal held that a confidentiality agreement drafted after such sales could neither prevent third parties from using these sales as evidence of the prior use nor erase the existence of such novelty-destroying disclosure (no "*morning-after pill*" available when the novelty requirement is concerned).

Background

Chavanoz, a French company located near Lyon, has been making and selling non-flammable composite yarns made of glass coated with PVC since the 1960s.

Chavanoz sold such yarns to several weavers throughout Europe (inter alia Mermet, a French company also located near Lyon, and Helioscreen, a Belgian company) for making sunscreens.

Absent any European harmonisation of the fire safety standards, the sunscreens sold in France had to comply with a French classification known as M1 according to NF standards, while the sunscreens sold in Germany had to comply with a German classification known as B1 according to DIN standards.

As a result, the sunscreen weavers had to manufacture two different lines of products, one for the French market (M1) another for the German market (B1), and to maintain stocks for both lines.

Around 1992, Chavanoz started the development of a yarn designed to meet both standards, a so-called "M1/B1" yarn, such that weavers would have to maintain only one stock for the sales to both France and Germany.

Between 1992 and 1996, Chavanoz delivered large quantities of a new yarn to some of its clients, notably Helioscreen.

On 9 April 1996, Chavanoz drafted a "Confidentiality agreement" that Helioscreen signed, stating that all the exchanges between Chavanoz and Helioscreen in connection with the development of the new yarn were confidential.

Four few weeks later, on 7 May 1996, Chavanoz filed a French patent application for a "*composite yarn*".

On 16 April 1997, it filed a European patent application under priority of said French patent application, which was published on 14 November 1977 and matured into EP 0 900 294, granted on 24 November 1999.

Claim 1 of Chavanoz's patent, as granted, reads (emphasis, indents and numbering added):

> *"Composite yarn comprising a core composed of a continuous yarn, especially made of an inorganic material, for example glass, and a coated sheath composed of a matrix consisting of at least one chlorinated polymer material, for example a polyvinyl chloride or PVC, and a fire-retarding filler incorporated into and distributed within the said matrix,* ***characterized in that****, in combination,*
> *on the one hand the fire-retarding filler comprises a ternary composition which combines (i) an oxygenated antimony compound, for example antimony trioxide, (ii) a hydrated metal oxide, the metal of which is chosen from the group consisting of aluminium, magnesium, tin, zinc and lead, for example an alumina hydrate, and (iii) a zinc borate and,*
> *on the other hand, together with the said ternary composition, the total weight content of inorganic matter in the yarn is between 4% and 65%."*

During several years thereafter, Chavanoz sold a yarn according to this patent to a number of weavers, including Mermet.

For commercial reasons, in 2005, Mermet started manufacturing yarns instead of purchasing it from Chavanoz.

Proceedings

In 2009, Chavanoz decided to launch patent infringement proceedings against Mermet (the proceedings were put on foot in July and August 2009, before the French procedural reform which conferred exclusive jurisdiction for the whole of France for patent disputes to the Paris court; as a result, the proceedings where brought before the court of Lyon, the *tribunal de grande instance de Lyon* which had, at that time, territorial jurisdiction for Mermet's place of business).

Before the court of first instance, Mermet challenged the validity of Chavanoz's patent EP 0 900 294 on several grounds:

- insufficiency;
- lack of novelty, because Chavanoz sold the patented product before the priority date of the patent;
- obviousness.

Mermet also denied any infringement because it was not using, in the fire-retarding filler, a zinc borate, as required by Chavanoz patent, but instead zinc hydroxystannate.

In a judgment handed down on 8 September 2016, the *tribunal de grande instance de Lyon* found Chavanoz's patent valid and infringed by Mermet.

The judgment held that the invention was properly described in the patent specification such that the insufficiency argument failed.

On novelty, the *tribunal* decided not to take into account the documents submitted by Mermet as evidence of the sales of the product prior to the validity date of the patent.

It held that such documents were not admissible in court, because they were communicated to Mermet by Helioscreen although the confidentiality agreement made on 9 April 1996 between Chavanoz and Helioscreen provided that any document exchanged during the development of the new product should be held confidential.

As a result, Mermet's lack of novelty argument was dismissed, because no admissible evidence supported it.

The *tribunal* also dismissed Mermet's argument about obviousness.

Finally, the *tribunal* said that Mermet had infringed Chavanoz's patent, although it was using zinc hydroxystannate instead of zinc borate, as prescribed by the patent, because the function of both compounds in the application was the same: to provide a fire-resistant yarn.

In view of the quantities of yarn manufactured and sold by Mermet and of the profit lost by Chavanoz, the *tribunal* assessed the damages suffered by Chavanoz at €25,320,946, the largest ever patent infringement damages award reported in Europe according to darts-ip cases database.

Mermet appealed against the *tribunal*'s judgment before the court of appeal of Lyon.

The decision handed down by this court on 12 September 2019 reverses the *tribunal*'s judgment.

Overview of the judgment handed down by the court of appeal of Lyon on 12 September 2019

The 12 September 2019 judgment is structured as follows:

1) Chavanoz's request to set aside certain exhibits from the discussion before the Court fails: all the exhibits adduced by Mermet as evidence of prior public use of the invention by Chavanoz are admitted for discussion, notwithstanding the "confidentiality agreement" of 9 April 1996 (judgment, page 10);

2) A disclosure of the invention prior to 7 May 1996 is duly evidenced (page 12):

   a) Chavanoz did sell and deliver to Helioscreen tens of tons of M1/B1 yarn prior to 7 May 1996, the priority date of the patent (page 13);

   b) fabrics made from M1/B1 yarn delivered by Chavanoz to Helioscreen for manufacturing screens, were sold to third parties prior to 7 May 1996 (page 14);

   c) a company which disclosed its invention to a business partner not subject to a confidentiality obligation at the time of disclosure cannot erase the existence of such novelty-destroying disclosure by drafting a confidentiality agreement *a posteriori* (page 16);

   d) the methods of analysis available to the skilled person on the priority date of Chavanoz's patent enabled him to discover the composition of the product by analysing the M1/B1 yarn or the fabric made from this yarn (page 17):

      - the samples that Mermet had analysed are relevant and admissible (page 18);
      - the expert reports show that the analysis methods available in 1996 made the access to the invention possible by analysing the chemical composition of the fabric made from the M1/B1 yarn manufactured by Chavanoz (page 19).

Four issues are of legal interest:

- admissibility, as evidence in court, of documents relating to the development of a new product, notwithstanding a confidentiality agreement;
- whether there was an implicit agreement on secrecy between the manufacturer of the new product and its business partners about the development of the said product;
- whether a confidentiality agreement drafted after a prior public use can erase it ("*morning-after pill*");
- availability of an invention to the public, when the invention concerns the chemical composition of a product which can be known only by an analysis.

These issues are discussed below.

Admissibility, as evidence in court, of documents related to the development of a new product, notwithstanding a confidentiality agreement

The court of appeal starts by reminding (page 10 of the judgment) the French legal rules on the burden of proof and the duty of the courts "*to contribute to the manifestation of truth by ensuring that the rights and freedoms of individuals are respected, in particular by ensuring the protection of certain specific rights and by monitoring the manner in which evidence is obtained by the parties, and, therefore, by verifying that the methods employed have respected the rights of individuals*".

Turning to the confidentiality agreement signed on 9 April 1996, the court of appeal holds that, because its only purpose was to try and ensure the confidentiality of the object of the invention, which was the subject matter of a patent application to be filed afterwards, the confidentiality agreement lapsed when this application was published eighteen months later:

"the above-mentioned confidentiality agreement lapsed on 14 November 1997, the effective date of the publication of the international patent application filed under French patent priority by Chavanoz on 7 May 1996, with the result that the confidentiality of the technical information no longer needed to be preserved; as a result of this lapse, Helioscreen was released from its obligation of confidentiality and could therefore provide Mermet with the agreement at issue for the purposes of the legal proceedings, the Court observing that Chavanoz does not invoke fraud on this account on the part of Helioscreen, which it did not bring into the proceedings".

The court of appeal further notes that "*The exhibits communicated by Mermet and whose dismissal is requested by Chavanoz Industrie consist of invoices or other documents exchanged between Chavanoz Industrie and Helioscreen, not only during the confidentiality period referred to in the above-mentioned agreement but also before or after for some of them; they are not, in themselves or by operation of law, exhibits of a confidential nature prohibiting any communication in court, even by third parties. Unless Mermet is disproportionately denied any right of access to the evidence of disclosure that it invokes as a ground for invalidity of the patent, it is important that the court be able to examine these exhibits*".

Existence of an implicit agreement on secrecy between the manufacturer of a new product and its business partners about the development of the said product

The court of appeal starts by recalling that an implicit agreement of secrecy is not presumed in the relationship between a manufacturer and its business partners:

"It is not disputable that at the time of the deliveries by Chavanoz Industrie to Helioscreen of the M1B1 yarn under the conditions defined above, no written confidentiality agreement had yet been signed between these companies.

No mention of the confidential nature of the documents, whether technical or commercial, communicated between Chavanoz Industrie and Helioscreen before 7 May 1996, the priority date, was made on the documents produced in the proceedings; no letter, fax or e-mail was exchanged to this effect between the parties.

Confidentiality is never presumed in the context of a relationship with a buyer and the mere existence of commercial relations between the above-mentioned companies and Mermet and another weaver (Brochier) cannot be sufficient to demonstrate in this case that all these companies, which were then partners in an association and an Economic Interest Group for the promotion of blinds, had nevertheless intended to be bound to Chavanoz Industrie by an obligation of confidentiality".

No "*morning-after pill*" for prior public use: a confidentiality agreement drafted after a prior public use cannot erase it

The judgment's most interesting contribution is probably that there is no "*morning-after pill*" where the novelty requirement is concerned.

In this respect, the court decides that, when sales have been made without any agreement of secrecy, thereby putting the product sold in the public domain, such novelty-destroying disclosure cannot be erased by drafting *a posteriori* a confidentiality agreement:

"It is therefore important to know whether a company which has disclosed its invention to a partner not subject to a confidentiality obligation at the time of disclosure can erase the existence of such potentially novelty-destroying disclosure by concluding a confidentiality agreement a posteriori.

The public policy provisions of patent law prohibit parties to a contract, even by a retroactive effect conferred on it, from depriving a disclosure already made of its legal effects.

An invention is made accessible to the public when it is disclosed to a person who was not bound by secrecy at the time of disclosure, so that the clause of retroactivity of the abovementioned confidentiality agreement has no effect in this case on the assessment of the validity of the patent.

It is thus established that the M1B1 yarn having the characteristics of the patent and the fabric made from that yarn were disclosed before the priority date of the patent (7 May 1996) to a person not bound by an obligation of confidentiality".

Availability of an invention to the public, when the invention concerns the chemical composition of a product which can be known only by an analysis

The court reminds the legal rules accepted by case law of both French courts and the EPO Boards of Appeal:

"Under Article 54 of the European Patent Convention, for an invention to be made available to the public, the public should be made aware of it by means of a written or oral description, by use or in any other way. A prior use is novelty-destroying only if the skilled person was able to discover the product's composition without undue difficulty and without having been informed beforehand of this composition."

After a detailed analysis of the samples that Mermet had analysed, which it finds relevant and admissible (page 18), the court of appeal concludes that the expert reports show that the analysis methods available in 1996 made the access to the invention possible by analysing the chemical composition of the fabric made from the M1/B1 yarn manufactured by Chavanoz (page 19):

"It is thus established by the overall aforementioned scientific elements that the analysis methods and the scientific knowledge available in 1996 made the discovery of the invention possible by analysing the chemical composition of the fabric made from the M1B1 yarn manufactured by Chavanoz Industrie. ... It is therefore established that the yarn and the fabric, as well as the composition the subject-matter of this patent were made accessible to the public before the priority date of 7 May 1996, so that the invention was, on the priority date, already part of the state of the art, resulting in making the claims of this patent invalid for lack of novelty."

In view of this finding, the court of appeal overturns the *tribunal*'s judgment, finds Chavanoz's patent EP 0 900 294 invalid for lack of novelty and dismisses Chavanoz's claim for infringement.