JUDGMENT : Mr. Justice Laddie: Chancery Division. 10th November 2004.

1. I have before me this morning an application brought by the defendants in this action, Cipla Limited and Neolab Limited, to strike out the current proceedings. The claimant is Schering Corporation. It is the registered proprietor of patent EP UK 0152897.

2. On 6 July 2004, Mr. Amar Lulla, the joint managing director of Cipla, wrote to the chief executive officer of the claimant, or another company within the claimant's group, in the following terms:
"Without prejudice.
Dear Sirs, you may be aware of Cipla Ltd, India and its strong international franchise in the development and marketing of Products of various therapeutic categories. Cipla Ltd has developed tablet and syrup of Desloratadine. We wish to launch these products in Europe, particularly in UK with our strategic partner Neolab Limited.
We are aware of your patent EP 0152897 and of the SPC's in respect thereof. As a result of extensive investigations including professional and expert advice, we have received strong opinions confirming our view that this patent is invalid, especially in the light of the prior use of Loratadine and its inevitable conversion to Desloratidine.
We and our partners have no wish, whatsoever, to launch the product without first bringing our plans to your attention. We do not wish to embark upon the confrontational path of revocation if there is an alternative commercial solution acceptable to both parties. However, we must make it clear that, if there is no such solution, we will not delay seeking revocation of your patent prior to launch of our product.
Since this matter is some urgency to us, we would be glad to receive your early response. We would of course be pleased to meet and discuss matters with you in greater confidence, without prejudice, with your nominated intellectual property colleagues. If we do not hear form you within four weeks from the date of this letter, we shall presume that you do not wish to initiate any discussions and that we are at liberty to proceed ahead in this matter, as deemed appropriate.
With kind regards, your sincerely."

3. Schering did not respond to that by entering into negotiations with Cipla. Rather, it applied to Master Moncaster on 6 August of this year to serve the current infringement proceedings out of the jurisdiction on the two defendants. That application was successful.

4. The only basis upon which the allegation of infringement is put is the content of the Cipla letter of 6 July 2004. The parties agree that if the contents of that letter are to be treated as privileged because they are without prejudice, then Schering has no material it can rely upon for the purpose of its infringement action and these proceedings must be struck out. On the other hand, if the contents of that letter are not privileged, as I understand it, at least for the present, the defendants admit that there is sufficient pleaded to defeat the current application to strike out.

5. Therefore the dispute before me is simply as to the question of whether or not this letter is privileged.

6. I have had the benefit of careful arguments, both from Mr. Colin Birss for the defendants and Mr. Simon Thorley QC for Schering. They took me to three authorities in the Court Of Appeal which throw light upon the way in which a court should approach this question.

7. I start with what is chronologically the last case, namely ***Standrin v Yenton Minster Holmes Limited***, an unreported decision of the Court of Appeal of 28 June 1991. In that case Lloyd LJ, having referred to two earlier decisions of the Court Of Appeal, namely ***South Shropshire DC V Amos***[1986] 1 WLR 1271 and ***Buckinghamshire County Council v Moran*** **[**1990] Ch 623, said: *"The principle to be derived from these authorities, if it can be called principle, is that the opening shot in negotiations may well be subject to privilege where, for example, a person puts forward a claim and in the same breath offers to take something less in settlement, or, to take Parker LJ's example in South Shropshire DC V Amos, where a person offers to accept a sum in settlement of an as yet unquantified claim. But where the opening shot is an assertion of a person's claim and nothing more than that, then prima facie it is not protected. Where the claim is by an insured against his insurers, the insurers will usually be entitled to a reasonable time to consider the claim before deciding whether to accept it or not. How, then, do documents 1 to 8 measure up against that test? The answer is clear: there is nothing which could properly be called a negotiating document until the plaintiffs' solicitors' letter of 9th May 1985, document 11, which was, as it happens, the first letter marked 'without prejudice'."*

8. Mr. Thorley places particular reliance upon the sentence reading: "*But where the opening shot is an assertion of a person's claim and nothing more than that, then prima facie it is not protected.*" That, he says, accurately describes Cipla's letter of July, which I have set out above.

9. The next authority I should refer to is the ***South Shropshire*** case. There a document had been sent by one party to the other which contained nothing but assertions of that party's rights and entitlements. The question was whether, notwithstanding the fact that it was so expressed, it was nevertheless to be treated as a negotiating document, a privileged document, because it was to be treated as being without prejudice

10. In the Court Of Appeal, Parker LJ referred **to *Cutts v Head*** [1986] 1 WLR 1271 which sets out the policy considerations behind the without prejudice privilege. He went on to say as follows: "*That passage is important for two reasons. First, it shows that the rule depends partly on public policy, namely the need to facilitate compromise, and partly on implied agreement. Secondly, it shows that the rule covers not only documents which constitute offers but also documents which form part of discussions on offers, i.e. negotiations.*

    In the present case the claimant had indicated from the very outset that he wished, through his agents, to negotiate. There was then correspondence leading up to the letter which preceded Document A. That letter certainly indicated that the document when submitted was intended to be 'open' but when produced it was marked 'without prejudice'. This prima facie means that it was intended to be a negotiating document. The prima facie inference, therefore, is that the agents had changed their intention. This might have been displaced had there been evidence that, when tendered, it was so tendered on the same basis as originally indicated, but there was no such evidence and it is not without significance that when the question was first raised by the council's solicitors in their letter of 17 February 1984 they did not say that Document A or its successor were 'open'. It was contended merely that it was impossible to make an effective 'without prejudice' offer. That contention was not pursued before us, in our view, rightly. It is without foundation. Bearing in mind the original expressed intention to negotiate, the fact that there was a dispute in existence, that it is common practice for such claims to be the subject of negotiation before the parties resort to a reference to the Lands Tribunal, and that the document was clearly marked 'without prejudice', we have no hesitation in concluding that those words should be given their ordinary effect." (p 1277)

11. Later on, he said: "*In order to avoid any possibility of future unnecessary disputes about such matters we conclude by stating that we agree with the judge (a) that the heading 'without prejudice' does not conclusively or automatically render a document so marked privileged; (b) that, if privilege is claimed but challenged, the court can look at a document so headed in order to determine its nature; and (c) that privilege can attach to a document headed 'without prejudice' even if it is an opening shot.*" (p 1277-8)

12. It seems to me a number of principles arise out of or are confirmed in this judgment. First, it reiterates the policy reasons behind the privilege which it had identified from the decision in ***Cutts v Head***. There is a public policy benefit in helping parties who are attempting to negotiate settlements. It is always better if litigation can be avoided where there is some possibility of negotiations resolving a dispute. The privilege attaching to without prejudice documents is there to support that policy.

13. Second, it seems to me that the Court of Appeal indicated that in determining the nature of correspondence and, in particular, in determining whether or not it is to be treated as bona fide without prejudice, it is necessary to consider all the circumstances. In that case, the common practice of negotiating when a reference to the Land Tribunal was in prospect was one factor which the Court of Appeal took into consideration. But it also took into consideration the fact that the document was headed with the words "without prejudice". As Parker LJ made clear, merely putting those words on a document does not conclusively mean that the document is privileged. However, the occurrence of those words may well be an important factor in determining the document's status.

14. Behind this, it seems to me, is the following principle. The court has to determine whether or not a communication is bona fide intended to be part of or to promote negotiations. To determine that, the court has to work out what, on a reasonable basis, the intention of the author was and how it would be understood by a reasonable recipient. If a document is marked '*without prejudice*', that is some indication that the author intended the document so to be treated as part of a negotiating process, and in many

cases a recipient would receive it understanding that that marking indicated that that was the author's intention.

15. As Parker LJ said, the heading "*without prejudice*" is not conclusive, but it may be one of the factors which indicates how one should assess the document itself.

16. The third authority is the ***Buckinghamshire County Council*** case. It seems to me that there is only one passage which I need to refer to in that in the judgment of Slade LJ. It is at page 635 and it reads as follows: *"I think the judge was right to regard the relevant question as being whether or not the letter of 20 January 1976 could properly be regarded as a negotiating document. But I respectfully disagree with his conclusion that it could. As the judge himself said, and as the letter itself indicated, the defendant was writing the letter in an attempt to persuade the council that his letter was well founded. As I read the letter, it amounted not to an offer to negotiate, but to an assertion of the defendant's rights, coupled with the intimation that he contemplated taking his solicitor's advice unless the council replied in terms recognising his asserted rights. I cannot derive from the letter any indication, or at least any clear indication, of any willingness whatever to negotiate".*

17. As I understand Mr. Birss's submission, that passage illustrates one extreme. That is to say, where a document clearly indicates that there is no willingness to negotiate, it cannot be covered by without prejudice privilege. But, he says, this is not such a case. He emphasises the first sentence in this extract from Slade LJ's judgment, namely that the relevant question is whether or not the letter under consideration can properly be regarded as a negotiating document. As I understand it, both he and Mr. Thorley agree that this was the crucial question. Can the document be regarded as a negotiating document? If so, and if it is clear that it is intended by the author to be treated as without prejudice, it must be covered by the privilege.

18. It is also clear from these authorities that the opening shot in negotiations can, depending upon the circumstances, amount to bona fide without prejudice correspondence and be privileged accordingly.

19. The question here is whether or not the letter of 6 July is a negotiating document. In assessing it, I shall try and put myself in the position of the reasonable recipient so as to determine the message it conveys. In my view the message is perfectly clear. As is common in correspondence between parties who face potential litigation, the author maximizes the strength of his case. That is what the first two paragraphs do. They say that Cipla is confident, on the basis of legal advice, that Schering's patent is invalid. But if that was all that Cipla was doing, first of all, it need not have written this letter to Schering at all; it could simply have entered the market. Or it could have then stopped the letter at the end of the second paragraph. But the author did not do that. Instead, he said that he was prepared to avoid a path of confrontation if there was "an alternative commercial solution acceptable to both parties".

20. In my view, what that amounts to is an indication that Cipla wished to talk. The first two paragraphs, if taken literally, meant that there was nothing that they could offer Schering, because the patent in their view is invalid. However, what they are saying in the third paragraph is that a commercial solution acceptable to both parties would be preferable. Such a solution clearly would involve Schering getting something out of the negotiations.

21. The fourth paragraph it seems to me is once again the sort of paragraph which one would expect from a party wishing to emphasize to its potential negotiating partner the strength of its case. It says that absent an objection from Schering, Cipla will feel at liberty to go ahead, presumably by importing products into the UK market. Once again, it seems to me that it is common, indeed normal, for one party to assert that its confidence is so great in the correctness of its position, that it feels that it is safe to proceed without regard to the other side's position if negotiations are not entered into and resolved satisfactorily. But the overall message continues to be one of wishing to negotiate. True enough, as Mr. Thorley argues, this letter is expressed in terms which suggest that it is Schering who have to ask for negotiations; but that is form rather than substance. This is an invitation, as I read it, to Schering to negotiate. The heading "without prejudice" reinforces that message. I have no doubt at all that this was a negotiating document and for that reason is covered by the without prejudice privilege. In the result, Schering is not entitled to refer to it in its particulars of infringement and the action must be struck out.

MR. SIMON THORLEY QC (instructed by Messrs. Bird & Bird) for the Claimant
MR. COLIN BIRSS (instructed by Messrs. Taylor Wessing) for the Defendants

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