

BLO/ 145/83

IN THE MATTER OF an application  
for a compulsory licence under  
Patent No 1429478 by Montgomerie  
Reid Limited

and

IN THE MATTER OF an opposition  
thereto by Hamech Holding Company  
Limited

Application is made by Montgomerie Reid Limited under Section 48(1) of the Patents Act, 1977 for a compulsory licence under Patent No 1429478. The application is opposed by Hamech Holding Company Limited (hereinafter called the opponents), the exclusive licensees of the patentees Ransomes Sims and Jefferies PLC.

At a hearing before me on 13 and 14 June 1983, Mr P Prescott appeared as Counsel for the applicants and Mr W B Spalding appeared as Counsel for the opponents.

The patent, which was based on a provisional specification filed 3 October 1972 and a complete specification filed 2 October 1973, was published on 24 March 1976. It relates to an improvement in reach trucks. A reach truck is an industrial truck of the general type commonly termed fork-lift trucks in which a load bearing platform or fork is movable up and down a mast mounted on the body of the truck. The particular feature which characterises a reach truck is that the mast is movable towards and away from the body of the truck. It is common ground that the present invention as claimed resides in the reach mechanisms.

For the purpose of the present application the nature of the invention can be sufficiently determined by a perusal of the claims. Claim 1, the main claim, reads as follows:-

"1. A reach truck comprising; a frame; a pair of parallel guides forming a lower part of the frame and mutually spaced transversely of the truck, the guides defining a first plane; a mast supported on and reciprocally

movable along the guides, and a mechanism for moving the mast along the guides between an extended and a retracted position, said mechanism including a lever pendantly mounted on an upper part of the frame for rotation about a pivotal axis parallel with said first plane, said pivotal axis being fixed relative to the frame, means for rotating the lever about its pivotal axis, and a link having a first pivotal connection with the mast in the vicinity of said first plane and a second pivotal connection with the lever at a location on the lever remote from its pivotal axis, the second pivotal connection being, in the retracted position of the mast, located to the side remote from the mast of a second plane normal to the first plane and containing said pivotal axis of the lever, the attitude of the link relative to the first plane ensuring that during the entire movement of the mast on extension or retraction thereof the force transmitted through the link has a major component parallel with the guides".

The applicants initially relied solely on the ground specified in Section 48 (3)(a):-

Where the patented invention is capable of being commercially worked in the United Kingdom, that it is not being so worked or is not being so worked to the fullest extent that is reasonably practicable.

In their statement the applicants indicated that on 3 April 1981 the patentees' agents wrote directing their attention to the patent in suit . The applicants replied on 20 October 1981 seeking a licence but no offer being made on terms acceptable to them, the application was filed on 17 November 1981.

In response the opponents in their counter statement indicated that in the present economic climate, manufacture and sales under the patent had not been commenced although negotiations were in progress which could result in such manufacture or sales in this country. The opponents accordingly opposed the application relying on Section 48(5):-

Where the application is made on the ground that the patented invention is not being commercially worked in the United Kingdom or is not being so worked to the fullest extent that is reasonably practicable and it appears to the Comptroller that the time which has elapsed since the

publication in the journal of a notice of the grant of a patent has for any reason been insufficient to enable the invention to be so worked, he may by order adjourn the application for such period as will in his opinion give sufficient time for the invention to be so worked.

At the hearing, in the absence of objection from either party I admitted further evidence under Rule 71(4) this being the declaration for the opponents by Messrs Coleman, James and Gaskin filed on 20 May 1983 and the declarations for the applicants by Messrs Chessells, Evans and Ward filed in the week preceding the hearing. Mr Prescott also sought amendment of the applicants' pleadings to include the further ground specified in Section 48(3)(d)(iii), namely

that by reason of the refusal of the proprietor of the patent to grant a licence on reasonable terms, the establishment or development of commercial or industrial activities in the United Kingdom is unfairly prejudiced.

This ground had been sufficiently dealt with in the evidence and I allowed the pleadings to be amended and a supplementary statement and counterstatement were filed during the course of the hearing.

In the event this proved to be of no great moment since Mr Spalding made it clear that the opponents no longer opposed the grant of the licence and the parties agreed that the only matter still in issue was the royalty.

The position accordingly is that up to the present, over 7 years from grant the opponents have not manufactured or sold reach trucks according to the patented invention in this country, and there is no indication that they will be in a position so to do in the immediate future. They in my view very properly have not pursued their case that they have not had sufficient time to work the invention. Furthermore for reasons set out herebelow I am satisfied that the opponents have not been willing to grant a licence on reasonable terms. Accordingly I find that the applicants succeed on both grounds pleaded.

The evidence establishes that the applicants have since 1980 been producing and selling in this country substantial numbers of reach trucks termed the R3 and R4 Series Reach Trucks. While the applicants make no general concession

that the R3 and R4 trucks infringe the patent, Mr Prescott accepted that for the purpose of these proceedings I must presume that the R3 and R4 trucks infringe the claims of the patent and that the patent is a valid patent. Validity is not a matter that can be questioned in these proceedings. The applicants' position is that a compulsory licence under reasonable terms which take into account the economic position of the industry is necessary to ensure that the invention will continue to be worked in the United Kingdom. I am satisfied that the provisions of Section 50(1) taking into account the matters set out in Section 50(2) would be met by the grant of a compulsory licence to the applicants.

The main point at issue between the parties is the matter of the royalty to be awarded. The opponents have offered a licence with a royalty of 6.5% of the ex works price of vehicles as delivered to the customer in respect of all future and past sales. Since the average ex-works price in 1982 of the R3 and R4 was £14646 this offer would in 1982 have amounted to about £950 a truck. The applicants suggested either a fixed royalty of £1500 payable annually in advance or 0.5% of the ex works cost of the reach mechanism. Their evidence is that the reach mechanism is constituted by a hydraulic ram and the linkage connecting the ram to the mast and that the standard manufacturing cost of this reach mechanism is £237 as opposed to the standard manufacturing cost of the whole truck which is £10395. Their calculation for the royalty is thus 0.5% of  $14640 \times \frac{237}{10395} = £1.66$  per truck.

Mr Evans, who was for many years actively involved with patent licensing and became patent licensing manager of EMI, in his evidence for the applicants at first supported this royalty although he did concede later after he had been advised that the validity of the patent was not a consideration in these proceedings that a rate of  $2\frac{1}{2}\%$  on the reach mechanism or £8.30 per truck was a reasonable royalty. There was some late evidence from Mr James for the opponents that if it were decided that the royalty should not be based on the reach truck but on that part of the profit that was attributable to the true value of the reach mechanism in respect of the success of the R3 and R4, then 50% of his estimate of the profit on each truck, viz £3600, was attributable to the reach mechanism and that the royalty on this should be 30% amounting to £540 per truck.

Where expert evidence leads to such disparate views as the above, and where the one supports a royalty which to my mind is ludicrously low whereas the other

supports a royalty which the applicants could not afford to pay, I have to look for guidance as to where between these unacceptable extremes the royalty should be. In this respect the evidence gives me less assistance than I would have hoped for.

In deciding the royalty, I must have regard to Section 50(1) which directs that the powers of the Comptroller in these matters should be exercised with a view to securing the following general purposes:-

- (a) that inventions which can be worked on a commercial scale in the United Kingdom and which should in the public interest be so worked shall be worked there without undue delay and to the fullest extent that is reasonably practicable.
- (b) that the inventor or other person beneficially entitled to a patent shall receive reasonable remuneration having regard to the nature of the patent.

The purpose set out in Section 50(1)(c) has no bearing on this case.

From the evidence it appears that the market for fork lift trucks is highly competitive that well known firms no longer manufacture because of the difficulty of achieving worthwhile profits and that the applicants have been enabled to stay in business mainly through the success of the R3, R4 trucks. The R3 is the three wheeled version of the four wheeled R4. Both are high load, high lift reach trucks of good quality and have been able to resist the competition from imports from Japan and Europe.

The embodiment described and illustrated in the patent in suit is said by the opponents to be directed to a lower load and lower lift truck (relative to the R4) that first Ransomes and then the opponents had in mind to market. The opponents say that they intend to manufacture such a truck when commercial factors permit but even so they have no intention to use their patent in respect of the high load high lift trucks. Thus the grant of a non exclusive licence fulfils the first purpose of Section 50(1) in that it allows the applicants to continue manufacture of the R3 and R4 they being at present the only manufacturer in this country of trucks in accordance with the invention and would not prevent the opponents or any one else if they could obtain a licence from the opponents putting

the invention into use in the United Kingdom. This purpose however would be negated if the royalty were such that the applicants could not bear. This then is the one constraint on the royalty whereas the other is the need to provide the opponents with a reasonable return.

There are a number of factors which could perhaps have a bearing on the royalty rate. That the licence is to be non-exclusive and that it is unlikely to bring the applicants into competition with the opponents are both factors that suggest the royalty should not be high.

The applicants developed the R3 and R4 completely independently of the opponents and were not aware of the patent until the R3 and R4 were marketed. They have a well developed product that has been successfully marketed, and there is no question of transfer of know-how from the opponents to the applicants at any time. This again suggests that the royalty should not be high.

The next factor is the position that the applicants are now in. In these proceedings there is a presumption that the patent is valid and infringed by the applicants. They concede that it would be time consuming and expensive to modify the reach mechanism of the R3 and R4 to avoid infringement. To some extent therefore it is arguable that the opponents hold the whip hand in the negotiations. However both Counsel submitted, rightly in my view, that in compulsory licence proceedings the royalty should be determined on what would result from negotiation between a willing licensor and a willing licensee. Therefore in my view the royalty should not be affected by the fact that the applicants are to be presumed to have been infringing and in this respect the applicants are in the same position as an applicant having the know-how and capable of starting production as soon as a licence is granted.

Another matter that is dealt with at some length in the evidence is the merit or lack of it of the invention. The applicants say that the invention is a paper invention and that the disclosure has no technical merit and could not be put into commercial use. There is evidence that the embodiment described and shown would be unsuitable particularly for a high lift/high level reach truck in view of the disposition of the hydraulic cylinder and the 5:1 working relationship of the lever transmitting the movement of the cylinder. There is also evidence that there are alternative workable reach mechanisms successfully employed by competitors and it is submitted by the applicants that they have

merely been unfortunate in infringing a paper patent and that a very low royalty is accordingly applicable.

I find this argument difficult to accept. Firstly the particular embodiment described and shown was not described as being for high lift/high load trucks and there is expert evidence that it was intended for and would have worked in the reach trucks which Ransomes and the opponents were contemplating producing. As is normal in patent specifications, and as is stated in the present specification, the description with reference to the drawings describes an example of the invention. It is for the designer to adapt an invention to the particular requirements specified for his design. The applicants designed and put into production a reach mechanism falling within the applicants claims and it is to the claims to which one should go to ascertain the important features of an invention. There is no reference to the working ratio of the lever in the claims and it is not until one gets to claim 4 that an upright hydraulic ram is mentioned. That there are alternatives does not in my view materially affect the position on the royalty in this application. By applying for a licence the applicants are seeking to make use of the invention and therefore I think there is a presumption in compulsory licence proceedings that the invention has merit otherwise why should it be used.

There is also the evidence of Mr James for the opponents. Mr James was in the employ of the applicants first as Chief Engineer and then as Marketing Director until he moved to the opponents at the end of 1979. He says and he was in a position to know, that the most significant weakness of the old Montgomerie Reid design was the reach mechanism, that other areas of concern could have been dealt with by a facelifting exercise but that in a reach truck the reach mechanism is fundamental and it was because of the need to redesign the reach mechanism that it became necessary to produce a new model. He adds that by 1979 the reach mechanism of the old product was so troublesome as to be putting the product at risk. The R3 and R4 were developed with a new reach mechanism and proved to be successful. It was the redesigned reach mechanism that came within the terms of claim 1 of the patent.

While I accept that the invention is not a completely new departure of a surprising and earth shaking nature, I think for the purposes of the royalty I ought to take the view point that it represents a worthwhile improvement that the applicants wish to continue using and this suggests that a normal level of royalty should apply.

Next there is the question as to whether the royalty should be based on the whole truck as the opponents contend or on the cost of the cylinder and linkage comprised in the reach mechanism as the applicants say. In setting the royalty I am required by the Act to have regard to the nature of the invention. As I have already said I see the nature of the invention for the present purpose as being a worthwhile improvement in the reach mechanism of a reach truck. Even though the claims are to a reach truck, the components of the truck specified in the claims are all concerned with the mast and the support and movement of the mast. The invention is not concerned with other parts of the truck eg its steering and drive mechanisms, raising and lowering mechanism for the load platform, or power supply. Therefore I am satisfied that the applicants are right when they say that the royalty should not be a normal percentage based on the whole truck.

I am however also satisfied that the applicants can not be right when they say that the royalty should be based on the cost of the parts of the reach mechanism which they define as the ram and the linkage. If royalty payments are confined to the novel feature of invention, the royalty inevitably has no relation to the novel machine or even of the contribution of the invention to the machine. This manner of determining royalty leads to the quite derisory royalty offered by the applicants and can not be right. In the normal course of events an invention in the mechanical world is a combination of the novel feature and known features. Some indication of this can be seen from the claims which refer to the frame, guides on the frame and the mast as well as to the linkage and the means for moving the linkage. The cost of all these parts might have led to a more sensible basis for the royalty, but even on this basis it would have been almost impossible to determine for example what parts of the truck constituted the frame. In any case there is no evidence on this.

Beside the cost of the relevant parts of an invention, I think it must be right to take account of the importance of that part of a machine to which the invention relates relative to the machine as a whole and to the successful marketing of the machine. Whilst I am satisfied that the design of the reach mechanism is by no means the only, or perhaps even the major, factor for the applicants' relative success in the market place with their R3 and R4 trucks, I am satisfied that the contribution the reach mechanism makes to the success of these trucks is disproportionate to its manufacturing cost when compared with the manufacturing cost of a whole truck. In other words, whilst I observe from Mr Ward's second declaration that the average manufacturing costs, were, in 1982,



£237 and £10395 respectively, I conclude that the importance of the reach mechanism far exceeds the simple ratio of these two figures. Support for this conclusion can, in my view, be found in the applicants' evidence particularly in Mr Meredith's declaration at paragraph 5 where he says "High on the list of priorities was a strong reliable reach mechanism" and concludes with the statement "This segment of the development of the R4 reach system serves to illustrate the considerable effort necessary in the perfection and implementation of a relatively simple component within a mechanism, in order that it may form part of an inherently reliable product". This lends support to Mr James' evidence for the opponents which I have referred to above. Mr James goes so far as to suggest in his second declaration that the reach mechanism accounts for 50% of the "average manufacturers profit". In my view this is an overstatement.

In all I can find no clear guidance from the evidence in this case as to what proportion of the ex works selling price of the truck should form the basis for the royalty. However having regard to the nature of the invention, the evidence and information before me and the construction of a reach truck, I think that the proportion should be of the order of 20-25% of the reach truck.

Since there is little likelihood of any one other than the applicants using the invention in this country in the near future it is in the public interest and in accordance with Section 50(1)(a) of the Act that the royalty be not such as would put the applicants out of the reach truck market.

The evidence of Messrs Ward and Chessell for the applicants is that the applicants trading position has passed from profit to loss but is now showing some sign of recovery, that the numbers of the trucks sold by them in recent years has fallen although their share of the United Kingdom market has substantially increased and that competition from abroad has squeezed profit margins so that only by rigid economies have they been enabled to carry on. They also see the R3 and R4 trucks as their hope for the immediate future since these make a greater financial contribution than their other trucks.

Mr Spalding submitted that it is not possible from the evidence and the facts and figures provided to determine the profit margin of the R3, R4 reach trucks and that the figures given were consistent with his view that the profit from the R3, R4 trucks was carrying the losses of other parts of the business. I have read the evidence carefully and the transcript of the hearing and with some

diffidence for I am not a financial expert I think Mr Spalding is right insofar as one cannot disentangle from the figures the true profit made on the R3 and R4. The applicants' audited results show a loss of over £400,000 in the eighteen months to June 30 1982. During 1982 Mr Ward's evidence shows that the contribution of the R3 and R4 trucks in 1982 was £440,061 and he defined contribution as the gross profit after allowing for the cost of manufacture. The contribution is said to have to cover the additional cost of administration sales and services. Mr Chessell says this contribution is "a misleading figure to use since it is an estimated figure and not an actual figure". He adds that "in order to arrive at a corrected figure for reach trucks one would need to know the distribution of actual costs of sales between the various items .... which figures are not available". This I think supports Mr Spalding's submission. Nevertheless it is plain that times are hard in the truck market and I am satisfied that in consequence I should not err on the generous side when setting the royalty.

Mr Prescott directed my attention to exhibit PJJ1 where in a Memorandum of Agreement between Ransomes and the opponents the patent in suit was transferred free and exclusively. Mr Prescott invited me to find this persuasive in determining what value to place upon the patent. In my view since the transfer of patent rights was merely one feature of a very much wider agreement dealing with matters other than the patent I can see no way of determining from this what value either of the parties set upon the patent rights.

Taking all these factors into account as well <sup>as</sup> the need to maintain a proper balance in respect of the public interest and the interests of the parties I have arrived at the following conclusions. In my view a proper royalty in this field of invention for a non-exclusive compulsory licence without transfer of know-how and which would not bring the licensee into competition with the licensor should be 5% which I see as close to the lower end of the normal range for inventions in the mechanical field. This royalty is to be based on a proportion of the ex works sales price of the truck that I decide should be 20%. In other words the royalty is 1% of the full ex works selling price of each truck sold falling within the claim of the patent. This royalty is in my belief not such as is likely to prejudice the continued sales of the R3, R4 reach trucks.

I allow the applicants one month in which to submit a form of licence in accordance with the above findings. This should be copied to the opponents who

should within four weeks of receipt submit such comments as they wish to make for my consideration. Failing agreement on the terms of the licence, I shall decide any matter remaining in dispute subject to the right of the parties to be heard.

The question of costs is deferred.

Dated this 3<sup>rd</sup> day of *October* 1983

F J KEARLEY

Superintending Examiner, acting for the Comptroller

PATENT OFFICE



PATENTS ACT 1977

IN THE MATTER OF an application  
for a Compulsory Licence under  
Patent No.1429478 by  
Montgomerie Reid Limited

- and -

IN THE MATTER OF an opposition  
thereto by Hamech Holding Company Limited

PRELIMINARY DECISION

Hamech Holding Company Limited, the opponents, are exclusive licensees of Ransomes Sims and Jefferies Limited, the patentees, by virtue of a licence dated 6 April 1981 and effective from 18 September 1980. Both the applicants and the opponents have filed their evidence in chief and in the normal course of events the proceedings would have progressed by the filing of the applicants' evidence in reply. This has not yet been filed.

In their statement under Rule 71 the opponents call in aid Section 48(5) which reads:-

"Where the application is made on the ground that the patented invention is not being commercially worked in the United Kingdom or is not being so worked to the fullest extent practicable and it appears to the comptroller that the time which has elapsed since the publication in the journal of a notice of the grant of the patent has for any reason been insufficient to enable the invention to be so worked, he may by order adjourn the application for such period as will in his opinion give sufficient time for the invention to be so worked."

The opponents pointed out that they had had less than twenty months since they were first granted exclusive rights under Patent 1429478, insufficient to enable them to work the invention.

The applicants by their agents' letter of 18 August 1982 indicated that while they did not agree that insufficient time had elapsed to enable the opponents to work their invention, they were willing for "the application to be adjourned until such time as the opponents intimate that they have worked the invention within the meaning of Section 48(5)".

The opponents by their agents' letter of 24 August 1982 put the view that the applicants were attempting to delay and that it was in the interests of both parties that the matter of the licence and its terms should be settled as soon as possible.

In the absence of agreement between the parties, the Office issued a letter dated 10 September 1982 to both parties setting out the prima facie view that the proceedings should continue. The applicants in a letter dated 20 September 1982 asked for a hearing for their application for an adjournment to be decided. There were further letters from the parties and telephone calls were made by the Office to both parties. In these the opponents maintained that the Comptroller had no right to adjourn the proceedings at the applicants' request or to appoint a hearing before the applicants' evidence in reply was filed, while the applicants maintained their right to be heard.

In the event at a hearing before me on 28 October 1982, Mr P Prescott appeared as Counsel for the applicants and Mr W B Spalding appeared as Counsel for the opponents.

The first matter to be considered is whether or not in the present circumstances I can lawfully adjourn the proceedings at the applicants' request. As I see it, Section 48(5) is an easement that is provided for the benefit of opponents and it is not open to applicants to seek an adjournment under this Section. However, in inter partes proceedings before the Comptroller, I think that, subject always to what is laid down by the Act and Rules, the Comptroller has the discretionary power to order the conduct of the proceedings having regard to the interests of the parties and

of the public. Indeed if both parties were agreed on an adjournment, I think that it would be rare for this to be resisted by the Comptroller. In the present case I am reinforced in this view by the fact that it is unarguably within the Comptroller's discretionary power to extend the time for filing the applicants' evidence in reply for a period which is not limited by any Rule. So to extend it is effectively to adjourn the proceedings.

If this be right, it follows that when, after the Office had issued by letter a prima facie view that the proceedings should continue, the applicants requested to be heard, the Office was bound by Rule 88(1) to appoint a hearing. This it did.

The second matter to be considered is whether the proceedings should be adjourned. The applicants say that the real bone of contention is the royalty rate. The opponents have offered to grant a licence on the basis of a royalty of 6½% on the price of the whole truck, whereas the applicants offer is a royalty of 0.5% of the cost of the reach mechanism. The applicants say that the market for reach trucks is such that the profit margin is of necessity small, so that the royalty could well determine whether the manufacture and sale of reach trucks is profitable. In their view one factor that is vital to the proper determination of the royalty if a compulsory licence is granted is whether or not the actual embodiment of the patent is commercially viable, since if it is not and cannot be made so by reasonable development, no patentee would give much for it. The applicants say the evidence is divided as to whether or not the described machine is viable and that the Office would be faced with an almost impossible task to resolve the conflict of evidence and decide the royalty. Accordingly they contend that the only satisfactory way is to adjourn the proceedings until the opponents have had sufficient time to market the described machine.

Mr Spalding said that the opponents would not seek to invoke Section 48(5) to delay the determination of these proceedings beyond the date at which the substantive hearing would normally

come on, which they saw as 6 months hence. It is my understanding of the opponents' position that while there is every intention of utilising the patent as soon as this is practicable on a commercial basis, and there is good prospect of arranging the commercial working of the invention in the next few years, there is no real probability that commercial working is imminent. I think it follows that a short adjournment would not be likely to alter the position and I am far from satisfied that the position would be greatly changed if I adjourned for 2 years as the applicants suggest.

In my view it is beyond argument that proceedings should continue unless there is good reason to adjourn. The applicants have said that the public interest is not affected by an adjournment. In my view the public interest is generally that proceedings should be determined and brought to a conclusion. In the case of an application for a licence where the invention on the face of it is not at present being worked either by the patentees or the opponents but by the applicants, it is of prime importance to users of the invention in particular customers or even potential customers of the applicants to know whether or not they are protected from infringement. Since a compulsory licence has been applied for to cover the manufacture of the applicants' reach truck, I must decide matters in these proceedings on the presumption that the patent is valid and that there is a risk of infringement of the patent by the use of the applicants' truck. If as might appear, the patentees and opponents have not worked the invention, then the public interest must be that if a licence is to be granted, it should be done without delay, and the royalty which is a condition of the licence be determined without delay. That the opponents have indicated that by the time of the substantive hearing they will not seek an adjournment under Section 48(5) removes any lingering doubt I may have had in respect of the present decision.

Further, to adjourn these proceedings in order that the Comptroller should be, as the applicants suggest, in a better position to determine the royalty rate appears to me to be putting the cart before the horse. Before deciding the terms of a licence, the Comptroller has

first to decide whether a compulsory licence should be granted. To this end he must determine whether the Section 48(3) grounds are established and then, if they are, he must consider the provisions of Section 50 prior to exercising his powers. Since the evidence is not yet complete in this matter, I can see no justification on the basis of this reason put forward by the applicants for adjourning these proceedings.

Accordingly I refuse the requested adjournment.

I allow the applicants two months from the date of this decision in which to file their evidence in reply. With the agreement of both parties the matter of costs is deferred until the substantive hearing.

This decision is a procedural one and accordingly the appeal period is fourteen days from the date of this decision.

Dated this 9<sup>th</sup> day of December 1982

F J KEARLEY  
Superintending Examiner  
Acting for the Comptroller



The Patent Office.