

PATENTS ACT 1977

IN THE MATTER OF Letters Patent
No 1468940 and 1538783 in the
name of the Halcon SD Group Inc

and

IN THE MATTER OF an application
by BP Chemicals Limited for a
Compulsory Licence thereunder.

PRELIMINARY DECISION

Patent Nos 1468940 and 1538783 relate to the production of anhydrides of monocarboxylic acids, particularly acetic anhydride and their relevance to the applicants is the latter's intention to build, at Hull, a plant for the production of acetic acid and acetic anhydride with an expected completion date at the end of 1988.

BP Chemicals Ltd (BPCL) considered three possible alternatives for the processes to be used in the proposed plant. These were:-

- i) Building a new plant based on a process licensed from the Monsanto company using existing technology;
- ii) Licensing Halcon's technology;
- iii) Developing their own technology, for which a licence from Monsanto would still be necessary,

At the end of a study into Halcon's technology and preliminary negotiations for a licence BPCL decided that it would prefer to proceed with its own technology but nevertheless an attempt was made to reach agreement with Halcon as to what their royalty rate would be if the Halcon patents were deemed valid and infringed by

BPCL's proposed operations since it was considered there was some risk that Halcon might still take action against them for alleged infringement. It was not possible to reach an agreement and on cessation of negotiations Halcon served a writ on BPCL for infringement of Patent Nos 1468940 and 1538783 on 18 October 1985. Whilst BPCL do not admit infringement nor do they admit that the patents are valid they have nevertheless sought a compulsory licence thereunder, relying on Sections 48(3)(a) and 48(3)(d)(iii) of the Patents Act 1977.

In order to assess the basis of the case submitted by BPCL on 10 April 1986 Halcon requested discovery of certain documents from BPCL in a schedule extending to 18 categories of documents in all. For the most part the documents requested were those referred to in the statutory declarations submitted by BPCL in the names of Priestley, Proud and Dobson.

Communications between the two parties proceeded until in a letter to the Comptroller dated 1 May 1986 Halcon requested a preliminary hearing concerning discovery and thus it was that the matter came before me on 23 June 1986 when Mr C D Floyd appeared as counsel for the patentees and Mr G Burkill appeared as counsel for the applicants for the compulsory licence.

Prior to the hearing the applicants had conceded the right of Halcon to discovery in a number of areas of the original schedule by making available various estimated costings in relationship to the alternative methods of making acetic anhydride and acetic acid and, as I understood Mr Floyd, the only matter that remained to be decided concerned the request for discovery of documents relating to the BPCL plant to be erected at Hull.

At this point I should make clear that I was somewhat concerned that Halcon should be asking for discovery of documents relating to the Hull plant, since as I understood the matter in other proceedings BPCL were denying that the processes to be carried out at the Hull plant infringed patent Nos. 1,468,940 and 1,538,783.

The compulsory licence sought by BPCL is in respect of these patents and the only reason I could or should order discovery of these documents was if I considered the documents relevant to these proceedings. In other words my order on discovery could be regarded as tantamount to deciding the infringement issue which is before the High Court. I have therefore decided to proceed as follows. Since BPCL are asking for a compulsory licence in respect of patent Nos 1,468,940 and 1,538,783 and seek that licence in respect of operations they propose to carry out at their Hull plant my decision in this case is based on an assumption. I have assumed for the purpose of these proceedings only and without deciding the issue on the basis of any facts presented that the operations which are to be carried out at BPCL's Hull plant do either wholly or in part infringe patent Nos 1,468,940 and 1,538,783 and on that basis and in the light of the other facts and arguments submitted to me at the hearing I have decided the question of discovery.

Mr Floyd referred me to paragraph 10 of Mr Cropp's declaration on behalf of Halcon, where it is submitted that since the basis of BPCL's submission involves a comparison between the costs of operating in a non-infringing way and of operating under the Halcon patents, BPCL's best estimate of the cost of proceeding with the plant they have actually chosen to build must be at least as relevant as their estimate of the cost of the plant proposed by Halcon which they have chosen to reject. Mr Floyd stated that what was requested in this area was not every document relating to the Hull plant but the final document presented to BPCL's Board of Directors which he submitted must show the costs and profitability of the route chosen by BPCL. On the basis of the statutory declarations put forward by Dr Priestley (paragraph 1) and Mr Proud (paragraph 6) there was no doubt in Mr Floyd's mind that such a document was in existence. Moreover Mr Burkill for BPCL did not seek to deny its existence. Access to the document would allow Halcon to look at another basis for assessing royalty whereas the BPCL approach of comparing the cost of existing technology with the cost of the Halcon technology would only allow an estimate

based on one set of figures.

Mr Floyd was aware of the fact, particularly on the basis of the declaration of Mr Cohen for BPCL, that there was objection to Halcon being in possession of the requested document on the grounds that the document was confidential and that the request was oppressive, of the nature of a fishing exercise and that it was not part of BPCL's case that the cost of the selected plant is relevant to calculating an appropriate payment to Halcon.

On the matter of confidentiality he drew my attention to the fact that this was not a ground in law for objecting to discovery as long as suitable terms could be agreed. Since a confidentiality agreement had been agreed with respect to other documents in this application it was his submission that the same could be done for the document at issue, albeit that it might have to be in different terms.

As to the request being oppressive and of the nature of a fishing exercise Mr Floyd stated that this could not be so since on the basis of the evidence it was clear that the document existed and this was the only document, in respect of the BPCL plant, that Halcon were requesting. Thus the analogy was closer to 'hunting' rather than 'fishing'. Moreover, he contended that the document was relevant to calculating the appropriate payment to Halcon and here it was not up to one party, in this instance BPCL, to restrict the issue to the way that they saw it. For this application it must be assumed that by operation of their chosen plant BPCL were infringing Halcon's patent, although this in no way implied an admission of their infringing, and therefore figures relating to the whole process from raw materials to the final acetic acid/acetic anhydride product in terms of costs and profitability were relevant to provide the ~~same~~ basis as that on which the BPCL board looked at the matter.

Mr Burkill, for his part, impressed upon me that discovery should only be ordered where absolutely necessary and even in the High

Court would not be allowed if it was oppressive or of the nature of a fishing enquiry. He drew to my attention the decision of the Assistant Comptroller in the case of Temmler-Werke's Patent [1966] RPC 187, which was upheld on appeal, where it was decided that High Court practice should not complicate the simple procedure before the Comptroller. Thus, said Mr Burkill, practice before the Comptroller should be more limited and this should not be departed from unless there were good reasons. On this basis it was his view that discovery was not necessary in the present proceedings. Halcon were involved in a fishing exercise since they did not know why they needed the document and in the absence of evidence this had to be pure speculation.

Mr Burkill further submitted that confidentiality was of vital importance in this industry, the more so in respect of the present application since an infringement action was going on between the two parties and information contained in the requested document could well be of benefit in the infringement action as well as here. Again whilst the request was for the final document submitted to the BPCL board this document could well refer to other documents which Halcon then might decide to look into further. What Halcon wanted to look at was a third route developed independently by BPCL for the preparation of acetic acid/acetic anhydride and in BPCL's opinion this was no part of the case. This was particularly considered to be so since Halcon appeared to have accepted that the correct basis for calculating the royalty was, as outlined in paragraph 10 of Mr Dobson's declaration, to compare the difference between operation in a non-infringing way and operation under the Halcon patents.

On the basis of the assumption that I have already made as to infringement of patent Nos. 1468940 and 1538783 by the operation to be carried out at Hull and having carefully considered the arguments presented at the preliminary hearing, I have come to the conclusion that it would be right to order discovery of the documents sought by Halcon viz: the final document or documents submitted to BPCL's Board of Directors which relate to the costs

and profitability of the process chosen by BPCL for operation at the proposed plant in Hull, subject to certain limitations which I will come to later. In reaching my decision I am very much influenced by the assumption that I have made. It seems very reasonable that the costs and profitability of the chosen plant and operations are very relevant to Halcon in preparation of their case in respect of the application for a compulsory licence for the very reason that they are possibly the only figures prepared within real commercial constraints which show the costs and profitability of operations which I am assuming are the operations for which BPCL seek a compulsory licence. Again had Halcon been wanting access to a wide and perhaps indefinable range of documents relating to the proposed BPCL plant my task would have been much more difficult, but since only one class of document is involved I cannot see how they can be said to be conducting a fishing exercise. Nor can their request be considered as onerous and oppressive given that it is reasonably clear that such a document exists.

Thus pursuant to the request by Halcon in their letter of 1 May 1986 I order that BP Chemicals Limited make and serve on the Agents for the patentees within 7 days of the date of this decision a statutory declaration by a proper officer stating whether they have or at any time have had in their possession, custody or power the document or documents finally submitted to BP Chemicals Limited's Board of Directors relating to the costs and profitability of proposed plant and operations for the production of acetic acid or acetic anhydride which they were planning to build and operate at Hull, and if not now in their possession, custody or power what has become of them and that, subject to the order that I make as to confidentiality, BP Chemicals Limited provide the patentees solicitors, patent agents and counsel with an opportunity of inspecting the document or documents set forth in the said statutory declaration within 7 day of service of the statutory declaration upon them.

As to confidentiality I am not unaware of the fact that BPCL are

concerned about the confidentiality of the information contained in the document or documents, particularly in view of the existing infringement action between the two parties. This concern seems to me to be entirely warranted and in this respect I order as follows.

Any document or documents provided for inspection as a result of the above order for discovery will be passed into the hands of Halcon's agents, Mathys & Squire. They should remain in a secure place on their premises and may not be used for any other purpose than that connected with the present proceedings. Only those solicitors, patent agents and counsel connected with the present application may see the document or documents and they may not divulge the information contained in these documents or any part thereof to any other person without the consent of BP Chemicals Limited. Save for a copy thereof to be used by counsel for Halcon the document or documents may not be copied and the document or documents and the copy may not be taken outside the jurisdiction of this tribunal or the Patents Court. I also require Mathys & Squire to indicate in writing to the Office, before receiving the document or documents, that they accept these conditions, that they will undertake responsibility for maintaining the confidentiality of these documents and that on the termination of these proceedings they will return them to the Office.

a

This being procedural matter, the period to enter an appeal is fourteen days from the date of this decision.

Dated this 21st day of July 1986.

M F VIVIAN

Superintending Examiner, acting for the Comptroller

PATENT OFFICE



PATENTS ACT 1977

IN THE MATTER of Letters Patent
No 1468940 and 1538783 granted
to the Halcon SD Group Inc

and

IN THE MATTER of an application
by BP Chemicals Ltd for a
Compulsory Licence thereunder

SECOND PRELIMINARY DECISION

Patent Nos. 1468940 and 1538783 relate to the production of anhydrides of monocarboxylic acids particularly acetic anhydride, and their relevance to the applicants is the latter's intention to build, at Hull, a plant for the production of acetic acid and acetic anhydride with an expected completion date at the end of 1988.

At the end of a study into Halcon's technology and preliminary negotiations for a licence, which were commenced in the latter part of 1984, BP Chemicals Ltd (BPCL) decided that it would prefer to proceed with its own technology but, nevertheless, an attempt was made to reach agreement with Halcon as to what their royalty rate would be if the Halcon patents were deemed valid and infringed by BPCL's proposed operations since it was considered that there was some risk that Halcon might still take action against them for alleged infringement. It was not possible to reach an agreement and on cessation of negotiations Halcon served a writ on BPCL for infringement of Patent Nos 1468940 and 1538783 on 18 October 1985. BPCL are defending themselves in the usual way by denying that they infringe and by contesting the validity of the two patents and it is now known that the High Court action on the infringement/validity issues has been set down for 6 July 1987. Although BPCL have consistently denied infringement they

nevertheless applied for a compulsory licence under the patents on 21 February 1986 relying on Sections 48(3)(a) and 48(3)(d) (iii) of the Patents Act 1977.

Since 21 February 1986 proceedings on the compulsory licence applications have not moved as smoothly as they might and for the purpose of this decision I consider it instructive to set out a calendar of the events so as to review the major issues encountered on the way.

Historical review

10 April 1986 - Halcon request discovery of documents from BPCL in a schedule extending to 18 categories

1 May 1986 - Halcon request a preliminary hearing on discovery

23 June 1986 - Preliminary hearing takes place. By this date BPCL had conceded discovery in a number areas of the original schedule and Halcon had withdrawn their request in other areas. At the hearing the only matter of substance to decide was in respect of documents relating to the BPCL plant to be erected at Hull and in my decision, which issued on 21 July 1986, I came to the conclusion that it would be right to order discovery of the final document or documents submitted to BPCL's Board of Directors which relate to the costs and profitability of the process chosen by BPCL for operation at the proposed plant in Hull, subject to certain limitations as to confidentiality. In coming to this decision I was well aware of the fact that it could be argued that in ordering discovery I was in effect deciding the infringement issue which is before the High Court, but in order to arrive at any decision at all I had to assume, without deciding the issue on the basis of any facts presented, that BPCL's proposed operations do, either wholly or in part, infringe the claims of the two patents. Neither Counsel led me to believe, in any way, that this approach was wrong and that I should not be considering the application whilst the High Court issue was proceeding. Indeed Mr

Floyd for Halcon made it quite clear that he was seeking discovery at that stage to avoid complaint at a later stage that Halcon were seeking to delay the final hearing and hence grant of a compulsory licence.

31 July 1986 - BPCL comply with the order on discovery by providing a Director's Briefing Note together with a statutory declaration in the name of Dr Priestley, who had prepared the Note. Before receipt of the Note a series of correspondence began concerning who should see the document ordered, Halcon requesting that BPCL consent to the document being shown to Messrs Gay, Long, Ehrler and Juran as well as those referred to in the order. At the preliminary hearing no request that Messrs Gay, Ehrler or Juran should see the document was made. As regards Mr Long I was informed at the first preliminary hearing that he was a patent agent and in my order I covered disclosure to patent agents. It subsequently turned out that he was not a British Patent agent at all.

4 August 1986 - Halcon appeal to the Patents Court asking for the order to be varied so that the document may be shown also to Messrs Gay, Long and Juran.

15 August 1986 - Halcon request BPCL to confirm that the Director's Briefing Note is the document ordered.

22 September 1986 - BPCL confirm that the Director's Briefing Note was the document ordered.

20 October 1986 - BPCL request discovery of documents in eight different categories.

29 October 1986 - Mr Cropp (Agent) on behalf of Halcon meets Dr Priestley to put questions relating to Director's Briefing Note.

4 November 1986 - BPCL agree to Mr Gay seeing a modified form of

the Director's Briefing Note.

1 December 1986 - Appeal due to be heard but dismissed by consent without an order being made. A few days before this date BPCL agreed to Mr Long and Mr Juran seeing the modified form of the Director's Briefing Note.

8 December 1986 - Messrs Long and Juran allowed to see the modified form of Director's Briefing Note after giving signed undertakings, as to confidentiality.

22 January 1987 - Halcon having conceded discovery of most documents in the eight categories of 20 October 1986 are only prepared to allow further discovery on a reciprocal basis.

18 February 1987 - BPCL reject Halcon's request for discovery in its entirety.

24 February 1987 - BPCL consider their evidence to be complete.

5 March 1987 - Halcon file a letter leading to the present preliminary hearing and request to be allowed discovery as outlined in their letter of 22 January 1987.

10 April 1987 - Letter from the Patent Office stating that the issues for the preliminary hearing will be all those raised in patentee's letter of 5 March 1987, including discovery.

29 April 1987 - Halcon state relief they will be seeking at preliminary hearing, following uncertainty arising out of their letter of 5 March 1987.

Thus it was that the matters set down in the letter of 29 April 1987 came before me at a second preliminary hearing on 15 May 1987 when Mr A Watson Q.C. and Mr C D Floyd appeared as Counsel for the patentees and Mr G Burkill appeared as Counsel for the applicants for the licence. In accordance with that letter the relief sought

by Halcon is as follows:-

Preliminary Hearing Issues

1. that the applications by BPCL for compulsory licences under Letters Patent 1.468.940 and 1.538.783 be struck out or in the alternative stayed until (a) the decision in Halcon's action for infringement of said patents, CH 1985, No. 5426, be handed down by The Court or alternatively (b) BPCL undertakes that they will withdraw their defence to Halcon's infringement action and take a licence on the terms ordered by the Comptroller;
2. that the application by BPCL for a compulsory licence under Letters Patent 1.538.783 be struck out or in the alternative stayed until BPCL have determined whether or not they intend to use the invention claimed in this patent;
3. that the application by BPCL for compulsory licences under Letters Patent 1.468.940 and 1.538.783 be struck out or in the alternative stayed until (a) BPCL state whether or not they require a licence for the acetic acid they plan to produce in the plant they propose to build in Hull, or the matter has been determined by The Court in the course of the aforementioned action brought by Halcon against BPCL for infringement, and (b) if they do wish such a licence BPCL have determined and given Halcon notice of what quantities of acetic acid and acetic anhydride they plan to produce;
4. that the application by BPCL for compulsory licences under Letters Patent 1.478.940 and 1.538.783 be struck out or in the alternative stayed until BPCL provide a clear statement setting out to the best of their

knowledge (a) the costings of the plant and process they plan to build or are building and operate at Hull and (b) the actual costings of the method by which their acetic anhydride has been made hitherto, namely the costings of producing acetic acid by means of the process licensed from Monsanto and having the acid converted to acetic anhydride via the so-called "ketene" route by Courtaulds;

5. in the event that the Hearing Officer order BPCL to provide the statement referred to in 4. above, leave to file evidence on the information provided therein and a reasonable term within which to file such evidence;

6. in the event that no Order is made to strike out or stay the applications for compulsory licences, as sought in any of 1. to 4. above:-

(i) leave to file evidence on the Director's Briefing Note produced by BPCL in response to the Order of the Hearing Officer dated 21st July 1986 and on the modified form of that Note as attached to the letter from the Agent acting for BPCL and dated 4th November 1986; and a reasonable term within which to file such evidence;

(ii) that certain of the evidence filed by BPCL in December 1986 and February 1987, and in particular the whole of the Declaration of Dr Fawcett, paragraphs 3 to 9 of the second Declaration of Dr Priestley, and paragraphs 23 to 28 of the second Declaration of Mr Cohen be struck out as inadmissible and specifically, but without prejudice to the generality of the foregoing, on the grounds

that this evidence fails to comply with the provisions of Rule 71(3) of The Patent Rules 1982 or in the alternative leave to file evidence-in-reply to such of the said BPCL evidence which is not confined to matters strictly in reply but which the Hearing Officer, in exercise of The Comptroller's discretion, nevertheless allows, and a reasonable term within which to file such evidence-in-reply;

(iii) leave to cross-examine the following of BPCL's witnesses, namely Dr Bard, Mr Dobson, Dr Priestley, Mr Proud, Mr Gardiner and Mr Cohen; also Dr Fawcett in the event that his evidence or any of it is allowed to stay in the case;

(iv) an order for Discovery in respect of each of the following class of documents, namely

(a) any correspondence or other documents in the possession, power and control of BPCL and relating to the circumstances surrounding and leading to the conclusion of each of the Agreements referred to in paragraph 18 of Mr Dobson's first declaration;

(b) all other patent licences involving BPCL entered into within the last 10 years and in the possession, power or control of BPCL and relating to the manufacture, sale and/or use of chemicals;

(c) the terms and conditions of the

Monsanto licence granted to BPCL and referred to inter alia in the first Declaration of Dr Priestley, insofar as they relate to the manufacture, use and sale of acetic acid;

(d) all documents in the possession, power and control of BPCL and relating to any licence or offer of licence by Monsanto to any third party and relating to the manufacture of acetic acid or acetic anhydride including, but without prejudice to the generality of the foregoing; all documents relating to the offer of a licence by Monsanto to Norsk Jernverk AS, referred to in the Declaration of Mr Erhler dated 6 April 1987;

It is noted that BPCL consider that the question of what part of the production of the plant they plan to build, or are building, at Hull requires a licence should be argued at the Substantive Hearing. We take the view that an application for a compulsory licence is not the proper forum for such a matter, however in the event that The Comptroller deems it appropriate to determine whether or not a licence is required for the acetic acid that BPCL plan to produce in the plant they propose to build or are building, at Hull, the following further relief will also be sought at the Preliminary Hearing set down for 15 May, namely:-

7. leave to file evidence in reply to paragraph 13 of the Declaration of Mr Green and a reasonable time within which to file such evidence;
8. leave to cross-examine Mr Green at the Substantive

Hearing;

9. an order for discovery in respect of all documents in the possession, power and control of BPCL and relating to the manner in which the acetic acid which BPCL plan to produce in the plant at Hull is formed or is verily believed by employees of or advisers to BPCL to be formed and in particular, but without prejudice to the generality of the foregoing, how each of the water and methanol that is included in the feed stream to the reactor where the acetic acid is formed reacts in said reactor.

In addition to the above, we will ask at the Preliminary Hearing for such directions to be given as to the date for the Substantive Hearings as are deemed to be appropriate by the Hearing Officer in the light of the above requests and the imminence of the Hearing in the High Court of Halcon's action against BPCL for infringement of the patents in question.

With respect to the reasonable terms for filing evidence and to which reference is made in clauses 5, 6(i), 6(ii) and 7 above, it is suggested that a term of six weeks would be appropriate in the circumstances, the term to start from the date of receipt of the statement in the case of 5 and from the date of the issuance of the Hearing Officer's decision in the case of 6(i), 6(ii) and 7.

With respect to 6(iii) above, and in an effort to reduce the number of witnesses to be cross-examined, we would be prepared to consider favourably any reasonable proposal by BPCL to tender the name of one of their witnesses as being prepared to deal with the evidence of another.

Striking out or stay of the application

At the hearing Mr Watson very firmly put the view that I should strike out the application for a compulsory licence or at the very

least should stay these proceedings until other pertinent issues had been clarified. As I understood him his major concerns were (i) that BPCL had not yet agreed to be bound by the terms of any licence granted and (ii) that BPCL should not be allowed to fight the infringement action in the High Court and at the same time pursue their compulsory licence action through the Patent Office as an insurance against their losing the infringement action. BPCL should, said Mr Watson, be put to an election on the issues.

For his part Mr Burkill submitted that the application had been made when it had, to bring a degree of commercial certainty to BPCL's operations. Firstly they wanted to know the cost of a licence and secondly if as a result of the High Court action an injunction was awarded against them, if their application for a compulsory licence was not filed until after the High Court action, it may well be that allowing for the normal processing time of the application, and any hearing, a licence would not be granted until after their proposed plant was ready to go on stream. BPCL were only trying to defend their position and were firmly of the opinion that because they had been sued for infringement it was even more important that they seek a compulsory licence. In their submission they could see no abuse in running the two actions together so as to save time.

Both Counsel whilst agreeing that there was no precedent case which decided whether a compulsory licence application should be struck out or stayed pending an infringement action nevertheless referred me to various authorities which in their opinion set out principles against which I should make my decision.

The closest authority to which Mr Watson could draw to my attention was the decision of the Court of Appeal (dated 21 March 1983) in *Codex Corporation v Racal-Milgo Ltd* (not reported). In the court below Racal-Milgo had contended that Codex were in some way estopped or debarred from asserting their rights under the patent in question so as to prevent any person from supplying modems which were the subject of the patent. The learned judge

had rejected this argument and granted the normal form of injunction, a course of action approved by the Court of Appeal. Racal-Milgo appealed and during the course of the appeal the matter of a licence in respect of the modems arose. The position of Codex was that they were not prepared to negotiate over a licence while Racal-Milgo were still actively challenging the validity and infringement of the patent, for instance by the continued prosecution of the instant appeal. They believed it was wholly unreasonable to expect them to enter into negotiations with regard to rights which Racal-Milgo were actively asserting before the High Court did not exist. The Court of Appeal considered this an entirely proper attitude for Codex to adopt pending the final determination of the litigation and saw no grounds for restricting the terms of the injunction.

In addition to this authority, which I agree with Mr Watson is the nearest we shall get to the present circumstances, I was asked to consider Halsbury's Laws of England, Fourth Edition, Volume 16, particularly parts of the chapter on Estoppel at pages 1012 and 1013, the decisions in *The King v Taylor* and *The King v Amendt* in 1915 2KB. 593, *Pfizer Corporation v DDSA Pharmaceuticals Ltd and Others* [1966] RPC 44, and *Extrude Hone Corporation's Patent* [1982] RPC 361.

On the basis of the first two authorities Mr Watson emphasised that BPCL should not be allowed to "appropriate and reprobate" or "play fast and loose with justice" and should have to make up their mind as to the way they were going. As to the Pfizer decision this related to circumstances which were the other way round to the present but, said Mr Watson, the applicants' counsel Patrick Graham QC as he then was, was of the view that they had to concede infringement before they could ask for a compulsory licence. If I understand Mr Watson aright on the relevance of the decision in *Extrude Hone* it is that the applicants for a compulsory licence had to concede that what they proposed to do under the licence was necessarily royalty bearing.

Mr Burkill although not addressing himself to the Codex decision contended that none of the authorities supported Halcon and referred me to Glaverbel's Patent [1987] FSR/53 wherein at page 158 the Master of the Rolls giving judgement in the Court of Appeal said "Nor would I wish to express any view on whether and when someone who claims that the patent should be revoked, but who wishes, in the alternative, to take advantage of the statutory protection by undertaking to accept a licence, should be required to elect whether to continue with his application for revocation, abandoning his application for a licence, or to accept the validity of the patent and of any licence granted thereunder."

Although not on all ~~forms~~^{forms} with the present application, nevertheless said Mr Burkill it is clear that the Court of Appeal did not force the making of an election in the circumstances of that patent.

One other authority brought to my attention was the decision in IMA AG and others v Windsurfing International Inc and others in [1984] 1 CMLR 1 which, if I understand Mr Burkill rightly, was to make the point that it is wrong in principle for a potential licensee to be barred from contesting the validity of a patent.

Mr Watson also made reference to Sections 48 and 50 of the 1977 Patents Act and suggested that I had no jurisdiction under the act to grant a compulsory licence unless BPCL agreed to pay a royalty. He suggested that their action in defending the High Court proceedings meant that they had not so agreed. Moreover he emphasised that the jurisdiction given by the Act was discretionary. He also pointed out that Section 50 defines the manner in which the Comptroller should exercise his powers under Section 50

(1) The powers of the comptroller on an application under section 48 above in respect of a patent shall 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 invention.

He said that the whole emphasis of this is that the Comptroller should ensure that inventions are worked without delay and that the person applying wants to work the invention and that the patentee should get reasonable remuneration. He thus concluded that in a situation where the applicant for the licence was vigorously denying infringement and challenging validity in another forum the Comptroller could not properly exercise his powers.

Having considered all these authorities, which as both parties admit are not on all fours with the present case and thus do not directly deal with the matter in issue, Sections 48 and 50 of the 1977 Patents Act, and listening to the arguments presented by Counsel for both sides, I am firmly of the conviction that it would be wrong for me to strike out the present application for a compulsory licence or to put the applicant to the election. It is clear to me that BPCL's application for a licence is not in any way frivolous and that as long as they are convinced that Halcon's patents are infringed they will abide by any royalty rate that is eventually fixed. That the licence may not be taken up if it is not commercially advantageous to do so seems to me to be their prerogative. As to whether the High Court action and the present application should proceed in parallel it is my opinion that if anything can be gleaned from the authorities it is that there should be a stay of the present proceedings, but whether there should be a stay or not I consider to be more a matter of

convenience having regard to all the circumstances, and, of how the Comptroller should exercise his discretion in the light of those circumstances. However, before finally deciding whether to stay I shall turn to those issues which it has been put to me need resolving before we can proceed to a substantive hearing as these may well have a considerable bearing on the matter.

Adequacy of Directors Briefing Note

It is clear from the evidence and the correspondence between the two parties that when Halcon received the Directors Briefing Note following the first preliminary hearing they were uncertain as to whether this was the document ordered. Mr Watson drew my attention to the fact that, from Mr Dobson's evidence, it was clear that there was a basic agreement between the parties that a basis for a fair royalty to Halcon would be the difference between operating in a non-infringing way ie. the conventional Monsanto/Ketene process and operation under Halcon's patents. On this basis it Mr Watson's opinion that the Director's Briefing Note had not provided all the figures necessary to show the extra financial advantage that would accrue to BPCL, firstly because, taking the conventional process, whilst figures for acetic acid production had been submitted there were no comparable figures, ie figures prepared on the same basis, available for the Ketene process that converts acetic acid to acetic anhydride. Secondly, whilst BPCL had submitted figures in exhibit AP5 filed with Dr Priestley's 2nd declaration (which is actually his 3rd) on the Monsanto/Ketene capital costs, these were clearly not on the same basis as the Director's Briefing Note.

Mr Burkill denied that BPCL were being less than helpful. They had provided the Director's Briefing Note as ordered and had allowed Mr Cropp on behalf of Halcon to meet Dr Priestley and put questions on it. If there were differences between the Note and AP5 it was because the figures in the Note were prepared on a global basis ie they included ancilliary figures whereas the AP5 figures covered only the essential features of the respective

plants.

It was at this point in the hearing that Mr Watson clarified the issue by stating firmly that what Halcon wanted was the costings for the current Monsanto/Ketene route set out on the same basis as the figures provided in the Directors Briefing Note. After further clarification I put it to Mr Burkill that what was needed was to take the Monsanto/Ketene capital figure in AP5 and convert it to the same basis as the Note. He agreed that this could be done, not just for the capital costs, but also for the DCF and NPV figures although it was likely that explanations and caveats would have to be put in. It should also be noted that depending on the outcome of the High Court proceedings there may well need to be a split ^{of} costs ^{between} acetic anhydride and acetic acid.

This, in my opinion was a satisfactory conclusion on this matter and I understand that counsel will draw up a Draft Order for my approval. I will come on to the period in which this should be done at a later point in my decision.

GB 1538783 - The co-promoter patent

Halcon's complaint in respect of this patent is that BPCL have not determined whether they intend to use the invention claimed therein and until such time as they do the compulsory licence application should be struck out or stayed. Mr Watson put it to me that it was indefensible that Halcon have no clue as to what will happen under this patent and that as a matter of discretion I should not entertain the application unless it is shown to be more than frivolous. On the other hand Mr Burkill emphasised that the position is that BPCL have not made a final decision whether to work the invention protected by the patent and this has always been clear from the evidence. They have a serious interest under the patent but want to make the final decision on purely commercial considerations, which, if I correctly understand Mr Burkill, may change from time to time throughout the life of the patent. Indeed it may well depend on the quantity of product

they need to produce at a particular time, co-promoter only being used when production is high.

I am convinced that BPCL have an interest under this patent and do not find their application at all frivolous. It seems perfectly reasonable to me that given the right commercial considerations they have an intention to work the licence should it be granted and I can find no reason to strike out or stay the proceedings on this matter alone.

At this point I am aware that considerable attention was directed by both parties to the matter of whether the acetic acid which will be produced in the proposed plant requires a licence or not. Since this issue does not stand alone but affects matters of discovery and further evidence I plan to deal with it later in the decision when I consider, in particular, the discovery issues.

Evidence

Halcon have objected that certain evidence filed by BPCL, and in particular the whole of the Declaration of Dr Fawcett, paragraphs 3 to 9 of the Second (should be third) Declaration of Dr Priestley, and paragraphs 23 to 28 of the second Declaration of Mr Cohen, be struck out as not being strictly evidence-in-reply. At the hearing Mr Watson made it clear that the objection to Mr Cohen's evidence was not being pursued and that there was no great fuss over Dr Priestley's evidence. This being the case I propose to allow both Mr Cohen's and Dr Priestley's evidence to remain as filed.

However there was vigorous objection to Dr Fawcett's evidence which said Mr Watson, goes wholly to attacking the validity of the patents and has allegations of improper conduct by Halcon. If it remained in Halcon would want an opportunity to reply.

Mr Burkill drew my attention to several paragraphs of the Declarations of Messrs Gay and Ehrler for Halcon to substantiate

his argument that Dr Fawcett's Declaration was strictly in reply, being directed, in the main, to the level of inventive merit of the processes of the two Halcon patents and whether, on the basis that BPCL believed that certain claims in the patents were invalid, Halcon had been negotiating in good faith when they had met the BPCL Study Group. It was Mr Burkill's submission that Dr Fawcett's Declaration should remain in the weight given to it being a matter for the substantive hearing.

I have given considerable attention to Dr Fawcett's Declaration against the background of Counsel's submissions and paragraph 32 of Mr Cohen's fourth Declaration, which clarifies those paragraphs in Halcon's evidence against which the Declaration is said to be in reply, and have come to the conclusion that it should be allowed to remain in the evidence. Whilst I appreciate Mr Watson's position in that he considers that Dr Fawcett's evidence goes wholly to attacking the validity of Halcon's patents, the value of that evidence in the present proceedings, it seems to me, is along the lines propounded by Mr Burkill. Given that Halcon's patents are found to be valid it will fall to the Comptroller to settle an appropriate royalty and one of his considerations must be to what extent the process covered thereby represents a major advance, in the production of acetic anhydride. I believe that Dr Fawcett's evidence goes towards these considerations in reply to that of Messrs Gay and Ehrler and should remain. So far as the allegation of improper conduct by Halcon is concerned I consider that Halcon should have a right to reply but it should be confined to that issue alone ie whether or not Halcon have been entirely frank in their disclosure of the position in respect of the United States patent. Thus they should confine their reply to the matters raised in Fawcett paragraphs 13-17. I will deal with timing later in this decision.

Cross-examination at Substantive Hearing

At the hearing it was clear that both parties felt that cross-examination of each others witnesses will be necessary and

that this was a matter that could readily be agreed between them. I shall therefore, not deal with this matter further.

Discovery

a) Documents in respect of paragraph 18 of Dobson 1.

In paragraph 18 of his first Declaration, Mr Dobson refers to two bare patent licences granted by or to BPCL which in his opinion provide royalty rates which are consistent with the royalty rates paid in the industry generally for a bare patent licence. The two licences are the only ones of which he states he has knowledge.

At the hearing it was Mr Watson's view that the royalty rates specified in the licences were tiny compared with the rates normally settled and that the licences were termed "immunity licences" which was not the same as "bare patent licences". If BPCL were depending on these licences as a basis for settling the royalty rate in the present proceedings Mr Watson contended that Halcon should know the circumstances in which the licences were agreed.

Not surprisingly, Mr Burkill contested this view and pointed out to me that Mr Dobson's Declaration had been filed prior to the first preliminary hearing, which had been on discovery issues, and therefore in his submission Halcon could have asked for discovery in this area at that hearing. The fact that they were asking now was, said Mr Burkill, too late.

I find myself in some sympathy with Mr Burkill on this matter and having reviewed the thrust of the case being put by both parties have decided that I should make no order in this particular area should Halcon see fit to challenge Mr Dobson on his evidence I have no doubt that they will take full advantage of cross-examination at the substantive hearing. Moreover in view of Halcons experience in licensing chemical

patents (see (b) below) it has always been open to them to produce evidence in reply, if they so wished, as to what they considered the going rate to be.

b) Patent licences involving BPCL over the last 10 years

In asking for discovery of all other patent licences involving BPCL over the last 10 years and relating to the manufacture sale and/or use of chemicals it was Mr Watson's concern that at the end of the day it may only be possible to settle the appropriate royalty rate by 'rule of thumb' and therefore these other licences would give a spectrum of royalties paid in the chemical field. By so asking he was well aware that were BPCL to make a reciprocal application Halcon could not and indeed would not refuse that application.

I note from the evidence, and this was brought to my attention by Mr Burkill, that Halcon are a firm that survives by licensing in the area of bulk and commodity organic chemicals and therefore could themselves produce licences concerned with the going rate in the chemical area. Clearly therefore their request must be considered onerous and oppressive and after the considerable delay in making the request there is no way that I believe I could or should exercise my discretion in Halcon's favour.

c) Terms and conditions of Monsanto licence insofar as they relate to acetic acid.

This is a convenient point for me to consider the position concerning the acetic acid which will be produced in BPCL's plant. As I understand the situation it has always been BPCL's intention to build at Hull a combined acetic anhydride/acetic acid plant (see, for example paragraph 5 of Dr Gardiners first Declaration) but they have never thought that the acetic acid produced would be claimed as infringing

the two patents in suit. Thus their evidence in chief has not addressed the issue of any royalty payable on the acid produced. On the other hand it has been Halcon's submission that the acid produced is necessarily derived from the anhydride first produced and it was not until Mr Greens' declaration filed in December 1986 that it became apparent that BPCL would dispute this.

At the hearing Mr Burkill said that because of this conflict, but only for the purpose of the present proceedings, it would be conceded that the acid is produced directly from the anhydride in the process. It would then be BPCL's case that the licence sought should extend to the production of acetic acid but there should be no royalty extending to the production of the acid.

Mr Watson's concern was that this case had not been covered in the evidence to date and there was therefore a major difficulty to face before the application could proceed, the more so since if the royalty settled was to be on a differential basis it was important to know the relative amounts of acid and anhydride to be produced in the plant. In his opinion, since this was a new issue, BPCL must file an amended statement and Halcon should be allowed to file evidence. However whether the production of acid infringed Halcon's patents was in his submission a matter for the action in the High Court.

I have given some considerable attention as to what is the appropriate action to take concerning the question of the production of acetic acid in BPCL's proposed plant, particularly as it touches on several issues to be decided as a result of the hearing. At the end of the day I have come to the inescapable conclusion that these are not the right proceedings to determine whether or not acetic acid infringes the patents and thus whether the question of royalty arises. The matter should be determined by the High Court in the

course of the action brought by Halcon against BPCL for infringement. Should the patents be found to be infringed by the acid production then certain courses of action need to be taken in respect of the present application and I will come to those matters shortly.

As to the present particular issue of whether I should order discovery in respect of the terms and conditions of the Monsanto licence granted to BPCL and referred to inter alia in the first Declaration of Dr Priestley, insofar as they relate to the manufacture, use and sale of acetic acid, clearly I should make no order if the High Court decides that production of acid does not infringe. However in the event that acid production does infringe, the Monsanto licence is likely to be of significant relevance in deciding an appropriate royalty rate and therefore I order that in that event it should be produced in discovery. In arriving at this decision I am well aware that Mr Burkill was of the opinion that having sought the licence and then having waived the application prior to the first preliminary hearing Halcon should be barred from having another go for it at this stage. I do not however believe that this precluded Halcon from seeking the document now, particularly as at the time of the preliminary hearing the position of acetic acid production was not an arguable issue.

d) Documents relating to licences by Monsanto to a third party and relating to acetic acid or acetic anhydride, including all documents relating to offer of a licence by Monsanto to Norsk Jernverk AS

This application arises out of the fact that BPCL have recently acquired worldwide rights to rights to Monsanto's acetyl technology and it is apparent from Mr Ehrler's third Declaration that as a result of this acquisition BPCL have inherited a recent offer of a licence by Monsanto to a Norwegian company Norsk Jernverk AS for the manufacture of

acetic acid.

As far as licences in general to third parties are concerned this is clearly in the nature of a fishing exercise and I find it impossible to make an order in that light. In respect of the offer of a licence to Norsk Jernverk AS Mr Burkill attempted to persuade me that this application for discovery should not be entertained since BPCL had acquired Monsanto's acetyl business after the application for the the present compulsory licence and therefore in his opinion Section 50(2) of the Patents Act was relevant. Having read and considered the effects of Section 50(2) I am not persuaded that Mr Burkill is right in his interpretation thereof since as I understand that Section the matters which the Comptroller is not required to take account of subsequent to the application are those in respect of the working of the invention either by the patentee or licensee. What I find more relevant and to the point is that no agreement was reached between Monsanto and the Norwegian company and I therefore find myself unable to order discovery simply on the basis of an offer of a licence.

Further relief issues - paragraphs 7 to 9 of letter of 29 April 1987

It is clear from the paragraph bridging pages 3 to 4 of the letter of 29 April 1987 that the paragraph 7 to 9 issues which immediately follow stand or fall depending on whether I consider it appropriate to determine whether or not a licence is required for the acetic acid that will be produced in the plant BPCL propose to build at Hull. I have decided above that the whole question of the need for such a licence is a matter appropriate to the infringement action to be heard in the High Court and that being the case I make no order on these issues.

Conclusion

It is, I believe, apparent from my consideration of the various issues above that I have decided to order a stay in the present proceedings. Three major factors have influenced my decision. Firstly, because further evidence and discovery is required, this will inevitably delay the substantive hearing. Secondly, it has become very clear to me that before the Comptroller can make a satisfactory decision on the licence application it is necessary to know whether the production of acetic acid infringes the Halcon patents or not. Thirdly, we have been informed that the infringement action is due to begin in the High Court on 6 July 1987 and also that the hearing of this Compulsory Licence application will probably take in the order of five days and therefore involve considerable costs. Taking these factors into account it is clear to me that on the balance of convenience and in the interest of the orderly conduct of the application, a stay should be ordered until the decision from the High Court is handed down.

Once that decision is handed down I give BPCL a period of two weeks to file an amended statement on the acetic acid issue and both parties the same two weeks in which to submit a draft order in relation to the Monsanto/Ketene point and also the acetic acid point in respect of the Monsanto licence granted to BPCL if the High Court decision shows that acetic acid is a relevant issue in these proceedings.

Within a period of four weeks from the date that the relevant documents are produced pursuant to the above order, Halcon should file any evidence they wish to file in respect of those documents and also any reply evidence on the question of improper conduct in relation to the US patent position. A further four weeks is then provided for BPCL to respond, if they so wish, to any evidence put forward in response to the documents produced pursuant to the order.

The hearing should then be set down within one month of BPCL filing their evidence or of Halcon being in receipt of a letter saying that is not BPCL's intention to file any further evidence. By setting this timetable it is my opinion that we can move to a hearing on the substantive issues in the shortest time that is reasonably practical. This timetable is to be followed on the assumption that the High Court find that the patents are valid and will be infringed in respect of both the acetic anhydride and the acetic acid which is to be produced at the BPCL plant to be built or in the course of construction at Hull. In the event that the Patents Court does not make such a finding either in whole or in part I order that the parties make application to the Comptroller within one week of the judgement being handed down by the Patents Court for the appointment of a short hearing at which it may be determined what modified form of order is appropriate.

Having ordered the production of certain documents I realise that I must address the issue of confidentiality particularly as Messrs Juran, Gay and Long who might need to see the ordered documents are no longer employees of Halcon and all live in the United States. Mr Burkill was especially concerned about Mr Juran who now works for the Environmental Protection Agency in the United States but like Mr Watson I do not see this as a very great obstacle and since it is accepted that he is Halcon's financial expert with an intimate knowledge of chemical plants I think it appropriate that he should have access to the amplified Directors Briefing Note ordered in these proceedings subject to a suitable undertaking as to confidentiality. I see no reason either why Mr Long should not have access to the same note as long as he is subject to the same undertaking. Disclosure to Mr Long, in any event would be in accordance with my intention at the first preliminary hearing. This is the only document that I am prepared to allow to go outside the jurisdiction of this tribunal or the High Court.

As to the Monsanto acetic acid licence, I note that Mr Burkill indicated at the hearing that there would be no objection to

Messrs Long and Gay seeing any licences ordered and I see no reason to interfere further in this matter as long as suitable undertakings are given and any documents do not leave the country. As I understand Mr Watson he was agreed on this last point and on the fact that Mr Juran does not need to see any licences.

Therefore my finding on confidentiality is in the same terms as that which I set down in my decision following the first preliminary hearing subject only to amendment in accordance with my decision in the two paragraphs preceding immediately above, in particular (a) to allow access to the additional persons named provided suitable undertakings as to confidentiality are given and (b) to permit a copy of the amplified Directors Briefing note to be taken out of the jurisdiction with an undertaking that it will be returned to this office at the termination of proceedings.

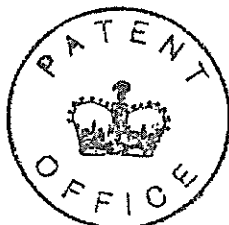
I was not addressed on the matter of costs and I make no order in this respect.

This being a procedural matter, the period to enter an appeal is fourteen days from the date of this decision.

Dated this 15th day of June 1987

M F VIVIAN

Superintending Examiner, acting for the Comptroller



PATENT OFFICE