



BLO/070/95

Dr P Ferdinando
3Y46

PATENTS ACT 1977

IN THE MATTER OF an application under
Section 46(3) by Mr E Focardi and Mrs J R Focardi
(trading as Harper Products)
for settlement of the terms of a licence of right
under Patent No 1569405
in the name of VariantSystemet A/S

13/4/95

DECISION

Patent No 1569405 is dated 23 December 1977, and is one of the class of patents whose maximum term was extended from 16 years to 20 years by paragraph 4(1) of Schedule 1 to the Patents Act 1977. The patent will therefore expire on 22 December 1997. Paragraph 4(2)(c) of Schedule 1 provides that during the extended term the patent is treated as endorsed "Licences of right", which has the effect that any person has a right to a licence under the patent on terms which may, in default of agreement, be settled by the comptroller.

The applicants, Mr E Focardi and Mrs J R Focardi, made their application for settlement of terms on 25 January 1994, and filed a draft of the licence that they sought. The proprietor VariantSystemet A/S, a Danish company, then filed objections to the draft licence, and also a draft licence in terms that it proposed should be settled. On 20 June 1994 the applicants filed a counterstatement objecting to six clauses in the proprietor's proposed licence, and it was the terms of these six clauses that were considered at a hearing before me on 4 April 1995, when Mr Nicholas Pumfrey QC appeared as counsel for the proprietor and Mrs Focardi represented herself and Mr Focardi.

The patent relates to a trolley consisting of a wheeled base, upright supports on the base, and demountable shelves which fit on the supports. The patentee has achieved commercial success by marketing the trolley for transporting potted plants and displaying them in garden centres.

Claim 1, the only independent claim, is for:

"A transport carriage having a quadrangular chassis, a bushing of symmetrical, polygonal cross-section secured to each corner thereof, the carriage being further

provided with wheels and removable shelves, each of said bushings being adapted to removably receive a column in two different positions, and said column having on one side a longitudinal slot and on another side a number of apertures, said slots and apertures being adapted to removably receive support means extending from the shelves."

Evidence in support of the applicants' case consists of a statutory declaration by the applicant Mrs Focardi. Mrs Focardi was also cross-examined by Mr Pumfrey on her declaration. Evidence on behalf of the patentee consists of one affidavit by Peder Ingvarsten, Managing Director of the patentee, and three affidavits by Berno Holmgaard Jensen, Managing Director of Container Centralen A/S (referred to as "CC"), a Danish company which hires out and distributes the patented trollies throughout the European Union under licence from the patentee.

Mrs Focardi explains in her declaration that in the United Kingdom pot plant trollies have become standardized on the Danish trolley the subject of Patent No 1569405. She says that all such trollies have to be hired from M&G Trollies, agents for CC, and have to be plated with a CC trade mark. The patentee's evidence is largely to the same effect as Mrs Focardi's, and Mr Jensen adds that there are 30,000 hire agreements in effect in Europe, though he does not agree that the industry has standardised on the CC trolley.

CC's standard hire agreement, which Mr Jensen produces as exhibit CC2, provides for the product to be hired out for five years against an initial payment plus an annual maintenance charge. The agreement provides that at the end of the five year term, the hire continues automatically for a year at a time on rental conditions to be agreed. Publicity material which Mrs Focardi produces as exhibit JRF1 suggests that CC would expect only to be paid the annual maintenance payments for hire beyond five years. The same publicity material says that 600,000 marked CC trollies are in circulation.

A trolley consists of a base, four columns and a number of shelves, and these are charged for separately under the standard agreement. Pictures of the trollies in the evidence show each as having five shelves, and I have used that number to convert the costs and prices of

the components to a figure per trolley. Mrs Focardi produces, as exhibit JRF2, M&G Trollies' price list which shows that someone who hired up to 500 trollies would pay for each trolley £126.30 initially (including a charge of £24.80 for applying CC's trade mark plate) plus £7.75 a year as a maintenance charge. There is also a single charge of £4.25 for the hire contract.

Mrs Focardi says that the applicants intend to import trollies from the firm Organizzazioni Orlandelli in Italy (where the product is not patented) and their cost of purchasing the trollies will be £129.52 each. She adds that import, distribution and transport costs would add about 20% to that figure, and estimates that the market will bear a selling price of £184.50.

The six clauses that are put in issue by the pleadings are clauses 3.2, 3.3, 3.4, 4.1, 4.3(c) and 5.2 of the patentee's draft licence, and I shall take them in that order.

Clauses 3.2, 3.3, and 3.4 are intended to protect the patentee's hiring system from infiltration by trollies and components that are not supplied by the patentee and its agents. Mr Jensen says (para 5 of his affidavit dated 29 September 1994) that the cost to CC of unauthorised products in the hire system is £1.6 million a year, and Mr Ingvarsen says in para 6 of his affidavit that £3.5 million has been spent by the patentee and CC in defending and maintaining their rights, and a further £1.2 million has been spent marking each trolley in the hire system.

Mrs Focardi gave evidence at the hearing that the patentee's system was well policed in the United Kingdom, and it would in practice be difficult to substitute an unhired trolley for one of the CC trollies. She added that a firm that had bought its own trollies would not want to exchange them for CC trollies, which often were in a poor state of repair. She argued that if CC's trollies were fully marked, there was no need for the applicants' to be marked.

It seems to me that in the nature of things a firm might be expected to take more care not to lose trollies that are in a good state of repair, but the tendency would be for old and battered trollies to be lost and newer ones to be acquired in their place. I do not consider that this would be a problem if the trollies that the applicants wish to import were not of the same

dimensions as the patentee's trollies. I believe that the patentee has a legitimate interest in preventing infiltration of other trollies into its system, and I consider that because of the similarity in sizes there is a risk of confusion which should be reduced by requiring the applicants' trollies to be marked. In saying that I take into account the fact that the patent will expire in December 1997, and the patentee and CC will not then be able to rely on the terms of a patent licence to distinguish their products from those of their competitors.

Clause 3.2 requires every product to be marked to indicate that it is not to be exported to Denmark, Norway, Sweden, Germany and France. Although this clause was objected to in the applicants' counterstatement, Mrs Focardi said at the hearing that the applicants had no interest in exporting to the countries mentioned, and withdrew her objection to the clause. I therefore allow the clause to remain in the licence.

Clause 3.3 calls for the applicants to

"...cause clear and permanent marking to be applied to each of the separable components of each Product sold or otherwise dealt in, namely the wheeled base, the corner uprights and the shelves, stating the name of the manufacturer and/or of the Licensees"

Mrs Focardi acknowledged in reply to a question from Mr Pumfrey that the applicants' product liability insurance required goods that they sold to be marked with their name, and she also said that they themselves would want goods supplied by them to be identified as such. She objected to marking each of the components of the trolley, on grounds of cost. As I have said, I consider that the patentee has a legitimate interest in having trollies identified. It is also accepted that in use, empty trollies are likely to be transported in a dismantled state to save space. Although I have no evidence whether the individual components of CC and Orlandelli trollies are interchangeable, I consider that it would be appropriate to include this clause.

Clause 3.4 requires the licensee not to publicize the existence of the licence of right. The applicants' case, which seems to me to be unanswerable, is that they need to be able to assure their customers that they are not infringing the patent. Mr Pumfrey told me that this

clause was intended to prevent the applicants from marking their trollies with a reference to the licence that could imply that the trollies were licensed to infiltrate the CC system. I consider that the terms of the clause are too broad to be permitted for that reason, and the patentee and CC would have alternative legal remedies if the marking under clause 3.3 were misleading. Accordingly I reject this clause.

Clause 4.1 stipulates a royalty rate of 15% of the net invoice price. Mr Pumfrey started his submissions by accepting that there is a norm for simple mechanical inventions of a 5% royalty. He did not suggest any factor, beyond the need to police the hire system, why a royalty rate higher than 5% was justified. In my view the patentee's interests in relation to the protection of the hire system are adequately met by clauses 3.2 and 3.3, and I therefore substitute 5% for 15% in clause 4.1.

Clause 4.3(c) concerns the payment of tax on royalty payments. Mr Pumfrey acknowledged that he knew of no other licence of right that contained such a term, but he said they ought to. He explained that income tax law required the licensee to withhold from royalty payments tax at the standard rate of income tax and pay it direct to the Inland Revenue. This clause was a covenant by the licensee to do that. Mrs Focardi told me that in view of that explanation she withdrew the applicants' objection to the clause, which I therefore allow.

Clause 5.2 provides for the patentee to determine the licence by notice in the event of specified breaches. The clause as submitted by the patentee reads:

"The Patentee may by notice in writing to the Licensees determine this Licence of Right forthwith:

- (a) if any royalty required to be paid under clause 4.3 above remains unpaid at the expiry of the period of 30 days;
- (b) if the Licensees or either of them shall commit any breach of any covenant herein contained; or
- (c) if the Licensees or either of them shall compound or make any arrangement with his creditors or commit an act of bankruptcy or have a receiver or manager appointed for the whole or any part of their business"

Mr Pumfrey's main submission was that under paragraph (a) the applicants should not have two period of 30 days, as he understood them to be seeking, namely a period of 30 days before the patentee could issue their notice and a further period of 30 days to pay. Mrs Focardi's submission was that as a general principle a specified time should be allowed to remedy a breach, after receipt of the notice. In my opinion, the applicants are right in principle. I have checked several licences of right settled by the comptroller recently and in all cases the position is that the patentee cannot determine the licence on the ground of unpaid royalties without serving a notice that allows time, usually 30 days, for the deficiency to be made good. I have therefore amended clause 5.2 to read

"The Patentee may by notice in writing to the Licensees determine this Licence of Right forthwith:

- (a) if any royalty required to be paid under clause 4.3 above remains unpaid at the expiry of the period of 30 days and at the expiry of 30 days after written notice is given by the Patentee demanding its payment;
- (b) if the Licensees or either of them shall commit any breach of any covenant herein contained and fail to remedy such breach within 30 days after written notice from the Patentee; or
- (c) if the Licensees or either of them shall compound or make any arrangement with his creditors or commit an act of bankruptcy or have a receiver or manager appointed for the whole or any part of their business"

In conclusion, I settle the licence in the form annexed to this decision. In all the circumstances, I make no order for costs.

Dated this 15 day of April 1995



W J LYON

Superintending Examiner, acting for the Comptroller

THE PATENT OFFICE



LICENCE OF RIGHT dated this day of April 1995

BETWEEN:

- (1) VARIANTSYSTEMET A/S a company incorporated in Denmark of Fynsvej 60, 5500 Middelfart, Denmark ("the Patentee")
- (2) E. & J.R. FOCARDI trading as HARPER PRODUCTS of Kington Lane, Claverdon, Warwickshire, CV35 8PP ("the Licensees")

W H E R E A S

- (A) The Patentee is the registered proprietor of U.K. Patent No. 1569405 dated 23rd December 1977.
- (B) The Licensees and each of them have applied for a licence of right in respect of U.K. Patent No. 1569405 under S.46 of the Patents Act 1977.

NOW THIS LICENCE OF RIGHT WITNESSETH as follows:

1. Definitions

In this Licence of Right the following expressions shall have the meanings set out below:

- 1.1 "The Patent" shall mean U.K. Patent No. 1569405
- 1.2 "The Territory" shall mean the United Kingdom of Great Britain and Northern Ireland and the Isle of Man
- 1.3 "The Products" shall mean transport carriages made in accordance with the Patent
- 1.4 "Net Invoice Price" shall mean the total amount invoiced by the Licensee in respect of each Product sold or otherwise dealt in less sales and excise taxes (including Value Added Tax) and duties, and packing, transportation and insurance costs, if any, as are included in the invoice price.

2. Terms of Grant

2.1 Pursuant to the provision of paragraph 4 of Schedule 1 and Section 46 of the Patents Act 1977 whereby the term of a new existing patent is extended to twenty years but treated as endorsed from the end of its sixteenth year under section 35 of the Patents Act 1949, and without the consent of the Patentee, subject to the terms and conditions hereinafter appearing the Licensee hereby receives under the Patent a non-exclusive, non-assignable licence of right to make, use and sell the Products in the Territory and to import the Products into the Territory.

3. Covenants by the Licensees

3.1 The Licensees and each of them covenant with the Patentee that they will not knowingly market the Products in any manner which would cause it to be confused with any of the Patentee's products nor, without prejudice to the generality of the foregoing, use on or in connection with the Products any trade mark, name, sign, symbol or get up owned or controlled or used by the Patentee

3.2 The Licensees and each of them shall cause to be marked every Product manufactured or imported or sold or otherwise dealt in by them with a legible notice stating that the same is not for export to Denmark, Norway, Sweden, Germany and France

3.3 The Licensees and each of them shall cause clear and permanent marking to be applied to each of the separable components of each Product sold or otherwise dealt in, namely the wheeled base, the corner uprights and the shelves, stating the name of the manufacturer and/or of the Licensees

4. Royalties

4.1 The Licensees and each of them shall pay to the Patentee on all sales of or other dealings in the Products by the Licensees or either of them royalty at the rate of 5% of the Net Invoice Price

4.2 The Licensees and each of them shall keep proper records and books of account showing all the quantities of the Products sold or otherwise disposed of and shall give the Patentee or its authorised agents reasonable facilities for inspecting and making copies of such records during business hours upon reasonable notice being given by the Patentee to the Licensee

4.3 The Licensees and each of them shall within 30 days of the last day of each quarter (that is to say 31st March, 30th June, 30th September and 31st December):

(a) submit to the Patentee a return giving full details of all sales and other transactions in Products made by the Licensees and each of them during the course of the preceding quarter;

(b) submit to the Patentee a statement showing the total quantities of the Products sold or otherwise dealt in hereunder by the Licensees and each of them during the preceding quarter and shall pay the royalties due and owing in respect thereof in full together with VAT where appropriate (in which case the Licensees and each of them will provide a duly receipted VAT invoice)

(c) the Licensees and each of them shall pay to the Inland Revenue all such taxes as shall be payable under United Kingdom laws in respect of the royalties to be paid hereunder

5. Duration

5.1 This Licence of Right shall come into force with effect from the date hereof and unless determined in accordance with the provisions of sub-clause(2) of this clause remain in force until 23rd December 1997 or the expiry of the Patent whichever is the earlier

5.2 The Patentee may by notice in writing to the Licensees determine this Licence of Right forthwith:

(a) if any royalty required to be paid under clause 4.3 above remains unpaid at the expiry of the

period of 30 days and at the expiry of 30 days after written notice is given by the Patentee demanding its payment;

(b) if the Licensees or either of them shall commit any breach of any covenant herein contained and fail to remedy such breach within 30 days after written notice from the Patentee; or

(c) if the Licensees or either of them shall compound or make any arrangement with his creditors or commit an act of bankruptcy or have a receiver or manager appointed for the whole or any part of their business

6. Termination

6.1 Any determination of this Licence of Right shall be without prejudice to any right of action vested in the Patentee or to any provision relating to accounting or payment of royalties or any other sums as may be due hereunder

7. Assignment or Sub-Licence

The Licensees and each of them shall not assign the benefit of any of their rights under this Licence of Right nor grant any sub-licence in respect thereof

8. Notices

Any notice required to be sent hereunder shall be considered properly sent if sent by first class post with recorded delivery to the respective addresses of each party indicated at the beginning of this Licence of Right or to such other address as the addressee shall have furnished in writing to the addressor

9. Governing Law and Jurisdiction

This Licence of Right shall be governed in all respects by the law of England and the parties hereto irrevocably submit to the exclusive jurisdiction of the English Courts

in relation to any dispute arising under or in connection
with the Licence of Right

For and on behalf of HARPER PRODUCTS

Signed:

E. FOCARDI

J. R. FOCARDI

Dated: