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J SHARROCK

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PATENTS ACT 1977

IN THE MATTER OF an application  
under Section 46(3) by Vygon (UK) Limited  
for settlement of terms of licence  
of right in respect of patent no.  
1280631 in the name of T J Smith &  
Nephew Limited.

CONFIRMATION OF ORAL DECISION

Patent No. 1280631 in the name of T J Smith and Nephew Limited  
(hereinafter termed the patentees) is dated 8 July 1969 and is  
therefore now, under the provisions of paragraphs 4(2)(c) of Schedule  
1 of the Patents Act 1977, treated as endorsed licences of right. On  
13 December 1985 Vygon (UK) Limited (hereinafter termed the  
applicants) applied under Section 46(3)(a) of the Patents Act 1977 to  
the Comptroller for settlement of the terms of a licence under the  
patent.

A preliminary hearing was held on 7 July 1986 to decide the following  
issues: (i) confidential treatment of documents and correspondence on  
file, (ii) discovery of documents; and (iii) any re-setting of  
periods for filing evidence consequent upon (i) and (ii) above.  
Brian Reid, instructed by Ashurst, Morris and Crisp, solicitors,  
appeared as counsel for the patentees and Simon Thorley, instructed  
by McKenna and Co., solicitors, appeared as counsel for the  
applicants.

At the hearing I gave an oral decision. The patentees solicitors  
have subsequently requested a confirmatory written notice of the  
decision. The following is a statement of the reasons for the  
decision.

In the statement filed under Rule 63(1) the applicants explain that  
they import a product called Dermafilm manufactured in France by  
their parent company. The patentees have commenced High Court

proceedings claiming that the import and sale of this product infringes their patent. The applicants accordingly seek a licence (while reserving their right to argue that the product does not fall within the scope of the patent and that the patent is invalid), and have annexed to the statement as Exhibit A a draft licence which they are prepared to accept.

In the statement it is also stated that the terms of three existing licences under the patent to respectively Johnson and Johnson International and Johnson & Johnson Products Inc, the 3M Corporation and Beiersdorf AG, were disclosed to the applicants' solicitors by the patentees during the High Court proceedings on the basis that the detailed terms should be kept confidential to the applicants' solicitors and counsel in the Action. It is further explained that under the duty implied by the Rules of the Supreme Court the terms would not be used other than for the purposes of the infringement proceedings. Accordingly the applicants' solicitors (McKenna and Co) claimed that the draft licence was drafted without reference to the terms of these existing licences. The patentees' solicitors (Ashurst Morris Crisp) in a letter dated 17 March 1986 allege that substantial parts of the draft licence appear to be lifted out of the existing licences. The applicants' solicitors in a letter dated 20 March 1986 denied this and explained that the draft licence was drafted with reference to a draft licence agreement submitted to them during the course of without prejudice negotiations.

The patentees' solicitors filed on 16 April 1986 with the counterstatement a letter requesting that the evidence stages be set, and that a confidentiality order under Rule 94(1) of the patent rules 1982 be given in respect of both Exhibit A to the applicants' statement (their draft licence) and Exhibit 1 to the patentees' counterstatement (their draft licence). The reason for the Rule 94(1) request is apparently because of the alleged breach of the High Court confidentiality. With the letter of 16 April 1986 they also filed a copy of a letter addressed to the applicants' solicitors and also dated 16 April 1986 in which they asserted that this draft licence agreement was provided during the course of the without prejudice negotiations and against the background of the undertakings as to confidentiality provided to the Court.

In a reply dated 18 April 1986 the applicants' solicitors repeated that they have not made any disclosure of the three existing licences, and stated that they had received the draft patent licence agreement under the cover of a letter dated 21 May 1985. They alleged that this letter imposed no obligation of confidence in relation to the draft patent licence and that the licence does not in any event have the necessary quality of confidence about it. They accordingly do not regard Exhibit A as being proper subject matter for a confidentiality order. Finally in a letter dated 30 April 1986 to the Office they invited the discharge of the interim order placed on the draft licence.

By agreement Mr Thorley dealt first with the applicants' request that the Comptroller should make an order requiring the patentees to disclose the existing licences to the applicants for the purpose of the current proceedings. He referred to the main points of the statement as I have indicated above and also the statement that the applicants regard the offered royalty as generous bearing in mind, inter alia, "the number of licences already granted and the identity of the existing licensees". He said they regarded the existing licences as being a relevant factor to be considered in determining what terms should be applied to a licence of right, and while they had the licences at present it was under a fetter voluntarily accepted for the High Court action.

He referred to the patentees' counterstatement and to passages which he submitted indicated that the patentees also believe the existing licences to be relevant. Thus on page 3 they say: "The patentees submit that in the circumstances the terms of the licence which they are compelled under Section 46(3) to accord to the applicant should be as in the attached Exhibit 1. These terms follow generally the terms of existing licences granted voluntarily by the patentees ..... but with amendments to reflect the territorial restriction of the patent. The patentee denies that the applicant is entitled to have his licence embrace importation of the product".

Mr Thorley stated that the applicants sought an order by analogy with order 24, rule 10 of the Rules of the Supreme Court (Inspection of documents referred to in pleadings and affidavits) for the production of the licences without the fetter which has already been applied to them. The effect of the rule is that the party can refuse inspection upon showing good cause; a cause for not producing the documents or seeking limited production of a document being on the ground that it contains confidential information. He submitted that there was no evidence setting out why the documents are confidential and why they should not be produced.

He further drew my attention to Warner-Lambert Co v Glaxo Laboratories Limited [1975] RPC 354 as the leading authority on the question of the confidential disclosure to a litigant where confidential matter was concerned. He submitted that it was a balancing act which must be undertaken and it requires exceptional circumstances for a litigant to be denied the right to know the full facts on which he is being advised.

Mr Thorley then went on to argue that in this case lawyers alone could not decide what sums and what terms were appropriate and this was a matter wholly within the domain of business men.

Mr Reid submitted that the Patent Office procedure is intended to be a fairly simple and straightforward one and not one where the full panoply of High Court investigative tools may be appropriate. He referred me to the Patent Office practice regarding former Section 41 cases and the form of order made in Smith Kline and French's Patent [1965] FSR 98 which he said has acted as a model ever since.

He submitted that the proper test was "Is it necessary for Vygon's employees to have this disclosure to enable professional legal advisors to understand the impact of the alleged confidential information". He drew my attention to rule 13 of the Supreme Court Rules which reads: (1) No order for the production of any document for inspection or to the court shall be made ..... unless the court is of the opinion that the order is necessary either for disposing fairly of the cause or matter or for saving costs". He submitted that the application was premature and should be made at the reply

evidence stage once the patentees' evidence is in and further material was available on which to assess whether or not the claim for confidence was justified. He also suggested that in the absence of any such evidence at present I should assume that there is a possible proper claim for confidence because it is well accepted in compulsory licence applications that the patentees' financial details are of that nature. He made it plain that they would have no objection in principle to financial details, including details of licences, being disclosed in due course to the applicants' independent professional accountant, providing they had an opportunity to comment concerning the choice of the accountant.

Previous decisions and judgments have established that the patentee and applicant are to be regarded as willing licensor and licensee negotiating at arms length and that terms and royalty provisions of existing licences are therefore important factors to be taken into account. The patentees in their counterstatement stated that the terms of the attached draft licence followed generally the terms of existing licences granted voluntarily by the patentees but with amendments to reflect the territorial restriction of the patent. Thus it seems to me to be essential for a proper consideration of the action that the terms of the existing licences entered into voluntarily and by apparently willing licensor and licensees should be available in these proceedings to the parties and the Comptroller. I accept, for the reasons he gave, Mr Thorley's submission that this is the proper time for the licences to be produced so they can be taken into account in the evidence-in-chief on both sides, and I accept his further submission that it is not sufficient that they should be available only to the applicants' legal advisors, and it is for commercial men to give evidence as to the sums which are reasonable in the circumstances. At the same time I accept Mr Reid's submissions to the extent that the licences should not be freely available at this stage to all the world.

Accordingly, I gave the following oral decision:

"I have considered the arguments put before me and in my view the existing licences should be made available in confidence to the legal advisors of Vygon, together with such other

persons nominated by Vygon, provided that seven days' notice is given for the patentees to raise any objection to the nominated persons. And I so order.

The licences should be made available only for the purposes of these proceedings and copies are to be provided for the Comptroller under Rule 106. An order under Rule 94 will be made to keep these copies confidential".

The question of the nominated persons should, if possible, be resolved by negotiation between the parties but failing agreement, the Comptroller will be prepared, at the request of either party, to appoint a hearing to settle any matter in dispute.

Concerning the question of the rule 94 confidentiality order, Mr Reid submitted that the applicants' draft licence reflected material which was given to them on the basis of without prejudice negotiation and as such it should not have been used by them in preparation of their draft licence. Although the patentees accepted that the material had already been on the Patent Office file open to inspection for three months they were concerned to try to minimise possible future damage to themselves by this premature use. He drew my attention to Chocoladenfabriken Lindt and Sprungli AG v The Nestle Co Limited [1978] RPC 287 which makes it plain that the courts favour the protection of discussions which are covered by the "without prejudice" doctrine, that such discussions are inadmissible as evidence, and moreover it is not necessary for "without prejudice" to appear on the letters for this doctrine to apply. Mr Thorley disputed that the letters were without prejudice but also submitted that this was not relevant to the question of whether there was confidential material in the draft licences.

It seemed to me that, as stated by the hearing officer in Schering AG's Patent [1986] RPC 33, inter partes proceedings before the Comptroller should be public to the greatest extent possible, evidence and information in the proceedings should only be made confidential when good reasons for doing so are established and the noose of confidentiality should be tightened to the least extent necessary. It further seemed to me that draft licences are important

parts of the pleadings and should be open to public inspection, as are the final terms of licences settled by the Comptroller. As I understood it, neither of the draft licences as such formed part of without prejudice discussions although it was not in dispute that exhibit A is broadly similar to a licence submitted by the patentees when discussing a possible settlement. I was given no indication as to which parts of the draft licence were considered to be commercially sensitive or why. Taking these matters into consideration I decided that the draft licences, Exhibits A and 1 should not be subject to a confidentiality direction under rule 94.

As to subsequent proceedings, I directed that, presupposing that there was no objection to the persons nominated by the applicants, the period for the applicants to file evidence should be extended until 15 August and that the patentees should have two months from that date in which to file their evidence. I further indicated that costs should be dealt with together with those of the substantive hearing.

Dated this

27<sup>th</sup>

day of

August

1986.



J Sharrock  
Superintending Examiner  
Acting for the Comptroller.

PATENT OFFICE.

