

BLO/146/95

Dr P Ferdinando
3Y46

PATENTS ACT 1977

IN THE MATTER of applications
under Section 46(3) by Interdibipack SPA
& Quickpack (UK) Limited to settle the terms
of licences of right under Patent No 1574172.
in the name of Francesco Torre

2/11/95

DECISION

Patent No 1574172, in the name of Francesco Torre ("the proprietor"), is dated 28 February 1977 and is therefore subject to licences of right under paragraph 4(2)(c) of schedule 1 of the Patents Act 1977. On 30 June 1993, having failed to agree the terms of a licence of right with the proprietor, both Interdibipack SPA of Italy and its United Kingdom distributors Quickpack (UK) Ltd ("the applicants") filed applications, accompanied by identical draft licences, requesting the Comptroller to settle the terms. The two applications have proceeded in parallel.

In the subsequent evidence rounds affidavits were filed by the proprietor Mr Torre and his patent agent Mr David Marles and, for the applicants by Dr Pietro Di Bernardo, a Director of both Interdibipack and Quickpack.

At the hearing before me on 20 September 1995, where Mr David Marles of Stevens Hewlett and Perkins and Mr Sean Cummings of David Keltie Associates appeared as patent agents for the proprietor and for both of the applicants respectively, it emerged that subsequent to the evidence rounds the parties had reached agreement on some of the outstanding licence terms. In this regard Mr Cummings handed me two new draft licences in favour of Interdibipack and Quickpack respectively, and it was agreed that these should be dealt with together. Throughout this decision, where I refer to "licence" in the singular, it should be understood that I am referring to separate licences to be granted to Interdibipack and to Quickpack respectively.

I was asked to decide which party should address me first, following changes to the order in which evidence is filed introduced in the Patents Rules 1990, and in the absence of a clear preference from either side. Although I do not regard my conclusion as binding, it seemed to me logical that the order of presentation of submissions at the hearing should follow the order of the evidence rounds, and as a result Mr Marles addressed me first on behalf of the proprietor.

The patent relates to apparatus for packaging articles within an envelope of heat-shrinkable plastics film.

The clauses remaining in dispute at the hearing related to the royalty rate and to a demand from the proprietor for security for royalty payment. I was urged to confine my consideration to the disputed terms and to accept those agreed between the parties. Indeed, Mr Cummings argued that I was obliged so to do. In fact, of course, this is the normal practice in proceedings of this type, but subject to the important proviso that I must be satisfied that the terms agreed contain nothing which to my knowledge is unlawful. This proviso assumed some significance during the course of the hearing, and I will return to it later.

The principal dispute concerned royalty, with the proprietor initially seeking 12% of the licensee's net sales price and both applicants offering 1%. However, Mr Marles conceded that 12% was on the high side for a mechanical invention, and recognised that there are several precedents to suggest that a rate in the range of 5 to 7% was the normal basis for a royalty for a mechanical device. He referred me in particular to the often-cited *Shiley Inc's Patents* [1988] RPC 97 to support this view. Mr Marles did not have any more specific opinion as to where within the normal range the royalty should be, save to observe that there is no reason why it should go below the range.

Mr Cummings, for the applicants, also conceded that his side's initial offer of 1% was probably on the low side, but observed that the evidence provides very little guidance as to what would be a reasonable royalty. He rejected as speculation the applicants' sales and profit margins given in Mr Torre's affidavits, and noted that the profit splitting approach favoured by Mr Torre should be regarded as a last resort following *Smith Kline & French Ltd's (Cimetidine) Patents* [1990] RPC 203. Mr Cummings added that a reference in Dr Di Bernardo's declaration to a royalty of

5% being "more reasonable" should be construed as meaning that in Dr Di Bernardo's view this figure was more reasonable than 12%, rather than that Dr Di Bernardo considered that 5% was the appropriate royalty in the current circumstances. He noted that there was agreement that the royalty rate should be determined with regard to the nature of the invention, and that within the term "mechanical device" there can be wide variations in complexity from the upper extremes, such as a gas turbine engine, with massive research and development spending, down to a simple device which could be easily understood. He put the present invention in the latter category and submitted that 5% should in practice be regarded as a ceiling given the extreme simplicity of the invention, a view not shared by Mr Marles.

Mr Cummings argued that there are three significant factors which should depress the rate below 5%. The first was what he saw as the likely low R & D spend associated with the invention's extreme simplicity. He contrasted this with the 30 to 40% royalty rates in pharmaceutical licences, where the R & D spend has been large and the monopoly period on the market relatively short following delays in product licence procedures. He saw no such delays for the present invention, and submitted that whatever minimal R & D expenditure there had been would already have been recouped within the lifetime of the patent to date.

Mr Cummings' second factor follows from the relationship between the parties some years ago. In this respect, there is no dispute that the proprietor supplied Interdibipack with machines in accordance with the patent for sale in the United Kingdom by Quickpack until 1991, at which time the supply arrangement came to an end. Mr Cummings argued that until this arrangement ended it was the applicants who were taking the risks to establish and expand the United Kingdom market, and that during this period they were working on the proprietor's behalf. To an extent, therefore, he argued, the proprietor had already been remunerated for his monopoly by virtue of the applicants' efforts, justifying a royalty now below 5%.

As his third factor, Mr Cummings sought to introduce an argument relating to the importance of what he saw as effectively a free licence agreed in settlement between the parties of a parallel dispute in Germany. He explained that the German dispute had entailed actions for revocation and infringement, and that it had been settled on a basis which he characterised as "live and let live", or "let me keep my patent and I will leave you alone". Mr Cummings handed me a

document in German dated 24 January 1994, with a rough English translation, which he said was a copy of the German Federal Court's decision, in his view effectively rubber stamping the agreement between the parties. He submitted that this supports the applicants' contention that the German patent is invalid. Mr Cummings denied that he was using the German agreement to question the validity of the patent in suit, but argued that he was citing it to indicate that the proprietor has decided in a parallel jurisdiction to grant a royalty-free licence. He agreed that the German document says nothing about the scope of the claim in question or even whether it relates to the same invention, though Mr Marles appeared to concede that it probably does. When I asked Mr Cummings why the German agreement had not been put in evidence earlier, he explained that it did not come into his hands until February 1995, well after the date he believed his opportunity to adduce evidence had ended. He assumed that Mr Marles had known about the agreement, or at least that he should have done so.

I do not find Mr Cummings' explanation for the late submission of the German document very persuasive, certainly after February 1995, and would for that reason alone be very slow to exercise my discretion to allow it formally into the proceedings. Moreover, procedures before the Comptroller are designed to ensure that both sides are fully aware in advance of the hearing of all the facts and issues which they will need to address, in the interests of a fair and just determination, and hearing officers will depart from those procedures to allow new evidence or new issues to be introduced into the proceedings as late as at the hearing itself only very reluctantly and rarely. The only possible precursor to the German document in the pleadings was paragraph 11 of the applicants' identical counterstatements, which referred to pending revocation actions in various European jurisdictions, in the context of an allegation that the validity of the patent in suit was "extremely doubtful", and an argument that the validity of the patent should be taken into account, at least to "depress the royalty rate to the lower end of the typical range", which sheds a rather different light from Mr Cummings' protestation that he was not intending to use the German document to cast doubt on validity. It is long established that the question of validity cannot be raised in licence of right proceedings, and in *Cabot Safety Corp's Patent* [1992] RPC 39 at page 61 Aldous J. made it clear that this precluded consideration of validity when looking at the commercial value of the patent. That is certainly, in my view, what the applicants' pleadings sought to do, and I am equally persuaded that Mr Cummings was also, in whatever guise, seeking to introduce the issue of validity. So, even if I were inclined in other

respects to take account of the German papers sought to be introduced by Mr Cummings at the hearing (and, as I have indicated, I am not) I am satisfied that I am precluded by the precedents from doing so on the grounds that they relate to a matter which I am expressly barred from considering. This, in my view, disposes of Mr Cummings' third factor.

On royalty, then, I am left with, on the one hand, Mr Marles' view that the rate should not be below the 5 to 7% range and, on the other, Mr Cummings' first two factors whereby he seeks to justify a rate below 5%. The profit splitting approach was not pursued at the hearing by either side and consequently, having regard to the uncertain figures and the rejection of the approach in the *SKF* case, I find it unhelpful and do not intend to look at it further.

Mr Cummings' first factor, namely the simplicity of the invention and the alleged low R & D spend, can I think be dealt with quite quickly. Simplicity is not in itself, as Mr Marles pointed out, a ground for depressing the royalty below the normal range. Neither can such depression be justified on the strength of Mr Cummings' unsupported assertion that the R & D spending must have been low. If Mr Cummings' argument succeeds to the extent that it highlights the distinction between the present case and pharmaceutical cases where royalties as high as 30 to 40% have been settled in the past, then I do not believe that it teaches me anything about whether the present royalty should be below 5%, which I understand to have been Mr Cummings' objective.

However Mr Cummings' second factor, I think, merits closer consideration. In licence of right proceedings it is often the case that the licensee comes to a market which has been opened up and developed by the efforts of the patentee. The licensee is thus given a head start, which may be a factor tending to lift the royalty. In the present proceedings there is the unusual situation that the roles are in a sense reversed and that, prior to 1991, Interdibipack had been importing and Quickpack had been selling the proprietor's machines in the United Kingdom. In other words, the applicants had developed their own United Kingdom market without apparently riding on the back of the proprietor's efforts, and there is no evidence that the proprietor had himself, up to this time, opened up the United Kingdom market independent of the applicants. The evidence does, however, establish that after 1991 the proprietor found a new partner to market his machines in the United Kingdom.

Whilst the benefits to the proprietor of the applicants' marketing efforts in the United Kingdom prior to 1991 are unquantifiable on the evidence, I feel that I should recognise them to the extent that, in the absence of any other convincing pointers, the royalty reward appropriate to the proprietor should be at the lower end of the normal range for mechanical inventions. Mr Cummings has not convinced me, however, that the benefits were so significant as to merit a royalty below the normal range. Accordingly, I find that the appropriate royalty in both of the licences applied for should be 5% of the licensee's net sales price.

I turn now to the proprietor's request that security be provided in case the licensees should default on their royalty payments. Mr Marles' stance was that, in view of the breakdown of the earlier supply agreement between the proprietor and the applicants and the resulting lack of trust, the proprietor would feel more secure and would have "peace of mind" if there was a guarantee that the royalties would actually be paid. He pointed out that Interdibipack is an Italian company which would operate in the United Kingdom under the licence, and that there may be difficulties in securing payment from them. Mr Marles drew my attention again to *Shiley Inc's Patent*, this time as an example of a situation where a foreign licensee had agreed to pay a security for royalty. Noting that he and Mr Cummings had agreed a sub-licensing clause in the latest draft licence, Mr Marles added that there was a risk of a main licensee not paying the royalty until they themselves had been paid by the sub-licensee. He felt this added further confusion to the accounting chain and increased the justification for royalty security.

Mr Cummings argued that security is not awarded as of right but is an unusual provision which could impose onerous and commercially damaging requirements upon a licensee. He observed that it is for the person seeking security to make out a case for departing from the general rule, and did not consider that Mr Marles had done so. Noting that in *Shiley* the foreign licensee had agreed to a security clause, Mr Cummings argued that the fact that Interdibipack is an Italian company did not in itself justify a security requirement. He pointed out that Dr Di Bernardo's evidence establishes that, although Quickpack made trading losses in 1992 and 1993, following the break with the proprietor, the company is now coming back into profit, with readily saleable assets in the United Kingdom amounting to around £37000. I note that Dr Di Bernardo did observe that Interdibipack has no assets in the United Kingdom. Mr Cummings submitted that

Interdibipack's and Quickpack's ability to survive the break demonstrated that they were not fly-by-night companies who would run away from their responsibilities.

Mr Cummings presented another argument against the inclusion of a clause providing security against non-payment of royalties, based upon his interpretation of the Brussels Convention, and broadly contending that, regardless of the jurisdiction for settlement of disputes specified in the licence, it would be open to the proprietor to pursue the applicants for payment of royalties in, for example, the Italian courts. It is not necessary for me to address this argument, since I am entirely satisfied that Mr Cummings succeeds in his other arguments, and that the proprietor has plainly failed to discharge the onus upon him to justify the inclusion of any security provision. While the proprietor's "peace of mind", to use Mr Marles' phrase, may be a legitimate consideration in settling terms of a licence of right, the desire to achieve it is not in itself a sufficient justification for a security clause without the backing of a persuasive argument supported by evidence, and this has not been forthcoming from the proprietor. I therefore decline to include any such clause.

There was argument at the hearing as to the level of security if such a clause were to be included. However, having decided that no security clause is justified, I do not need to address the level.

Having dealt with the issues in dispute between the parties I will now look at the legality of those licence terms that they have agreed.

The first, and most complex, concerns the definition of the "territory" to which the licence will apply. In all of the draft licences from both applicants and from the proprietor this was defined as "the United Kingdom, Hong Kong and Singapore". Both Mr Marles and Mr Cummings were insistent that they required the inclusion of Hong Kong and Singapore, and I think I can fairly say that they appeared to be taken aback at the hearing when I expressed reservations as to the legality of such a provision. I put it to the parties, as a preliminary view, that, in acting for the Comptroller under the Patents Act 1977, I do not have jurisdiction under section 46(3) or in any other respect to settle the terms of a licence of right outside the United Kingdom, and if I were to purport to do so I would be acting *ultra vires*. I took this preliminary view notwithstanding

that it is an undisputed fact that the patent in suit has been extended by registration to Hong Kong and Singapore.

Extension of the licence to these territories is obviously a matter of some importance to the parties, and Mr Marles indicated that if I did not go along with their wishes in this regard, then his client would withdraw his earlier agreement to the inclusion of a sub-licensing clause, and the debate on this would need to be re-opened. Mr Cummings took the opportunity of the luncheon adjournment to investigate the jurisdiction question more fully and to identify some relevant documents, which he handed to me. These comprised two bundles of correspondence each containing a letter dated 1 July 1993 from his partner Mr David Keltie to their associates in Hong Kong and Singapore respectively. Each letter was accompanied by draft licences of right in favour of Interdibipack and Quickpack and included the words "I do not know what the procedure is in Hong Kong (or Singapore): whether or not similar applications are filed there or we have to wait for the licence terms to be settled in the UK Patent Office". Mr Keltie was, it would appear, asking for advice as to what had to be done to ensure that the licences had effect in Hong Kong and Singapore as well as in the United Kingdom.

As an aside I should note here that both of Mr Keltie's letters contain matter quite unrelated to the present proceedings and, at Mr Cummings' request, I directed under rule 94(1) of the Patents Rules 1995 that they be treated as confidential and not open to public inspection. Copies of the bundles were, however, passed to Mr Marles.

The reply from the Hong Kong associate contained the advice:

"Please be informed that it is not necessary to record with the Hong Kong Patents Registry clients' application to have the terms of a licence of right settled before the UK Patent Office. Since the terms of the Licence Agreements have not yet been settled, no recordal of the same are required at this stage. However it is necessary to record the Licence Agreements with the Hong Kong Patents Registry after they have been finalised".

The Hong Kong advice went on to list the documents which would be required for recording the Licence Agreements as comprising certified copies of the Agreements themselves or of "the captioned Patent" showing recordal of the Licence Agreements by the UK Patent Office, statutory declarations executed by the Licensor, and Forms of Authorisation of Agent.

The reply from the Singapore associate included the passage:

"We have made enquiries with the Registry of Trade Marks and have been informed that once Licences of Right have been obtained by clients in the United Kingdom, these licences shall be enforceable in Singapore by way of re-registration similar to the requirement of re-registration in respect of the grant of letters of patent. Therefore once the licence terms have been settled by the United Kingdom Patent Office and have been granted to clients we will proceed to re-register the same in Singapore".

I put it to the parties that the replies from Hong Kong and Singapore appeared to refer simply to registration processes for making the licences of right effective in the respective territories and gave no support to Mr Cummings' argument that I had jurisdiction to cause the licences to have direct effect there. Neither Mr Cummings nor Mr Marles accepted this, and I was told of the injustice that would be suffered if I did not accede to the wishes of the parties and include the territories in the licence. I assured both sides that, before reaching a final view on the issue, I would investigate the relevant statutes of Hong Kong and Singapore to determine whether, contrary to my expectation, they contained anything which had the effect of enabling me to act in the manner which both parties wished.

The starting point on jurisdiction is the extent of the Patents Act 1977, and although this Act does not, like its more modern successors such as the Copyright, Designs and Patents Act 1988, expressly spell this out, there can be no dispute that it extends automatically to England and Wales, Scotland and Northern Ireland. There is an express extension to the Isle of Man, and a clarification that the territorial waters of the United Kingdom are treated as part of the United Kingdom for the purposes of the Act. As noted in the CIPA Guide to the Patents Acts (3rd ed.; 132.04), the Act has no direct applicability to other territories, and (5th Cumm. Supp.; 132.04), where a United Kingdom patent is registered abroad, for example in a (former) colony, this is

under local law and the provisions of the United Kingdom's 1977 Act may not necessarily apply in the country of registration. This confirms the preliminary view I expressed at the hearing, that if I am to be persuaded that I have jurisdiction to extend the territory of the requested licence of right beyond the United Kingdom, the justification will have to lie within the laws of the relevant territories.

The relevant provision in Hong Kong appears to be the Registration of United Kingdom Patents Ordinance 1968, as amended by the Registration of United Kingdom Patents (Amendment) Ordinance 1979 which extended the registration process to European patents (UK). The most relevant sections appear to be as follows:

"Application for registration of patent granted in the United Kingdom 3(1). Any person being the grantee of a patent, or any person deriving his right from such a grantee by assignment, transmission or other operation of law, may, within five years from the date of grant, apply to have such patent registered in Hong Kong.

Issue of certificate of registration 5. Upon such application being received, the Registrar shall issue a certificate of registration.

Nature of rights conferred by registration 6. Such certificate of registration shall confer on the applicant privileges and rights, subject to all conditions established by the law of Hong Kong, as though the patent had been granted in the United Kingdom with an extension to Hong Kong.

Registration of assignment, etc 10. Where a person becomes entitled by assignment, transmission or other operation of law to the privileges and rights conferred by a certificate of registration or to any interest therein, he may make application in the prescribed manner to the Registrar for the entry on the register of such assignment, transmission or other instrument affecting the title, or giving an interest therein."

I can detect nothing in this, or in any other section of the Hong Kong statute, which could give rise to any suggestion that Hong Kong law in any way empowers me to settle terms of a licence of right which would have direct effect in that territory. Neither, in my view, does the advice from the Hong Kong associate, read now in the light of the relevant local statute, carry the message that the associate intended to imply that I had such powers. Rather, I read it as conveying the message that, once the terms of the licence of right in the United Kingdom had been settled, steps should be taken to record this fact in Hong Kong, presumably with a view to causing a licence of the same scope to operate in Hong Kong.

The legal situation in Singapore has changed in that, since the time when the patent in suit was registered in Singapore, that country has introduced new legislation, the Patents Act 1994, repealing the earlier Registration of United Kingdom Patents Act and establishing an independent patent system. The transitional provisions include the following:

"117(3) Any certificate or registration issued under section 5 of the Registration of United Kingdom Patents Act and (which) is in force immediately before the appointed day shall continue in force and the patent to which the certificate relates shall be treated for the purposes of this Act as if it were a patent under this Act and the proprietor of the patent shall accordingly have the same rights, remedies, privileges and obligations and subject to the same conditions as the proprietor of a patent under this Act subject to the following modifications:

(a) the term of the patent shall date from the date of the patent in the United Kingdom and the patent shall subject to this Act remain in force for 20 years from that date and only so long as the patent has not been revoked in the United Kingdom."

The effect of this appears to be that the re-registered patent obtained in Singapore by registration of the patent in suit is now equivalent to a full Singapore patent granted under the new Act. I note that section 53 of Singapore's 1994 Act contains licence of right provisions similar to those of section 46 of the 1977 Act, with terms to be settled, in default of agreement, by Singapore's Registrar of Patents, but there appears to be no transitional provision corresponding or equivalent

to that of schedule 1, paragraph 4(2)(c) of the 1977 Act. There are also, in sections 41-45, provisions concerning property in patents, equivalent to sections 30-34 of the 1977 Act and providing, *inter alia*, for a register of patents and for registration therein of licences. I have, however, detected nothing in the 1994 Act which would have the effect of empowering me to settle the terms of a licence of right having direct effect in Singapore. I note that the advice given by the Singapore associate was dated August 1993, before the coming into force of the 1994 Act.

The outcome of my closer inspection of the statutes of both Hong Kong and Singapore, therefore, is that my initial understanding that I have no jurisdiction to include Hong Kong and Singapore within the territory to which the licence of right I am required to settle applies has been confirmed. For completeness I mention an argument submitted by Mr Cummings to the effect that, to be on the safe side, I should include Hong Kong and Singapore within the territory of the licence since there would be no-one with cause to object if I were in fact wrong in my view that I would be acting *ultra vires* to include them. This seems to me to be a most unsatisfactory basis on which to proceed, and I have no doubt that if, as has proved to be the case, I am persuaded that I would be *ultra vires* in including Hong Kong and Singapore, then it would be quite improper for me to include them simply because no-one would be likely to challenge me. I have no discretion to act where I am satisfied that to do so would be beyond the Comptroller's jurisdiction. By the same token, my role in the present proceedings is to settle terms of a licence of right in the territory to which the 1977 Act extends, and I have no *locus* to, as it were, arbitrate between the parties as to the terms of licences in other territories. I therefore find that I must limit the territory of the licence to the United Kingdom.

A consequence of my finding that I cannot extend the territory of the licence to Hong Kong and Singapore, as both parties wished, is that Mr Marles' consent to a sub-licensing clause is withdrawn, and I must therefore consider the arguments for and against such a clause.

Mr Cummings drew my attention to *Research Corporation's (Carboplatin) Patent* [1990] RPC 663 as authority for the proposition that sub-licensing is not entirely ruled out. Indeed, such a clause was included in the unusual circumstances of that case. He sought to persuade me that the present case has unusual circumstances linking it to *Carboplatin* and thus justifying sub-

licensing. In this Mr Cummings based his argument on the convenience of avoiding further licence of right proceedings with only two years remaining for the life of the patent. He regarded the present dispute as very complex with the parties at each other's throats, and saw mutual benefit in lower costs by a sub-licensing clause, especially if the proprietor was given the right, on reasonable grounds, to veto any proposed sub-licence.

Mr Marles did not share this view of mutual benefit. He argued that if the licences were limited to the United Kingdom, then Quickpack or Interdibipack would not need to resort to sub-licences. He submitted that a licence is a personal thing and that if anyone else wants one then it is up to them to apply themselves. He referred me to *Hilti AG's Patents* [1988] RPC 51, where Falconer J. held that, although the Comptroller has discretion to include a sub-licensing clause, it was not appropriate to do so in the circumstances of that case. He did not see the complexity of the present dispute as being a circumstance unusual enough to justify a sub-licensing clause.

I agree with Mr Marles on this. The circumstances of the present case which Mr Cummings sought to equate with those of *Carboplatin* are, in my judgement, much more similar to those which occur in the generality of licence of right proceedings, of which I have seen and dealt with a number and in which sub-licensing has seldom been permitted, and for that matter to those in *Hilti*, in which sub-licensing was not permitted by the Court. They are quite unlike those in *Carboplatin*, where, at the patentees' request and in support of the balance of convenience, Hoffman J. made the applicants for a licence of right sub-licensees from an intermediate company which had a presence in the United Kingdom, rather than direct licensees from the patentees, which did not. Accordingly I decline to include a sub-licensing clause in the licence.

A second clause which both sides are agreed in seeking to include in the licence is clause 7 of the draft, headed "Uniformity of Licences", more commonly known as a "most favoured licensee" clause. I indicated at the hearing that it was my recollection that the authorities precluded the inclusion of a "most favoured licensee" clause. Mr Marles did not address me on this clause, but Mr Cummings said that its purpose was to enable the present applicants to have access to whatever terms the proprietor might grant later to others. He urged me not to reject it when it had been agreed between the parties, arguing that where the parties were in agreement the Comptroller should be reluctant to interfere.

My recollection of the authorities has proved correct. In *Allen & Hanburys Ltd's (salbutamol) Patent* [1987] RPC 327, at page 365, Whitford J. held that it was inappropriate to include "most favoured licensee" clauses in licences of right, on the grounds that the terms settled under the section 46(3) application are binding and ought not to be subject to variation as a result of a third party having been granted other terms. Although there was a dispute as to the inclusion of the clause in *salbutamol*, Whitford J.'s dictum appears to be general in effect, and this is consistent with an earlier unpublished Patent Office decision in *Tanabe Seiyaku Company Ltd's Patent* (SRIS O/140/86), in which the hearing officer refused to allow such a clause, even though it was not disputed. I have seen nothing in the present case to cause me to differ from the established view that if circumstances change, for example through the granting of a licence to a third party, to the extent that a licensee of right considers different terms to be justified, then a fresh licence of right application should be made. Consequently I decline to include a "most favoured licensee" clause in the licence.

At the hearing I noted the unusual, but as far as I am aware unobjectionable, circumstance that both the intended importer and the intended United Kingdom distributor of the patented invention were seeking identical licences. Mr Cummings explained that this was being done to obtain maximum flexibility. In response to my raising the issue he referred briefly to the possibilities of apportioning royalty between the two applicants or of cross-referencing the two licences, but he did not pursue either option. Mr Marles said that he thought it would be the proprietor's understanding that he could not get double royalties in respect of the successive importation and sale of the same product. Exhaustion of rights and the question of a doctrine of first sale are difficult issues, perhaps particularly in the context of a licence of right, and I would not presume to attempt to break new ground here when the parties appear to be at one in their understanding of how the licences will operate. I will therefore take this issue no further, but will simply settle the terms of independent but identical licences, as requested.

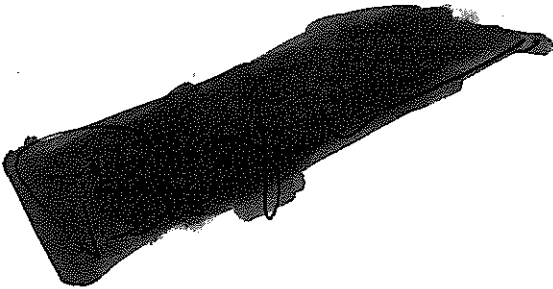
In accordance with my findings I order that the proprietor grants to each of the applicants, Interdibipack SPA and Quickpack (UK) Limited, a respective licence of right under the patent in suit in the terms appended hereto, with effect from the date of this decision. For convenience, since the two licences are identical in all respects other than the name of the licensee, I have not duplicated them, referring to the licensee as "[Interdibipack/Quickpack]", but for the avoidance

of doubt I state here that the licences to Interdibipack and to Quickpack are independent and distinct, and that the appended terms should be read accordingly.

No request for costs was made and I make no order in this respect.

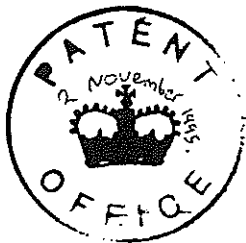
Any appeal from this decision must be lodged within six weeks of the date of the decision.

Dated this 2 day of NOVEMBER 1995.



Dr P FERDINANDO

Superintending Examiner, acting for the Comptroller



THE PATENT OFFICE

LICENCE OF RIGHT UNDER UK PATENT NO 1,574,172

PARTIES:

FRANCESCO TORRE ("Torre") of Via Baschenis n.3, Dalmine (Bergamo), Italy;
and

[INTERDIBIPACK S.P.A., a company organised and existing under the laws of Italy
whose principal office is at Viale Gasperi 72, 20017 Mazzo di Rho (MI), Italy
("Interdibipack")

/QUICKPACK (UK) LIMITED, a company organised and existing under the laws of
England whose registered office is at 3 Cloth Street, Long Lane, London EC1A 7LD
("Quickpack")]

RECITALS:

- (A) Torre is the proprietor of UK Letters Patent no. 1,574,172 dated 28th February 1977 in respect of an invention relating to packaging apparatus for packaging articles of different kinds, such as foodstuffs, books and magazines and the like, within an envelope of a heat-shrunk plastics material ("the Patent").
- (B) By virtue of the Patents Act 1977 the Patent has been deemed endorsed "Licences of Right" under Section 35 of the Patents Act 1949 as from 28 February 1993.
- (C) [Interdibipack/Quickpack] has applied to the Comptroller for settlement of the terms of a Licence of Right under the Patent.
- (D) The Comptroller has settled the terms of a Licence of Right as set out below ("the Licence"), to come into effect on the date of the decision to which these terms are appended.

TERMS:

1. DEFINITIONS

Unless the context otherwise requires words and expressions used in this Licence shall have the following meanings:

- (a) "Calendar Quarter" shall mean the period of three consecutive months ending 31st March, 30th June, 30th September or 31st December as the case may be.
- (b) "Net Sales Price" shall mean arms length price taking into account customary trade discounts and allowances for returned goods. Reasonable packaging and transport costs shall be excluded.
- (c) "Product" shall mean any packaging apparatus which falls within the scope of the claims of the Patent.
- (d) "Territory" shall mean the United Kingdom.

2. LICENCE

- 2.1 Torre grants [Interdibipack/Quickpack] subject to the terms of this Licence a non-exclusive Licence under the Patent for the full unexpired term thereof as extended by Schedule 1, paragraph 4 of the Patents Act 1977 to do in the Territory all those acts which but for the Licence granted hereunder would infringe the Patent.
- 2.2 [Interdibipack/Quickpack] shall not be entitled to assign this Licence other than to a holding or subsidiary company of [Interdibipack/Quickpack] within the meaning of Section 736 of the Companies Act 1985 as amended.

3. ROYALTY

[Interdibipack/Quickpack] shall during the term of the Licence pay Torre or an entity duly indicated in writing by Torre a royalty of 5% of Net Sales Price on all Products sold or otherwise disposed of by [Interdibipack/Quickpack] in the Territory.

4. PAYMENT OF ROYALTY

4.1 [Interdibipack/Quickpack] shall within thirty (30) days of the end of each Calendar Quarter provide to Torre:

(a) an accurate statement showing in respect of the preceding period:

(i) the volume and value of Products sold and otherwise disposed of by or on behalf of [Interdibipack/Quickpack];

(ii) the calculation and amount of royalty payable thereon; and

(b) an amount in pounds sterling equal to the amount specified in accordance with Clause 3 above to be remitted to an account at any bank designated by Torre from time to time.

4.2 [Interdibipack/Quickpack] shall keep detailed and accurate records of the items listed in Clause 4.1(a) above.

4.3 [Interdibipack/Quickpack] shall permit accountants nominated by Torre and approved by [Interdibipack/Quickpack] (or vice versa) at any reasonable time and upon reasonable notice and notwithstanding termination of this Licence to examine, copy and take extracts from all and any records of [Interdibipack/Quickpack] to verify the accuracy of all and any statements submitted by it.

5. WARRANTY

Torre does not warrant the validity of the Patent and nothing herein shall impose an obligation on Torre to defend any action or proceeding in which a claim or counterclaim is made for revocation of the Patent.

6. PRODUCT APPROVALS

[Interdibipack/Quickpack] shall at their own expense apply for and obtain all necessary and voluntary approvals, authorities and registrations from all and any responsible regulatory authorities and otherwise comply with all applicable laws and regulations for the manufacture, testing and sale of the Product in the Territory prior to undertaking the same.

7. TERMINATION

If:

- (i) [Interdibipack/Quickpack] makes default in the performance or observation of any obligation on its part in this Licence and does not make good such default within 45 days after written notice of the same has been served by Torre; or
- (ii) [Interdibipack/Quickpack] becomes insolvent or has an administrative receiver (or equivalent) appointed over the whole or any part of its assets or an order is made or a resolution passed for winding up [Interdibipack/Quickpack] (unless such order is part of a scheme or reconstruction or amalgamation of [Interdibipack/Quickpack]);

then Torre shall be entitled forthwith and upon written notice to terminate this Licence, but without prejudice to and so as not in any manner to affect any liability hereunder on the part of the parties which may then be subsisting or have accrued.

8. NOTICES

8.1 Any notice under this Licence shall be in writing and signed by (or by some person duly authorised by) the party giving it and may be served by leaving it or sending it by telex, facsimile, prepaid recorded delivery or registered post to the address and attention of the relevant of the relevant party set out in Clause 8.2 (or as otherwise notified from time to time hereunder). Any notice so served by telex, facsimile or post shall be deemed to have been received:

- (i) in the case of telex or facsimile, within twenty-four (24) hours of despatch provided that at least some part of such period is a business day in the place of receipt and, if not, such transmission shall be deemed received at the start of the next business day following the day of despatch;
- (ii) in the case of recorded delivery or registered post, ten (10) days from the the date of posting.

8.2 The addresses of the parties for the purpose of Clause 8.1 are as follows:

For Torre: Stevens, Hewlett & Perkins
1, St Augustine's Place
Bristol
BS1 4UD

[For Interdibipack: David Keltie Associates
Audrey House
Ely Place
London
EC1N 6SN

/For Quickpack: David Keltie Associates
Audrey House
Ely Place
London
EC1N 6SN]

9. GENERAL

- 9.1 To the extent necessary, and at the request and the expense of Torre, [Interdibipack/Quickpack] will execute a formal Deed of Licence prepared by Torre in respect of the Patent for the purpose of registration with the Patent Office.
- 9.2 This Licence represents the entire agreement between the parties in relation to the subject matter of the Licence and supersedes all earlier written or oral agreements between the parties relating to the subject matter of the Licence.
- 9.3 This Licence shall be governed by the laws of England and the parties thereto agree to submit to the exclusive jurisdiction of the Courts of England for the resolution of all disputes arising out of or in relation to this Licence.