

THE PATENTS ACT 1977

Miss Durow
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BLO/020/96

IN THE MATTER of an Application
by Brown & Root McDermott Fabricators Ltd
and another for the settlement of the terms
of a licence of right under Patent No 1507959 in the
name of Coflexip Stena Offshore Ltd.

PRELIMINARY DECISION

Patent number 1507959, originally in the name of Santa Fe International Corporation but now proceeding in the name of Coflexip Stena Offshore Ltd ("the proprietors"), is dated 29 April 1976. Under the terms of paragraph 3(1)(b) of Schedule 1 to the Patents Act 1977 it is a "new existing patent" which, under paragraph 4(2)(c) of that Schedule, became subject to licences of right on 29 April 1992. The patent expires on 29 April 1996. Brown & Root McDermott Fabricators Ltd and McDermott Subsea Constructors Ltd ("the applicants") applied under section 46(3) on 25 May 1995 asking the Comptroller to settle the terms of a licence of right. The proprietors opposed the terms proposed in the application in a statement of objections filed initially by fax on the 11 August and formally on the 14 August 1995.

The proprietors' evidence in chief was filed on 17 November 1995 in the form of an affidavit by Mr J E C Davidson, an accountant and independent licensing expert, and an affidavit from Mr A F Leatt which simply corroborates Mr Davidson's affidavit. (A second affidavit from Mr Davidson merely corrects a minor error in his first affidavit.) In the light of Mr Davidson's first affidavit the applicants sought discovery in letters dated 27 November and 8 December 1995 of certain further items. The letters also offered undertakings of confidentiality restricting the discovered documents to the legal and other advisers. A preliminary hearing was appointed for 21 December 1995 to decide the discovery application. Shortly before the hearing the applicants filed a formal request for discovery together with an affidavit from their solicitor, Mr R M Watts, setting out formally the grounds for the discovery application.

In the event at the preliminary hearing where counsel for the proprietors and applicants respectively were Mr Richard Miller QC, instructed by Messrs Bristow Cooke & Carpmael, and Mr Richard Arnold, instructed by Messrs Norton Rose, the proprietors argued successfully for an adjournment. The applicants had filed an originating motion in the Patents Court on 12 December seeking rectification of the register by deletion of the proprietors' name, and in the Court the day before the preliminary hearing the applicants had alleged fraud by the proprietors. Jacob J had made an order that the applicants should serve further and better particulars by 15 January 1996, and in the light of all this the proprietors argued that they needed time to consider the better particulars and *inter alia* whether to resist discovery on the grounds of privilege/self incrimination. I accepted this and ordered that the preliminary hearing should be adjourned and resumed as soon as possible after the filing of the further and better particulars, and in any event by 29 January 1996. Following the serving of the further and better particulars on 22 December 1995, a resumption of the present preliminary hearing was arranged for 15 January 1996, when the parties were represented as before.

At the resumed hearing Mr Miller again began with a request for a further adjournment of a part of the application for discovery for six weeks on the basis that, in the resumed High Court action for rectification which had been held at the end of the previous week, Jacob J had given directions that the proprietors should submit evidence within six weeks. On this basis he argued that those parts of the present application which he said bore directly on an allegation of fraud which had been made in the rectification action should be adjourned for six weeks to avoid undermining the Jacob J's directions in the rectification action. Having considered the arguments, and although I indicated that I was somewhat uncomfortable with the position in which I had been placed, where there was clearly some risk of the present action cutting across the High Court rectification action, I declined to adjourn the present hearing, largely on the grounds that I was assured by both sides that Jacob J was aware of this action and had indicated that he saw no reason why the action he was hearing should prevent the present action being completed.

Turning now to the issue of discovery, there was no dispute that the Comptroller has power to order discovery as provided in Rules 103(3) and 106 of the Patents Rules 1995, which read:

"103(3) In England and Wales, the comptroller shall, in relation to the giving of evidence (including evidence on oath), the attendance of witnesses and the discovery

and production of documents, have all the powers of a judge of the High Court, other than the power to punish summarily for contempt of court."

"106 At any stage of any proceedings before the comptroller he may direct that such documents, information or evidence as he may require shall be furnished within such period as he may fix."

As to the way in which the Comptroller's powers of discovery should be exercised, Mr Arnold referred me to *Merrell Dow Pharmaceuticals Inc (Terfenadine) Patent* [1991] RPC 221 and specifically to the passage on page 223 where Aldous J said:

"The Comptroller has power to order discovery and does so in appropriate cases. The principles which he should apply were, it appears, canvassed before the superintending examiner. He concluded that he should follow the principles applicable to discovery in the High Court, namely, discovery should only be ordered if the documents relate to matters in question in the proceedings (RSC Order 24 rule 1) and disclosure was necessary to dispose fairly of the proceedings (RSC Order 24 rules 8 and 13(1)). I believe he was right. Even though that is the test, it should not mean that the burden of discovery should become more widespread in Patent Office proceedings. It is not normal in proceedings before the Comptroller for there to be discovery and experience has shown that discovery has not been necessary in most cases which, in the past, have come before him."

Mr Arnold also referred me to page 225 of the judgment to support his contention that discovery should be granted where the documents sought may enable the applicants to advance their case or to damage the proprietors' case. This stems, I think, from an earlier passage in the judgment where Aldous J referred to the test of relevance put forward by Lloyd Jacob J in *Compania Uruguaya de Fomenta Industrial SA, Biro Swan Ltd, and another v Mentmore Manufacturing Co Ltd* [1955] RPC 287 at page 302, which sets out the basis of the test laid down in the well-known *Peruvian Guano* case, [1822] 11 QBD 55 at 62. Aldous J, however, quoted the actual words of Brett LJ where he said:

"The doctrine seems to me to go farther than that and to go as far as the principle which I am about to lay down. It seems to me that every document relates to the

matters in question in the action, which not only would be evidence upon any issue, but also which it is reasonable to suppose, contains information which may - not which must - either directly or indirectly enable the party requiring the affidavit either to advance his own case or to damage the case of his adversary. I have put in the words "either directly or indirectly", because, as it seems to me, a document can properly be said to contain information which may enable the party requiring the affidavit either to advance his own case or to damage the case of his adversary, if it is a document which may fairly lead him to a train of inquiry, which may have either of these two consequences."

I agree that I should be guided by these principles and that I need to consider whether the present application relates to a matter in question and, if it does, whether the documents sought are necessary for fairly disposing of the case or for saving costs. Moreover, I think that it is right, as Aldous J indicated, that in doing this I should have regard to the burden that discovery would place upon the proprietors.

It is also I think convenient to mention at this point that, having failed with his request for an adjournment, Mr Miller argued that any order that I might make for discovery should allow six weeks for the proprietors to comply, consistent with the timetable set out by Jacob J's order for directions in the rectification action. I do not accept this. My decision that the present hearing on a request for discovery should go ahead was made in the full knowledge of the timetable for the rectification action and was in effect a decision that discovery can go ahead on its merits and in its own right. It therefore follows that any timetable I set for discovery will relate solely to the particular discovery concerned and not to any outside matters such as have arisen in the parallel, but separate, rectification action. To express this somewhat differently, I can see no practical reason why the timetable in the rectification action needs to be imposed on an order I may make for discovery.

On this basis, I turn now to the particular categories of documents requested. Paragraph 1 of the request comes in two parts, as follows:

- "1. That the proprietors do within 7 days serve on the applicants' solicitors copies of the following documents:

1.1 The draft sale and purchase agreement referred to in paragraph 11.2 of the affidavit of Jeffrey Davidson sworn herein;

1.2 The final sale and purchase agreement referred to in paragraph 11.9 of Mr Davidson's affidavit."

Mr Arnold argued that, although he had applied for discovery of these documents, in fact they fell to be supplied under Rule 112 which requires the filing of documents which are referred to in evidence. Rule 112 states:

"112 Where a document, other than a published United Kingdom specification or application, is referred to in any reference, notice, statement, counter-statement or evidence required by the Act or these Rules to be filed at the Patent Office or sent to the comptroller, copies of the document shall be furnished to the Patent Office within the same period as the reference, notice, statement, counter-statement or evidence in which they are first referred to may be filed

Provided that where a copy of any evidence is required by the Act or these Rules to be sent direct to any person, a copy of the document referred to in that document shall also be sent direct to that person."

Mr Arnold therefore argued that his application was simply one which, one way or another, was intended to ensure that the proprietors' evidence was properly completed as required by Rule 112. However, as both Mr Miller and Mr Arnold pointed out, although Rule 112 is mandatory in that it requires the filing of documents referred to, it is silent as to what the Comptroller should do in the event that it is not complied with. Mr Miller argued that in this event, the Comptroller could either effectively waive the Rule by accepting the evidence as it stood, or he could simply decline to accept the evidence unless and until it was completed as required by Rule 112. In his view the Comptroller did not have the power under Rule 112 to order the filing of documents referred to, because this would become a form of mandatory discovery by another name (a phrase Mr Arnold first used), but without the discretion and other safeguards which were built into the procedures for discovery as such. Mr Arnold on the other hand argued that, although Rule 112 was silent as to any powers to enforce its provisions, the Comptroller already has very wide discretion under Rule 106 to order the filing

of any documents he wishes, and this could properly be used in the event that Rule 112 was not complied with. As to Mr Miller's point that this would be a form of mandatory discovery, Mr Arnold pointed out that it was the proprietors' decision to file evidence which referred to other documents, and that given this, it was necessary for Rule 112 to be complied with. And I would add that the exercise of the Comptroller's power under Rule 106 is itself, of course, discretionary. Mr Arnold did, however, agree with Mr Miller that in the event that the proprietors withdrew the relevant parts of Mr Davidson's evidence, the application would fall away, and on this basis Mr Arnold suggested that the proper way to view non-compliance with Rule 112 would be to consider that it acted to reverse the normal onus whereby the applicants for discovery had to establish that discovery was required, placing the onus instead on the proprietors to show why an order requiring the documents to be produced should not be made.

Having considered this, and without taking a final view on the merits of the arguments over compliance with Rule 112, it seems to me that a pragmatic solution to this problem, and the one which I shall follow, is to use the discretion available to me under Rule 106 and to require the proprietors either to supply the documents requested or to withdraw the relevant parts of Mr Davidson's evidence. As to the time in which the proprietors must comply, the applicants request specifies that the documents should be supplied within seven days. However, I think it would be right to give the proprietors a little longer to consider their position, and given that at least some of the applicants' requests involve a period of fourteen days so that specifying a period of fourteen days would not lead to any overall increase in the time taken, I shall give the proprietors fourteen days from the date of this decision within which to either supply the documents requested in paragraphs 1.1 and 1.2 of the applicants' notice of application or to withdraw the relevant parts of Mr Davidson's evidence.

Turning now to the second head of the applicants' request, this is in three parts as follows:

"2. That the proprietors do within 14 days make and serve upon the applicants' solicitors copies of all documents in the proprietors' possession, power or custody in the following classes:

2.1 all documents relating to the negotiation and execution of the sale and purchase agreement referred to in paragraph 11.9 of Mr Davidson's affidavit

insofar as such documents concern the value of the intellectual property rights transferred or agreed to be transferred thereunder;

2.2 all documents relating to the drafting, execution, presentation to the Stamp Office and presentation to the Patent Office of all assignments or purported assignments of UK letters Patent No 1507959 from Santa Fe International Corporation or Santa Fe International Company to the Proprietor;

2.3 any licence (or copy licence) of patented technology for the laying of offshore pipe or the manufacture of pipelaying equipment for use offshore."

In relation to category 2.1, Mr Miller argued that the discovery of these documents would be a vast undertaking far beyond their value to the disposal of this case. He indicated that in order to ascertain the value of the intellectual property rights it would be necessary to ascertain the value of all other tangible and intangible assets because the value of the intellectual property would be that which is left when everything else is subtracted. Mr Arnold, on the other hand, argued that the applicants were not interested in anything other than the value of the intellectual property and that they were only asking for documents relevant to this. Mr Arnold also very helpfully set out what he considered to be the issues raised by each aspect of the request and indicated why he considered that documents relating to those issues were necessary for fairly disposing of the case. In relation to category 2 generally he argued that there were two issues, first the value of the intellectual property rights at the time of the 1989 agreement between Santa Fe and the proprietors, and second how was that value apportioned between the various patents involved. Mr Miller on the other hand argued that, as Mr Davidson said in his paragraphs 10.6, 10.7 and 11.1, the value of the agreement between Santa Fe and the proprietors in 1989 was not relevant, not least because Santa Fe had been making losses and the proprietors had subsequently turned the operation around into healthy profit, whereupon the value of the intellectual property on which the operation was based would now be much higher. And in this connection, he drew attention to the fact that the applicants seemed to be taking a different view as to the veracity of the 1989 agreement depending on whether they were seeking a licence of right in this action or rectification of the register in the Court. He argued that the applicants could not have it both ways and should take a consistent view one way or the other. But as Mr Arnold said, rightly in my view, the

merit of all these issues is a matter for the substantive hearing. As Aldous J said in *Merrell Dow* when referring to the words of Brett LJ in the passage that he had quoted:

"It should be noted in that passage that the word "relevant" is not used. The test is whether the documents relate to the matters in question. If they do, then they should be disclosed and their relevance will be decided at trial."

In my view, and while I accept that all the points raised by Mr Miller are indeed arguable, I believe that the 1989 value of the intellectual property rights is a matter in question and that, accordingly, documents relating to that agreement are potentially discoverable. Moreover, while the breadth of the request in paragraph 2.1, which goes to documents relating to the value of all intellectual property rights, did give me pause for thought, I also believe that the fact, referred to by Mr Arnold, that there were apparently two assignments for different sums at around the time of the agreement between Santa Fe and the proprietors means that it is necessary for the applicants to be able to get behind the actual sale and purchase agreements which I have already ordered should be supplied to find out what was going on. For that reason, I think that the applicants are entitled to the documents they request at 2.1 and I shall order accordingly under Rule 103(3).

However, consistent with what I have said about pragmatism and the need to ensure that discovery does not become unduly burdensome, and also bearing in mind the need to speed proceedings as far as possible given that the present patent, and any licence I might settle, will expire towards the end of April 1996, I shall order the proprietors either to supply the documents requested or to withdraw the relevant parts of Mr Davidson's evidence within fourteen days from the date of this decision.

The request at paragraph 2.2 is rather different. Mr Arnold argued that this went to the second of the two issues which he said arose, namely the apportionment of the value of the intellectual property between the various patents involved. Mr Miller, on the other hand, argued that, for the purposes of the present licence of right proceedings, documents presented to the Stamp Office were wholly irrelevant. Whilst he conceded that the documents sought might be of use in the context of the rectification action, he argued they were not necessary for the present licensing proceedings, because if I were to order disclosure of categories 1.1, 1.2 and 2.1 there would then be no need for the documents in category 2.2. I think that while Mr Arnold is

right in saying that this category does relate to a matter in question, I believe Mr Miller is also right in saying that its discovery is not necessary for the fair disposal of the case because paragraph 2.2 of the applicants' request will add nothing useful to that falling under paragraphs 1.1, 1.2 and 2.1 of their request. Therefore, because I do not consider that the documents requested in paragraph 2.2 are necessary, I shall not order their discovery.

On category 2.3, Mr Miller made an offer at the hearing to disclose all licences of the kind requested which were made at arms length, by which he meant not between companies in the same group. Indeed, he indicated that while there were intra-group licences, otherwise there were no licences at all. After some discussion agreement was reached, and in these circumstances I shall order disclosure under Rule 103(3) in the terms agreed.

Coming now to category 3, this includes two categories, as follows:

"3. That the proprietors do within 7 days permit two representatives of Arthur Andersen to inspect the financial documentation of the proprietors relied upon by Jeffrey Davidson when preparing his affidavit and in particular:

3.1 the "life of the project" ledgers referred to in paragraph 13.4 of Mr Davidson's affidavit;

and 3.2 the Proprietors' books and records from which summaries of the accounts as relate to all projects undertaken were extracted as referred to in paragraph 13.5 of Mr Davidson's affidavit."

Both Mr Arnold and Mr Miller accepted that the documents requested in paragraph 3 of the applicants' request related to calculation of royalty payments using the profits available approach. Mr Miller pointed out, rightly, that a profits available calculation was normally based on the applicants' profits, not the proprietors' profits as we have here. The proprietors had put in evidence about their profits simply because the applicants had not put in evidence about their own profits, and on the basis that the profits of the two parties were likely to be broadly similar. Thus, the proprietors' evidence would at least provide some basis for a calculation where none existed otherwise. Given this, he argued that the proper way forward would be for the applicants to put in evidence of their own profits and not for me to order

further discovery of items relating to the proprietors which would be very highly confidential, especially given that the two parties involved here were competitors, indeed the only competitors, in the field involved.

Mr Arnold, however, said that this was not relevant because the proprietors had chosen to put in this evidence and, that being so, the applicants were entitled to proper discovery on the basis of the evidence which had been adduced. As to confidentiality, again this was not relevant and could be dealt with by confidentiality undertakings as the applicants have offered. Mr Arnold also referred to the possibility of one or both of these categories falling under Rule 112, though he did not press the point.

I largely agree with Mr Arnold in that, since the proprietors have chosen to put in the evidence, then, regardless of their reasons for so doing, it seems to me to follow that the matter has been put in question. Further, I think that since the matter has been put in question, the disclosure requested is necessary for the fair disposal of the case. In this respect Mr Arnold referred me to the third exhibit to Mr Davidson's affidavit which is a table of calculations summarising the results of 17 contracts performed by the proprietors and which he described, with justification in my view, as skeletal. If the applicants are to make any sense of the proprietors' figures, it is necessary in my view for them to have the documents requested in paragraph 3. However, having said that, I am conscious that the Courts have criticised the profits available approach because it produces a royalty which is dependent on the licensee's reasonable remuneration rather than on the patentee's as required by section 50(1)(b). Thus there must be considerable doubt over the need for a profits available calculation, and the fact that in this case the figures in question are those of the proprietors does not ease my concern since using the profits available approach, even on the basis of the proprietors' figures, would still give rise to the same criticism. Nevertheless, to the extent that the evidence is there, I think it is right that the applicants should have the opportunity to get the background information. Therefore, allowing as I do that there is reason to question the need for the proprietors' evidence in this regard, I shall use the discretion that I have under Rule 103(3) to require the proprietors either to allow the applicants' representatives to inspect the documents or to withdraw the relevant parts of Mr Davidson's evidence.

As to the time for the inspection, Mr Miller doubted whether the applicants' proposal of inspection within seven days was practical. Moreover, since I am giving the proprietors the

choice of whether to allow the documents to be inspected or to withdraw the relevant evidence, I think that a little longer would be both appropriate and consistent with the timing of the other orders I am making. I shall therefore order that the proprietors permit inspection or withdraw the evidence within fourteen days.

As to the applicants' request that they be given fourteen days in which to submit supplementary evidence in the light of the items discovered, neither Mr Arnold nor Mr Miller addressed me specifically. It does, however, seem to me to be eminently reasonable that the applicants are given this opportunity, and I shall order accordingly. This requires me also to give the proprietors an opportunity to submit evidence in reply to any supplementary evidence the applicants may submit, and accordingly I shall order that they may do so within four weeks after the serving by the applicants of any supplementary evidence.

Coming now to the confidentiality terms set out in paragraph 4 of the applicants' request, Mr Arnold and Mr Miller reached an agreement on the terms, and I shall therefore order that all the documents and information that I am ordering should be discovered will be subject to confidentiality in the terms agreed.

Finally, as to the timetable for the future conduct of this application, Mr Arnold suggested that I could now move to appointing the substantive hearing. Mr Miller, on the other hand, felt that there were as yet a number of possibilities which might affect the timetable, for example the proprietors might themselves apply for discovery, and it was therefore not possible to appoint the substantive hearing.

The timetable set in the proceedings in accordance with Rule 62(6) required the applicants' evidence-in-answer to be filed by 17 January 1996. Unsworn copies of affidavits by Messrs Boulton, Joffrion, Nelson and Edwards were filed by the applicants on 22 December 1995, and at the hearing Mr Arnold argued that this meant that the final period for filing of the proprietors' evidence-in-reply should end two months from that date, viz 22 February 1996. Mr Miller, however, noted that **sworn** copies of the affidavits had not been filed until 11 January, and argued that this was the date from which the final two month period should run. In fact, though, only the sworn affidavits of Messrs Boulton, Joffrion and Edwards were filed on 11 January, that of Mr Nelson not arriving in the Patent Office until 19 January. I am informed that completion of the serving of copies of the sworn evidence on the proprietors

occurred on 16 January. If neither party objects it is not uncommonly the practice in Patent Office proceedings for the trigger date for filing of the next evidence round to be the date of serving of unsworn copies of the previous evidence, but I am satisfied that, if the matter is disputed between the parties, the proper trigger date is that on which copies of the evidence was actually served in formally acceptable form, namely sworn. For that reason, and in accordance with Rule 62(6) and the normal practice of allowing two months, I order now that the proprietors have until 16 March 1996 to file evidence strictly in reply to the applicants' evidence. Under the procedure I am setting for discovery, the final possible step under that process will be the serving by the proprietors of any evidence in reply to any supplementary evidence that the applicants may file following the discovery. It is obviously sensible to merge the two timetables, and to set 16 March as the final date for the proprietors to file such evidence also. That being so, and allowing fourteen days to consider any evidence in reply which may be submitted, I intend to set in motion the appointment of the substantive hearing for as early in April as may be arranged. I would, however, observe that the nature of this case and the fact that there does not seem to be much meeting of minds between the parties is likely to mean that I will be faced with a considerable task in settling the terms of the licence. That being so, I am bound to say that if there is any further delay in these proceedings beyond the timetable I have just set out, then although I will always strive to produce a decision in a timely way, it is very likely that I would find it literally impossible to settle the licence before the patent expires on 29 April.

Thus, in conclusion I hereby order that:

1. the proprietors shall within fourteen days of the date of this decision either serve on the applicants' solicitors copies of:
 - a. the draft sale and purchase agreement referred to in paragraph 11.2 of the affidavit of Jeffrey Davidson sworn herein;
 - and b. the final sale and purchase agreement referred to in paragraph 11.9 of Mr Davidson's affidavit;

or withdraw those parts of their evidence which refer to or rely upon those documents:

2. the proprietors shall within fourteen days of the date of this decision:
 - a. either make and serve upon the applicants' solicitors copies of all documents in the proprietors' possession, power, custody or control relating to the negotiation and execution of the sale and purchase agreement referred to in paragraph 11.9 of Mr Davidson's affidavit insofar as such documents concern the value of the intellectual property rights transferred or agreed to be transferred thereunder, or withdraw those parts of their evidence which refer to or rely upon those documents;
 - and b. make and serve upon the applicants' solicitors copies of all documents in the proprietors' possession, power, custody or control comprising any licence (or copy licence) of patented technology for the laying of offshore pipe or the manufacture of pipelaying equipment for use offshore, other than intra-group licences;
3. the proprietors shall within fourteen days of the date of this decision either permit two representatives from Arthur Andersen to inspect the financial documentation of the proprietors relied upon by Jeffrey Davidson when preparing his affidavit and in particular the "life of the project" ledgers referred to in paragraph 13.4 of Mr Davidson's affidavit, and the proprietors' books and records from which summaries of the accounts as relate to all projects undertaken were extracted as referred to in paragraph 13.5 of Mr Davidson's affidavit, or withdraw those parts of their evidence which refer to or rely upon that documentation:
4. all documents disclosed pursuant to paragraphs 1 and 2 above and all information contained therein, and all information derived from the inspection ordered in paragraph 3 above, shall be confidential to the applicants' solicitors, Counsel and independent experts (namely representatives of Arthur Andersen) and shall not be disclosed to the applicants without further order:
5. the applicants shall be entitled within fourteen days of receipt or inspection of the last of the documents to be served or inspected to serve supplementary evidence in support of their application for settlement of the terms of a licence of right under UK patent number 1507959 and the proprietors shall be entitled within a period

ending 16 March 1996 to serve evidence in reply to any such supplementary evidence.

As this is a procedural matter, any appeal should be lodged within fourteen days of the date of this decision.

Dated this 19 day of January 1996

DR P FERDINANDO

Superintending Examiner, acting for the Comptroller.

THE PATENT OFFICE