Card

BLO/107/95

Dr P Ferdinando
3Y46

PATENTS ACT 1977

IN THE MATTER OF an application under section 46(3) by Viskase Limited for settlement of terms of a licence of right in respect of Patent No. 1,522,397 in the name of W R Grace & Co

28/7/95

DECISION

Patent No 1522397 in the name of W R Grace & Co ("the proprietors") is dated 30 September 1976 and therefore became subject to licences of right under paragraph 4(2)(c) of schedule 1 of the Act on 30 September 1992. On 18 May 1993 Viskase Limited ("the applicants") applied under section 46(3) of the Act, asking the Comptroller to settle terms of a licence of right.

Evidence-in-chief for the proprietors comprises affidavits from Mr Norman Bornstein, co-inventor of the patent in suit who has held a range of positions for the proprietors, and from Mr William Lee Jr, the proprietors' Director of Patent and Trademark Assessment, and statutory declarations from Mr David Cannon, the proprietors' patent agent in the United Kingdom, and (two) from Mr Michael Hampshire, Director of W R Grace Limited, a wholly-owned subsidiary of the proprietors and General Sales and Marketing Manager of their UK Cryovac Division. The proprietors' evidence-in-reply comprises a second affidavit from Mr Lee and a third statutory declaration from Mr Hampshire. Evidence from the applicants comprises statutory declarations from Mr Michael Scanlon, the applicants' Financial Controller and Company Secretary, and Dr David Edwards, Films Research and Development Director, Europe, for the applicants' parent company and Plant Manager of the applicants' Sedgefield Plant.

The matter came before me at a hearing on 26 May 1995 at which the parties were both represented by counsel, the applicants by Mr Roger Wyand and the proprietors by Mr George Hamer.

The patent is for a plastics packaging film, particularly for packaging foodstuffs such as meat and cheese. The film is a heat-shrinkable laminate having low oxygen-permeability, the oxygen barrier being provided by a layer of hydrolysed ethylene/vinyl acetate copolymer ("HEVA"). The oxygen barrier layer is disposed between two other polymeric layers, at least one of which comprises an oriented cross-linked polymer. The patent includes claims both to the product *per se* and to methods for its production.

The invention has been patented in several European and non-European countries. In some countries *per se* product protection was granted. In others only process and product by process protection was obtained.

The applicants have been involved in meat packaging for 30 years or more. They already manufacture and sell heat-shrinkable, oxygen-barrier, laminated food packaging films based on a copolymer of vinylidene chloride referred to as "PVDC". The proprietors also sell PVDC products.

The applicants say that they are entirely happy with both the technical and the commercial performance of their PVDC products, but wish to add HEVA products to their range because they are more environmentally friendly. HEVA products are more acceptable because they do not contain chlorine and are more easily recycled.

The proprietors also have a long-standing interest in food packaging. They have been selling the invention in this country since 1984. Three products are mentioned in the evidence. One of these, described as BC/BT cook-in bags, is manufactured in France. BC "Cook & Ship" bags are used to wrap meat and poultry products for cooking and can be left in place during distribution and sale, so that the product is sold in the same film in which it has been cooked. BT "Cook & Strip" bags are used for cooking only and removed before sale. A second product according to the invention is heat shrinkable film sold by the proprietors under BDF designations. This is imported from the USA and is used primarily for covering uncooked meat and poultry, packed in trays. The proprietors' third product is called BB 300 bags. These are made in France and sold in European countries for their environmental advantages, in preference to competing PVDC bags. However, the proprietors do not promote them in this country and sales here have consequently not been large.

The applicants say that they will manufacture their HEVA film in Swansea using the same process which they use to make PVDC film. In this process laminated film is orientated by stretching before it is cross-linked and the applicants claim that, in this respect, the process is distinguished from claim 1 of the patent, which seems to require that the product is cross-linked before it is orientated. For this reason the licence sought is limited to the *per se* product claims and excludes claims 1 to 23.

The applicants say that they have spent over £1 million on research and development in adapting the PVDC process to HEVA film and £2 million pounds in constructing their Swansea manufacturing plant. They plan to market two products, referred to as Product 1 and Product 2. Product 1 will be in the form of bags which will compete with the proprietors' BB 300 bags, the applicants' own PVDC bags and PVDC bags of other competitors, including apparently the proprietors. Product 2 will also be in the form of bags and will compete with the proprietors' BC Cook & Ship bags. By October 1994, when the applicants' evidence was filed, this product was still under development and was not expected to be ready for sale before April 1995. The applicants say that Product 2 will be sold for different foods from the proprietors' competing product, in a different segment of the market, but this is denied by the proprietors. The products will be sold in the UK and those European countries where the proprietors do not have *per se* product protection.

The main source of contention is the royalty rate. The applicants offer 3% of their net sales value. The proprietors originally sought 30% of the applicants' selling price, although lower figures are discussed in the evidence.

The parties attempt to substantiate these figures on the basis of comparable licences, the nature of the invention (although much of the argument ostensibly on this issue amounted to a debate as to whether there was a "going rate" by which I should be guided), and a partition of the profit available to the licensee. However, no accounts have been submitted and much of the evidence is qualitative. Neither party has attempted a calculation of the type considered under section 41 of The Patents Act 1949 and, although this approach was mentioned by both sides at the hearing, it was not seriously advanced by either.

The limited amount of relevant evidence available in this case has caused me some difficulty in setting and justifying any particular royalty rate. As I embark on the various approaches open to me I am very much aware of the limitations of each of them in relation to the present case and the ease with which doubt could be cast on any conclusion I reach. Nevertheless, I am required set the terms of a licence, and I am obliged to make the best use I can of the information the parties have made available to me for this purpose.

Mr Wyand for the applicants drew my attention to the judgment of Lloyd LJ in *Smith, Kline and French Laboratories Ltd's (Cimetidine) Patents* [1990] RPC 203 from page 236. This confirms earlier decisions to the effect that the royalty rate in a licence of right should be set to ensure that the patentee receives reasonable remuneration having regard to the nature of the invention and that such a rate is likely to correspond to that which would be agreed between a willing licensee and a willing patentee. However there is an important qualification. Where the licensee is to operate in competition with the patentee, the patentee is not entitled to claim compensation for sales lost to the licensee, as these are losses to the patentee as manufacturer and not as patentee *per se*. The patentee's position as manufacturer is to be ignored. Lloyd LJ's judgement goes on to indicate that where another closely comparable licence exists, this would be the best possible guide to the royalty likely to be agreed between a willing licensee and a willing licensor.

In the case in suit four recent licence agreements have been submitted in evidence. Three of them are in confidential exhibit DNE3, but are discussed by Dr Edwards for the applicants in his non-confidential statutory declaration, so some of their content is already in the public domain. Two of these, which I shall call licence A and licence B, concern a single patent and agree royalties of 4% and 6% respectively for "ready-to-stuff, cellulosic food casings". Both of these agreements were concluded following litigation, instituted by the applicants, in which the relevant patent was found to be valid and the licensee was found to have infringed, and Dr Edwards suggests that this background enabled the applicants to negotiate a higher royalty than would otherwise have been possible. On the other hand, Mr Lee for the proprietors suggests three reasons why a higher royalty should be set in the present case than in licences A or B. The first is the inclusion in both licences of unspecified "up front" payments for past damages. The second is the fact that the applicants settled another patent dispute on financially favourable terms at about the same time. Third is his opinion, supported by the evidence of Mr Hampshire, that the products of the present invention command premium prices.

A third confidential agreement, licence C, was for a royalty of 1%. Dr Edwards describes this as an arms length agreement, although Mr Lee suggests that its timing may have put pressure on the licensee or licensor. He also points out that this licence is concerned with an apparatus and method of mechanically treating films, which in his view provides only a modest improvement to the product.

The fourth, non-confidential agreement, which I shall call licence D, involves neither of the present parties. It is for a stretch wrap cling film, useful for wrapping goods to be transported on pallets. The royalty agreed is expressed as US cents per pound of film, but Dr Edwards suggests that this is equivalent to about 1.6% of net sales. He sees this as an agreement between a willing licensee and a willing licensor for a product similar to the present invention. Mr Lee submits that very little is known about the background to this agreement; for example, it is unclear whether or not validity was at issue. The licence is for a much longer period than the present one and, in his submission, is for a less sophisticated product, which, he says, is probably to be sold in larger quantities.

At the hearing neither Mr Wyand nor Mr Hamer suggested that any of the above licences is closely comparable. I have mentioned several differences above, and others were referred to by both counsel.

I note that two of the four agreements, licences A and B, are in the same field as the present invention, at least to the extent that they relate to plastics film for food packaging. In contrast, licence C relates to machinery for mechanically treating film and licence D to plastics film for wrapping pallet loads. There is disagreement as to how relevant the particular food-packaging film of licences A and B is to the present invention, but I would judge that, at least, it is more closely related than the subject-matter of either of licences C or D. It also appears significant that the applicants are already offering a royalty substantially higher than those agreed in licences C and D, suggesting that they do not themselves find the 1% and 1.6% figures in these two agreements particularly relevant to the present situation. If that is in fact their judgement, then I agree with them, and conclude that licences C and D provide no practical assistance to me in settling royalty in the present case.

Licences A and B set different royalties, respectively of 4% and 6%, for the same food packaging product. I recognise Dr Edwards' point that, all other factors being equal, a royalty agreed following a finding that the patent is valid and infringed might in most circumstances be expected to be higher than that between a willing licensor and a willing licensee. It is also true, as Mr Lee has pointed out, that all other factors are not equal here. There may, for example, be differences in the commercial values of the products respectively of licences A and B and of the present patent, and the provision of an up-front payment of damages in the two earlier licences may possibly have influenced the percentage royalty rate agreed in those licences, though there is no evidence one way or the other as to this. I must be very cautious, therefore, in extrapolating to the present situation. Moreover, the fact that different royalty rates were set for licences A and B, for reasons which are not explained to me in the evidence, is further cause for me to exercise caution in treating these licences as valid comparables in relation to royalty determination. Nevertheless, if no better guidance emerges from other potential approaches to royalty settlement, I will have to make the best use I can of these earlier licences.

I will deal next with the submissions made in relation to "going rate". At the hearing both parties sought to establish, on a historical basis, the range of royalty appropriate under section 46 to the present type of invention. In the *Cimetidine* decision referred to above Lloyd LJ made it clear that where a closely comparable licence agreement was available, it would be erroneous to take account of a "going rate" based on other agreements for similar products, which in other respects were less comparable. In the present case, however, as I have noted, the guidance I have received from comparable licences is limited, and I will therefore consider whether evidence relevant to a "going rate" is of assistance.

One source of such evidence comes from Mr Cannon, the proprietors' patent agent. He exhibits a table showing, for all previously reported section 46 decisions, the nature of the invention and the royalty set. From this he first attempts to establish a range for chemical inventions from 4% (£50 per ton) for a flame retardant plasticiser, which he sees as a bulk chemical, up to 25 to 30% or more for pharmaceutical chemicals. At the hearing Mr Hamer suggested a rising scale of royalty for chemicals depending on the bulk in which they are sold. On this scale, heavy chemicals would be at the bottom, pharmaceuticals at the top, with the present invention being of medium bulk, somewhere in the middle, perhaps at 18%. However, I do not find Mr Hamer's argument persuasive and see no justification for such a scale in the evidence, in the authorities or in logic. Furthermore, Mr Wyand pointed out that agrochemicals, which command relatively high royalty rates, are sold and distributed in relatively large quantities.

Mr Hamer also saw 18% as consistent with the royalty rates set in two earlier cases involving plastics film. The first such case was the unreported *Smith & Nephew's Patent* (SRIS O/126/87 & C/21/88) decision, concerning a medical dressing containing *inter alia* a layer of plastics film. The royalty in this case was set at 11.25%. However, I see little connection between this dressing and the present food packaging film. The nature and use of plastics film in the two is quite different and, in the present context, seems largely coincidental. The second "plastics film" decision referred to was *Cabot Safety Corporation's Patent* [1992] RPC 39, in which a royalty of 18% was set for an earplug punched from foamed plastic sheet. Again any connection between this subject-matter and the present invention seems tenuous. Moreover, it is clear from the *Cabot* decision that the royalty set was based primarily on exceptional commercial factors and was not typical for the product involved.

I am therefore unconvinced by any of these arguments. I note from Mr Cannon's table, and know from my own experience, that the highest royalties have been set in pharmaceutical cases, generally reflecting the large investment in research, development and clinical testing necessary in this field and the consequent delay in marketing a product and thereby achieving a return on capital. These factors are also present to a lesser extent in surgical and agrochemical cases and these two classes have generally commanded royalties below the pharmaceuticals, but substantially above other types of invention. If these three classes of product are removed from Mr Cannon's table, one is left with figures in the range 4 - 7% for a wide range of products, including, for example a royalty of 4% set in an earlier decision on a patent of the proprietors for vacuum packaging equipment. This invention may not be particularly closely comparable with the present one, but it seems, at least, to be no more remote than the *Cabot* earplug or the *Smith & Nephew* dressing.

Two magazine articles discussing royalty rates are exhibited by Dr Edwards, the first being entitled "Licensing Options: Two Patent Attorneys Weigh The Pros & Cons". This article comes from a 1984 issue of an American publication called "Paper, Film & Foil Converter". The article is anonymous and appears to be a journalist's summary of a paper written by two US attorneys of Phillips Petroleum Co for presentation to the Oklahoma Bar Association. Thus, while the article itself appears in a packaging magazine, the paper which it summarises does not seem to be particularly relevant to packaging. It comprises a mainly qualitative discussion of the merits and demerits of licensing technology and know-how, and appears to covers both patented and unpatented information. Towards the end it gives a simple indication of royalty rates which might apply in three different classes of technology. "Prime" technology, defined as new technology with solid patent protection, is said to attract 7-10%, "normal" technology, 5 to 15 years old, 4-7%, and "mature" technology, more than 15 years old, 1-4%. Mr Wyand suggested to me that the age of the present invention tended to exclude it from the "prime" technology class. It was either "normal" or "mature" technology and he, therefore, directed me to the boundary at 4% between these two classes. Mr Lee, however, suggested in evidence that the lower rates were more appropriate to know-how and that the present patent-protected invention is closer to the "prime" category.

I do not find either of these arguments persuasive. I see this paper as no more than a brief and, I think I can say not unfairly, superficial summary of the licensing of both patented and unpatented material throughout the whole spectrum of technology. I do not see it as a highly-developed treatment of the subject, or as one that is particularly relevant to the circumstances before me. The quoted ranges appear to amount to no more than a simple rule of thumb and I think it would be dangerous to base any conclusion on them in relation to any specific case, especially when it is recognised that the ranges quoted seem to have little relationship to royalties set in prior schedule 1 licence of right cases, where the technology is by definition at least 16 years old, and therefore "mature".

The second article exhibited by Dr Edwards is entitled "Factors Affecting Royalty Rates". Its three authors appear to be American intellectual property consultants, although this is not entirely clear. This paper reports the results of a survey into licensing practices, business strategy and factors affecting royalty rates, which is intended to provide "benchmarks" for licensing professionals. However, it does not claim to be statistically reliable and quite expressly warns its readers against applying its data to any particular licensing situation. Each licensing decision should, it says, be evaluated in the light of its own particular facts and circumstances. Mr Lee draws attention to these disclaimers in his evidence and I accept that, once again, I must be careful in extrapolating from this paper to the situation before me.

Interest in this paper centres on two tables, Figures 1A and 1B on page 108, which divide the responses from the survey, first into licensing-in and licensing-out responses, second into particular classes of technology and third into royalty rate bands. The classes of technology considered most relevant to the present invention are "chemical" and "food/consumer" and the results of the survey for these classes come out as below.

	Licensing-in		Licensing-out	
Royalty Rate	Chemical Licences	Food/Consumer Licenses	Chemical Licenses	Food/Consumer Licences
0-2%	16.5%		18.8%	12.5%
2-5%	58.1%	100%	57.4%	62.5%
5-10%	24.3%		23.9%	25.0%
10-15%	0.8%		0.5%	
15-20%	0.4%			
20-25%				
> 25%			0.1%	

Mr Wyand saw these figures as centred in the region of 2 to 5% for both the chemical and the food/consumer categories, thereby supporting the applicants' offer of 3%. Mr Hamer, however, questioned the reliability of the figures. He pointed out that the survey reflected the licensing patterns of 118 respondents and that in some of the 13 categories the number of respondents was small, notably 13 for chemical products and 5 for food/consumer products. The 100% figure for licensing-in of food/consumer products may have resulted from a single licence in this area, and the figures for licensing-out of these products correspond to 1/8, 5/8 and 2/8, suggesting that they may have come from only 8 licences. This may, of course be true, but I have no way of telling. Mr Hamer also noted that the number of agreements cited by each respondent varied widely, with about half reporting less than 10 licensing-in agreements and some respondents reporting 500 or more agreements. These factors might introduce major distortions into the results. Mr Hamer further claimed that the general level of royalties here is much lower than that agreed in previous section 46 proceedings. I accept that this is so for pharmaceuticals, where the article suggests a range of 0-15%, compared with figures of 25% or more set by the Comptroller and the Court. Mr Wyand suggested that this may reflect a difference in the type of pharmaceuticals which are willingly licensed as opposed to those licensed compulsorily, though I do not think that this helps his contention that the table provides some assistance in the present circumstances. My own experience accords with this view to the extent that the type of pharmaceuticals subject to licence of right proceedings rarely seem to have been the subject of earlier voluntary licence agreements. Outside the pharmaceutical area the difference is much less marked, but may still be detected. It is generally accepted, for example, that a section 46 royalty for a basic mechanical invention is likely to be within the range of 5-7%. Figures in the tables for "automotive" and "general manufacturing" are a little lower than this, with 90% in the 0-10% range, and midpoints of around 4% for licensing-out and 3-4% for licensing-in.

Such differences do not seem surprising, when one considers the special circumstances usually prevailing in section 46 proceedings. For example, the product is always patent protected and the patent is presumed to be valid. The product has usually been commercially successful and of above average significance in its field. Were that not so it is unlikely that the patent would have been maintained in force for so many years. In contrast, the licences covered by this survey presumably cover know-how as well as patent licences, and seemingly cover all types of processes and products, new and old. When such factors are taken into account, I see the information presented in this article as of little relevance to the situation before me, and of no practical assistance to me in determining the appropriate royalty in the present case.

The "profits available" approach received some attention. Dr Edwards, for the applicants, seeks to justify a 3% royalty on the basis of the applicants' expected profits. He states that the net profit which the applicants expect to make from Product 1 calculated over a ten year period of commercial life is about 10% of its selling price. However, no justification of this figure is given. No prices are disclosed and no costs itemised. He then asserts that when capital and development costs are taken into account, again over a ten year period, the net profit reduces to 7 to 8%. Paragraphs 16 and 17 of his declaration refer to a capital cost of over £2 million to build the Swansea production plant and a development cost of over £1 million to adapt the applicants' existing PVDC process to the manufacture of HEVA barrier film. No other capital or development cost appear to be quantified, and there is no indication of the volume of sales which will have to pay for these capital outlays. No figures at all are given for Product 2. At the time when Dr Edwards' evidence was prepared he considered that this product was insufficiently developed for a precise forecast to be made.

In the *Cimetidine* decision Lloyd LJ indicates that while the profits available approach to setting a royalty under section 46(3) has the advantage that it is an approach likely to be used in "the real world", it is not generally appropriate to such proceedings because it attempts to determine the royalty from the applicants' point of view, rather than to provide the patentee with reasonable remuneration for the invention, as required by section 50(1)(b). In the same case Nicholls LJ saw some value in the approach, but only as a check on other approaches. In practice, the profits available approach has only been used in section 46 proceedings where both parties are in favour, and then only as a last resort. In such cases the information provided by the would-be licensee has generally been more detailed, allowing both the patentee and the hearing officer to satisfy themselves that the main conclusions are properly substantiated. In his second affidavit, Mr Lee criticises the lack of detailed information in the applicants' argument and, although Mr Hamer did attempt a profits calculation of his own, I find it difficult to place much weight on either of the competing arguments.

I view the *Cimetidine* judgment as a clear indication that the profits available approach is generally inapplicable to section 46(3) proceedings and is only to be used as a last resort in exceptional circumstances. In the present circumstances where there is little evidence to rely on, I find it unhelpful and do not propose to come to any conclusion on it.

The final broad type of consideration available to me as guidance as to what level of royalty to set concerns the nature of the invention, but focussing now on the specific nature of the invention in suit. A number of reasons were set out by Mr Hamer at the hearing and by Mr Lee in evidence for the royalty rate in the present case to be above the norm for the general type of invention concerned. Other reasons were advanced by Mr Wyand and Dr Edwards for the royalty here to be below the norm.

Reasons advanced for a higher royalty rate include: in licence of right proceedings the patent is presumed to be valid; this is a "sellers' market" as demonstrated by the applicants' wish for a licence and the proprietors' reluctance to grant one; the licence will be of short duration and will give the applicants a "headstart" in the market in the market; the applicants' evidence suggests that the invention commands premium prices; this is a low risk licence as the proprietors are already selling the invention; the market has been developed by the proprietors' promotion and the applicants will benefit from this; and the applicants will be competing against the proprietors who will lose trade from the licence.

Reasons advanced for a lower royalty include: the licence period is short; this is a high risk licence because the particular products which the applicants plan to sell have not been sold in large quantities in this country; the invention is not a "milestone" invention; the proprietors have already had ten years to recoup their capital investment; the licence is for the *per se* product claims only and excludes the process claims; the proprietors' promotion of the product was by brand name and the applicants will not derive benefit from this; and the applicants' products under the licence will compete with their own PVDC products.

Some of these factors, such as the presumption of validity, the "head-start" for the applicants, the sellers' market, and the relatively short term of the licence (whichever way that may influence the level of royalty) will often be present in licence of right cases and provide no support for a royalty either above or below those set in other settled cases, though they may on occasion tend to support an argument for a royalty differing to some degree from the norm for licences in general. I regard the conflicting claims of unusually high or low risk to the applicants as based on such limited, and contradictory, evidence that I am in no position to resolve them with any confidence. The issue of loss of trade by the proprietors is concerned with the proprietors' position as manufacturer, which I am precluded by the authorities from taking into account in the royalty determination.

However, certain other of the factors advanced to influence royalty level require closer attention. The first of these concerns the proprietors' promotion of their products under the invention. It appears to me that two distinct, albeit interrelated, considerations arise in this respect. The first, which I might characterise as "style", is whether the manner in which the proprietors have promoted their product has been such that the applicants, on entering the HEVA market, will be able, so to speak, to move in on the coat-tails of the proprietors' promotional effort, gaining sales from it to such a degree as to warrant an uplift of royalty. The second, which I can term "extent", is whether the proprietors, in order to establish and develop the HEVA product in the market, have had to invest unusually heavily in a product-related promotional effort, warranting recompense by way of an enhanced royalty.

In relation to the first of these considerations, Mr Wyand drew attention to Mr Hampshire's exhibits MTH5 & 6, comprising publicity leaflets promoting the proprietors' Cryovac package marketing systems, and in particular the BC/BT "Cook & Ship" and "Cook & Strip" products and the BDF shrink film respectively. Mr Wyand argued that these leaflets primarily promoted the Cryovac trademark, making no distinction between the product of the invention and, for example, the proprietors' own PVDC products. Mr Hamer responded by observing that the proprietors were hardly likely to promote the invention in such a way as to "do down their other products", but in my view that does not answer the point, and perhaps even goes some way towards conceding that the proprietors' promotion of the HEVA product has not been such that the applicants will gain any particular benefit from it so as to warrant an increased royalty.

To the extent that these two exhibits represent the thrust and style of the proprietors' promotion effort (and they are all that I have in this regard), I must agree with Mr Wyand that the invention itself, in the sense of the technical development it represents, barely figures. I am not even sure that the potential buyer of the advertised product would necessarily be certain from each leaflet that it did not in fact relate to a PVDC-based product, since although the BDF leaflet does, under the heading "environmentally friendly", state that BDF film is totally polyolefin-based, the other one makes no reference whatever to specific materials. In the BDF leaflet the only other comments under the "environmentally friendly" heading are that the product "saves material because it's extra thin", and that "trays are available in many shapes and sizes". The evidence appears to point elsewhere to the fact that the environmental-friendliness of the invention in fact lies in the ease of recycling HEVA as compared with PVDC, which is more likely to have to be dumped in a landfill, and the fact that HEVA does not, unlike PVDC, contain chlorine.

That this appears nowhere in the leaflets does not support a contention on behalf of the proprietors that they have promoted the invention in terms of its real technical advance. While I do not go as far as to accept Dr Edward's speculation that the reason for the proprietors' marketing strategy of their HEVA products may be that they did not wish to create such a large demand for the product as to require them to modify their existing PVDC process lines, I do consider that the evidence does not establish that the proprietors' promotion efforts have been such that the applicants are likely to gain any significant advantage from it. On the contrary, it appears to me on the evidence that the applicants are likely to have to mount their own, quite independent, campaign, presumably building on the market they have established, for example, for their PVDC products. In these circumstances I conclude that the style of the proprietors' promotion of the invention has not been such as to warrant any enhancement of royalty rate.

The evidence as to the extent of the proprietors' promotion of HEVA products is sparse. Mr Hampshire exhibits documents outlining certain trials which the proprietors have mounted, but I am unable to form a view from these exhibits alone that they represent an unusually intensive or costly campaign. In his exhibit MTH4 Mr Hampshire sets out an estimate of promotional expenditure on BDF films over an 18 month period, including evaluation, trial and other promotion, and totalling £560,000. While this appears to be a not inconsiderable sum in relation to a single product range, I am given no context, such as sales revenue, within which to assess its relative significance or scale. For the proprietors' BC/BT bags, Mr Hampshire offers nothing more precise than an estimate of "sales of many millions" for 1994, corresponding to a share of 60% of a market which Mr Hampshire does not define. I do not have even this vague indication for BDF films. I therefore conclude that the evidence as to the extent of the proprietors' promotion of their HEVA products is not such as to cause me to elevate the royalty payable to them under the licence the terms of which I am required to settle. Thus neither of what I have perceived as the two "promotion" considerations points, on the evidence, to an increased royalty.

A factor alleged on behalf of the applicants to justify a lower royalty than usual is that they are seeking a licence in relation only to the product claims, and not in relation to the claims to a method of production. Mr Wyand sought to persuade me in this regard, but Mr Hamer argued that this was not an issue. I was not shown any cases in which it had been established that this should be a consideration, and I cannot see why it should be. The applicants are seeking a licence under claims of the patent, and the fact that there are other claims in the same patent in which they have no interest does no seem to me to be of any significance to the royalty they should pay.

A further factor advanced by the proprietors as having a major influence on the level of royalty to be set is the question of down-payments or "up-front" payments. Mr Lee, in evidence, expresses the view that, in the present circumstances where the licence will run for relatively few months, a willing licensor would insist on a non-returnable down-payment of royalty, based on the licensee's expected sales, were it to seriously exploit the licence for its full term. Such a provision is included as clause 5.1(a) of the proprietors' draft licence, but does not appear in the applicants' draft. Mr Lee indicates that were this clause included, the proprietors would be prepared to accept a reduction in the percentage royalty sought from perhaps 18% to 12%. At the hearing Mr Hamer echoed Mr Lee's submissions, but

Mr Wyand said that a down-payment would only be appropriate in a licence agreement concerning know-how.

The maximum period of a licence under the present provisions is four years, and in many cases the actual term has been considerably less than this. Accordingly, licences of short duration are not unusual in licence of right proceedings. Nevertheless, down-payment provisions have not generally been sought in such proceedings, and where sought have been consistently refused. As put to me by Mr Wyand, a down-payment clause would have the effect of providing a minimum lump sum royalty and of obliging the applicants to work the invention to a particular extent. Under section 46(3) the applicants are entitled to a licence as of right, and I can see no justification for restricting this right in the manner suggested. I would add that, had I been disposed to include the proprietors' clause 5.1(a), I would have had difficulty in setting the size of the down-payment, as I have no qualitative evidence on the applicants' expected use of the invention or of what the proprietors would see as serious exploitation.

The evidence that the proprietors sell their HEVA products at what they describe as a "premium price" is provided by Mr Hampshire, and Mr Hamer drew attention to paragraphs 5 and 9 of Mr Hampshire's first statutory declaration which refer to price uplifts for two HEVA products of respectively 50-75% and 12.5% over the prices of the proprietors' own standard BB4L bag, which Mr Hampshire describes as their "non heat-treatable barrier bag". Mr Hampshire goes on to state that:

> "The premium prices have been set in view of the importance we attach to recouping, while patent protection exists, the substantial research, development and promotional expenditure which together have been responsible for the introduction and establishment of these products on the UK market."

I am not convinced that this in itself provides grounds for a royalty which is in any way out of the ordinary. To be told that one product is priced at 12.5%, or even at 50-75%, above the price of another different product which does not have the same performance specification (note "non heat-treatable"), especially when I have not been given information as to relative material and production costs, tells me very little, in my judgement, about the relative profit margins on the various products. Even if there were clear evidence that the profit margin on the proprietors' HEVA products was at a higher level than that on certain other products of their range, I would not necessarily regard that in itself as sufficient justification for a higher than normal royalty, since I am mindful that I am prohibited from taking into account the proprietors' position as manufacturer, and therefore any out-of-the-ordinary manufacturing profit they may be able to achieve.

I therefore conclude that the evidence of a "premium price", such as it is, does not require me to apply any particular uplift to the royalty I set.

The invention in this case is a laminated plastics film for packaging meat and poultry products. The proprietors characterise it as "new generation" technology and as a highly profitable product, but the applicants contest this. The applicants point out that HEVA products are acknowledged by the proprietors to be in competition with PVDC products, and the sales literature in Mr Hampshire's exhibits MTH5 and MTH6 suggests selling on brand name rather than as a strongly innovative concept. With regard to profitability, there is no evidence of the actual profit levels at which the invention or competing products are sold. There is conflict between Mr Hampshire and Dr Edwards on the relative prices of the proprietors' and the applicants' HEVA and PVDC products, but no actual figures are given to enable me to satisfy myself where the truth really lies. Accordingly, on the balance of the evidence, I am forced to the conclusion that it has not been established that the invention is of unusually high technical significance or commercial value, and again I therefore conclude that no special factor pointing to an unusually high royalty has been identified.

In the absence of special factors, royalties in section 46(3) proceedings in the mechanical field have been set broadly within the range 5-7%, and the range of royalties set has been extended down to 4% for bulk chemicals in *Ciba Geigy's Patent* [1986] RPC 403, relating to flame retardant plasticisers for vinyl chloride polymers. Although I might regard these figures as providing, in the most general terms, a broad indication of the sort of level of royalty which apply when the special factors which determine royalties in such fields as pharmaceuticals, agrochemicals or surgical or medical devices are absent, I do not find that they give me much assurance that the same range necessarily applies for chemical inventions of the type with which the patent in suit is concerned.

It appears, then, that the alternative approaches to royalty determination offer me no more secure a basis in the present case than that provided by the only available comparable licences, notwithstanding that I have found these to be of limited value in this regard, and requiring cautious application. In short, as I foreshadowed in discussing prior licences A and B, no better guidance is available, and I must therefore make the best use I can of them.

Licence agreements A and B relate to a single patent and were concluded after a finding that the patent was valid and infringed. The royalties set were 4% for one agreement and 6% for the other. Its seems to me that the fact that, in contrast with the patent to which licences A and B relate, there is no suggestion in the present case that the applicants are infringing, would tend to suggest a royalty rate at least towards the lower end of the unexplained range set by these two figures, providing of course that all other factors are the same. I have only incomplete information on the background to the earlier agreements and such information as I have suggests that there may be some differences. It may well be, for example, that the laminated HEVA film of the present invention is a higher technology and more commercially valuable product than the cellulosic food casings of the earlier licences, but I have no uncontested evidence to support this. It may also be true that down-payments for damages in the earlier agreements may have encouraged the licensor to accept a lower royalty, though again there is no clear evidence of this. Weighing these factors as carefully as I am able, but accepting the incompleteness of the evidence before me and, therefore, the inevitable arbitrariness of and absence of rigour in my analysis, I conclude that I should set the royalty in the present case at 4.5% of the applicants' selling price.

It has been a common and widely approved practice in section 46(3) proceedings to set the royalty as a unit price equivalent to the percentage rate determined. However, in the present case I have no quantifiable evidence of the applicants' intended selling price, and I have no option, therefore, but to incorporate the percentage formula into the licence, recognising as I do so that this is far less convenient and that the royalty payments due will be far less easily calculated than had I been able to set a unit price.

I turn now to other provisions of the licence which I am requested to settle. A draft licence handed up at the hearing by Mr Wyand embraced a measure of agreement between the parties on some of the terms on which they had earlier disagreed. I will use this version as the starting point of this discussion, dealing in the decision only with points on which the parties remained in disagreement at the hearing.

Even at the hearing there was some disagreement as to the appropriate form of preamble. Of the two versions, I conclude that the proprietors' contained in their draft received on 3 May 1994 provides the clearest picture of the background to grant, and this is the form which I have adopted.

The applicants seek the right to import from outside the European Union on the ground that the proprietors import product according to the patent from the USA. The proprietors argue that the only product which they import from outside the EU is BDF heat-shrinkable film and the applicants have no plans to sell a product of this type. However, the licence is not restricted to particular products, and if the proprietors are importing in the area covered by the licence, I think it right that the applicants should be able to do the same. Accordingly, I have deleted the words in draft clause 3.1 which would prevent such importation.

The applicants object to a clause in the proprietors' draft licence which would debar them from exporting the invention to countries in which "parallel patents" are in force. They say also that the wording is not clear, particularly in the present circumstances where the licence covers only some claims of the patent. In my view the exclusion is correct in principle. However, the form of wording which embodies it in the draft, although it has been used in other section 46 licences, could cause misunderstanding here. I asked Mr Wyand's view of restricting the excluded countries to those where claims in respect of which the applicants are seeking a licence are included in the "parallel patent". He indicated that he would see this as an improvement, but that a better form of words would be that in clause 3.2 of the *Cabot* licence, referred to above. Mr Hamer seemed agreeable to an amendment referring to "parallel patents with product claims". He did not respond expressly to the *Cabot* clause, but this would be quite a radical departure to introduce so late in these proceedings. Amendment on the lines which I suggested seems equitable. It will apparently meet the difficulties of both parties and seemed to find some favour with them. Accordingly, I have amended the relevant clause to restrict the countries concerned to those in which "parallel patents having *per se* product claims are in force". I am aware that this clause will not prevent the applicants from exporting to countries in which the proprietors have only process protection. However, this seems equitable, since the applicants have developed their own process.

Draft clauses 4.1 & 4.2 would both prevent the applicants assigning the licence, sub-licensing or subcontracting. The form of words in clause 4.1 is a truncation of that originally proposed by the applicants in their first draft. I was told that it is consistent with that settled in the *Cabot* licence referred to above, though its content in that case does not appear to have been considered by the Comptroller or the Court. Clause 4.2 was proposed by the proprietors in their first draft licence. I was told that it is consistent with that settled in *Research Corporation's (Carboplatin) Patent* [1990] RPC 663. Neither party appears to feel strongly about either form, and no compelling reason was advanced for one or the other. I note that rule 62(1)(b) required the applicants to file a draft of the licence they sought and rule 62(3)(b) offered the proprietors an opportunity to file a statement setting out fully the grounds of their objection. I conclude from this that where, as here, the proprietors have failed to set out a ground of objection, the applicants' draft should stand. Accordingly, I have adopted the applicants' clause 4.1.

Draft clause 6.2 would debar the applicants from representing themselves as connected with the proprietors or stating that the latter had consented to the licence. In this case I have three versions of the clause, one from each party in the draft handed-up and a third version suggested by Mr Lee in his first affidavit. It appeared at the hearing that neither side felt strongly about the various versions, but that Mr Lee's version would be acceptable to both. Accordingly, I have adopted Mr Lee's version.

Draft clause 7.2(d) would allow the proprietors to terminate the licence if the applicants or one of their associates were to challenge the validity of the patent. It is opposed by the applicants, but clauses of this type have often been included in section 46 licences and have been endorsed by the Court, for example in *E I Du Pont de Nemours (Blades') Patent* [1988] RPC 479. I have therefore retained this clause.

Draft clause 7.2(e), proposed by the proprietors, would allow termination if the applicants should come under the control of another person or company operating in the same market. It was not opposed in principle by the applicants, but Mr Wyand was concerned that it might read on to an internal rearrangement within the applicants' group of companies. It was agreed at the hearing that the parties would attempt to agree a form of words, which would be submitted to the Office in a letter. In the event they were only able to reach partial agreement. Wording was agreed which excepted certain companies of the applicants' group from the generality of the clause, but the proprietors wished the clause to cover "direct or indirect or *de facto* direction or control", whereas the applicants would only agree to "direct control". The proprietors argue that without their more comprehensive wording the intention of the clause could easily be evaded. Their agent's letter refers to *Syntex Corps Patent* [1986] RPC 585, where the inclusion of a clause worded in the manner at present sought was expressly endorsed by the hearing officer and the Court. In response the applicants say that some companies in their group are public companies, and their shares could change hands without affecting the relative positions of the parties. They draw attention to two previous licences including no clause of the present type, but in neither case does the point at issue appear to have been argued. My understanding is that the intention of this clause is to allow the licensor to terminate the licence if the licensee were to come under the control of another organisation operating in the same market. The form of wording advocated by the proprietors appears to achieve this end, while the less demanding wording of the applicants would not necessarily cover all situations in which control of them effectively changed hands. Accordingly I have adopted the the proprietors' version.

I have two different versions of the jurat, one from the applicants handed up at the hearing and a proprietors' version in their draft of 3 May 1995. However, as the terms of this licence are directed by the Comptroller and the licence is put into force by this decision and not by the signatures of the parties, no jurat is necessary and neither has been included.

In a letter to the Comptroller dated 1 June 1995, J A Kemp & Co, for the proprietors, pointed to three possible clerical errors in the draft licence handed up at the hearing. I note that this letter was copied to the applicants' patent agent and that no comment has been received. Two of the three points concern parts of the draft which are now excluded. The third relates to clause 5.1 (formerly subparagraph (b)), where I have amended the words "territory United Kingdom" to read "Territory".

In accordance with my findings I order that the proprietors grant to the applicants a licence under the patent in suit in the terms appended hereto, to take effect from the date of this decision.

Neither party took any point on costs and, in line with normal practice under section 46(3), I make no order on costs.

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

Dated this 28th day of July 1995.

[redacted]

Dr P FERDINANDO

Superintending Examiner, acting for the Comptroller.

THE PATENT OFFICE

IN THE MATTER OF Patent No. 1,522,397 granted to W.R GRACE & CO

and

IN THE MATTER OF an application by VISKASE LIMITED of Kingsway, Fforestfach, Swansea, SA5 4DL, South Wales for settlement of terms of a licence of right in respect of the said Patent.

GRANT OF LICENCE OF RIGHT

A. WHEREAS W.R.GRACE & CO. -CONN, of 1114 Avenue of the Americas, New York, New York 100036-7794, United States of America (hereinafter called "Grace" which expression shall, where the context permits, include its successors and assigns) is the registered proprietor of Letters Patent No 1,522,397 (hereinafter called "the Patent").

B. AND WHEREAS licences under the Patent are available by virtue of The Patents Act 1977 Schedule 1 paragraph 4(2)(c) and for no other reason.

C. AND WHEREAS pursuant to The Patents Acts 1949 and 1977 VISKASE LIMITED (hereinafter called "Viskase") has applied to the Comptroller for settlement of the terms of a LICENCE OF RIGHT under the Patent.

D. AND WHEREAS the Comptroller has settled the terms of the LICENCE OF RIGHT as set out below.

E. NOW THEREFORE PURSUANT TO AN ORDER of the Comptroller dated as per the date of the decision to which this document is appended this LICENCE OF RIGHT is hereby granted to Viskase as follows:

1. DEFINITIONS

1.1 "Grace", "Viskase" and "the Patent" shall have the meanings set out above.

1.2 "Product" shall mean a heat-shrinkable packaging film within the scope of any one of claims 24 to 36 of the Patent ("Film") and packaged articles falling within the scope of claim 37 ("Packaged Articles").

1.3 "Territory" shall mean the United Kingdom of Great Britain and Northern Ireland, and the Isle of Man.

1.4 "Net Invoice Price" shall mean

1.4.1 in respect of Product sold by or on behalf of Viskase in the ordinary course of business to an independent customer at arm's length, the total amount invoiced by Viskase and paid in respect of the Product, less such sales and excise taxes (including value added tax) and duties, if any, as are included in the invoice price and actually paid and credited, and

1.4.2 in the case of Product used or disposed of in any other way, the gross invoice price, less only the relevant deductions set out above, which would have been charged on an equivalent sale at an arm's length.

2. TERM

2.1 This Licence shall commence with effect from the date of the decision to which it is appended and continue, subject to clause 7 (TERMINATION) hereof until the Patent ceases or expires or until claims 24 to 37 inclusive are held invalid or otherwise deleted.

3. **RIGHTS GRANTED**

3.1 Viskase is granted a non-exclusive right under the Patent in the Territory

3.1.1 to make, use, import, sell or otherwise dispose of (and to offer to sell and to otherwise dispose of) the Product; and

3.1.2 to keep for disposal the Product so made or imported.

3.2 Nothing in this Licence shall be construed as a licence to Viskase under any other patents or rights of Grace or others, whether in the Territory or elsewhere.

3.3 Viskase acknowledges that it has no rights under this Licence under any one of claims 1 to 23 of the Patent.

3.4 Viskase undertakes not to export directly or indirectly Product to any countries where parallel patents having *per se* product claims are in force or to supply Product to a person who it believes will so export it.

4. **ASSIGNMENT**

4.1 Viskase are not entitled to assign this Licence, grant sub-Licences, or to sub-contract manufacture.

5. **ROYALTIES**

5.1 Viskase shall pay to Grace a royalty at a rate of 4.5% of the Net Invoice Price of all Product made, imported, used or sold or otherwise disposed of in the Territory during the term of this Licence. Said royalty shall be paid in pounds sterling in accordance with clause 8 (NOTICES) hereof.

5.2 Viskase shall keep full records of all Product made, imported and sold or otherwise disposed of and shall within 30 days after each 3 monthly period ending on the last day of March, June, September or December of each year (and within 30 days after termination or expiration of this Licence) send to Grace a statement showing the total amount of Product sold or otherwise disposed of by Viskase in that period together with a remittance for the royalty shown to be due. Any payment which is overdue shall bear interest calculated on a daily basis of 2% above the base rate of the National Westminster Bank plc from time to time in force during the whole period such payment is overdue.

5.3 Viskase shall compile and (for a period of 3 years after the end of Viskase's financial year in which the sales in question were made) maintain records in sufficient detail to enable the royalty payment due hereunder to be calculated and audited. Viskase shall at any time at the request of Grace during the term of this Licence and for 3 years thereafter

5.3.1 on reasonable notice permit an independent chartered accountant appointed by Grace to whom Viskase have no reasonable objection to inspect such records to verify the royalties due under this Licence, and

5.3.2 at Grace's request and expense have any statement submitted hereunder certified to be correct by their auditors.

All and any documents or other materials inspected by said accountant or auditor shall be treated as communicated in confidence by them and no information shall be communicated to Grace other than whether or not the royalty due accords with such records and whether or not the records are true and correct records.

5.4 In the event an independent chartered accountant appointed in accordance with the terms of 5.3.1 ascertains that there has been under-reporting of royalty payments due hereunder Viskase shall be liable to reimburse to Grace the cost of the investigation by the said independent chartered accountant.

5.5 For the purpose of this Licence Product shall be deemed to have been disposed of at the time when it is delivered.

5.6 The rate of royalty mentioned in this Licence is exclusive of value added tax or any similar tax and Viskase shall in addition to such royalties pay any value added tax or similar tax thereon.

5.7 All sums payable hereunder by Viskase shall be paid free of any deduction except any lawfully required required by the United Kingdom tax authorities.

6. QUALITY CONTROL AND MANUFACTURING PROCESS

6.1 Viskase shall be solely responsible for the quality of all Product sold in the Territory under this Licence.

6.2 Viskase shall not make or permit to be made, whether in the Territory or elsewhere, any reference to Grace, the Patent or this Licence in any promotion of Product or in any advertising literature, packaging or other material, except that they may use the words "licence of right under statute" without reference to Grace or the Patent.

6.3 Viskase shall indemnify and hold Grace harmless from all claims arising out of the manufacture, disposal or offer to dispose of, use, importation or retention of Product by Viskase.

7. TERMINATION

7.1 Viskase may terminate this Licence by giving at least 90 days written notice to Grace of termination.

7.2 Grace may terminate this Licence forthwith by written notice to Viskase if

7.2.1 any royalties or other sums payable hereunder to Grace be unpaid after becoming due and more than 30 days after written notice from Grace requiring payment, or

7.2.2 Viskase commits or allows to be committed any other breach of the terms or conditions of this Licence and fails to remedy such breach within 30 days after written notice from Grace requiring such remedy, or

7.2.3 Viskase has

7.2.3.1 a receiver or administrative receiver appointed over the whole or any part of its assets,

7.2.3.2 any order made or resolution passed for its administration or winding up (except for the purpose of reconstruction or amalgamation),

7.2.3.3 any meeting of its members and creditors called to consider a proposal for a composition in satisfaction of its debts or a scheme of arrangement of its affairs,

7.2.3.4 any petition presented to approve any scheme of arrangement, or

7.2.4 Viskase or any person or company associated with Viskase challenges the validity of the Patent, or

7.2.5 Viskase shall come under the direct, indirect or *de facto* direction or control of any person operating in the market in which the Product competes, other than Envirodyne Industries Inc, Viskase Corporation, Viskase SA or any associated or subsidiary company of any of these companies.

7.3 Any termination shall not terminate any obligation expressed to arise on or continue after termination and any failure to terminate for any default or breach shall not amount to a condonation of such default or any other default or breach.

7.4 On expiry or termination of this Licence Viskase shall be liable to pay to Grace royalty at the rate set out in clause 5 (ROYALTY) hereof on all quantities of the Product then in its custody, possession or control in addition to any royalties payable pursuant to clause 5 hereof.

8. NOTICES

8.1 Any payment to be made, notice to be given or statement to be rendered by either party to the other may be given or rendered if it is sent by pre-paid registered airmail post addressed in the case of Grace for payments to the Vice-President and Treasurer W.R.Grace & Co.-Conn, 1 Town Center Road, Boca Raton, Florida, 33456-1010 United States of America and marked for the attention of Mr Peter D Houchin and for other notices and statements to the Group Patent Counsel, Patent Division, W.R.Grace & Co.-Conn, P.O. Box 464 Duncan SC 29334 United States of America, or to such other addresses as Grace may from time to time notify to Viskase in writing, and in the case of Viskase to Viskase Limited, Kingsway, Fforestfach, Swansea SA5 4DL, South Wales, United Kingdom, or to such other address as Viskase may from time to time notify to Grace in writing as being Viskase's principal place of business, and all such notices and communications shall be deemed to have been received at the time when in the ordinary course of post they would have reached their destination.

9. LAW

9.1 This Licence shall be construed according to English Law and the English Courts shall have juridiction in the event of any dispute.