

BLO 1045/88

PATENTS ACT 1977

IN THE MATTER OF an application
under Section 48(1) by Esso Chemical
Limited for a compulsory licence
under Patent No B1406107 in the
name of Monsanto Company

PRELIMINARY DECISION

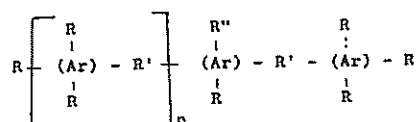
Patent No 1406107 was granted under the Patents Act 1949, the complete specification having been published on 17 September 1975. The patent was amended in accordance with the decision of the Principal Examiner acting for the Comptroller-General dated 6 January 1983 under Section 33 of the Patents Act 1949 and reprinted under Patent No. B1406107.

The applicants, Esso Chemical Limited (hereinafter called 'EC') sought a voluntary licence under the patent in suit from the proprietors, Monsanto Company (hereinafter called 'Monsanto'). The parties failed to reach agreement and EC subsequently applied to the comptroller under Section 48(1) of the Patents Act 1977 for a compulsory licence under the patent.

The patent in suit relates to what is commonly referred to as a 'carbonless' copy paper. There are two independent claims.

Claim 1 reads:-

A method of marking on a substrate by developing a color from a colorless or substantially colorless chromogenic compound, which comprises contacting the chromogenic compound on the substrate with an electron-accepting solid material of the Lewis acid type which is a sensitizing agent for the chromogenic compound, in the presence of a liquid solvent comprising a compound having the structure



wherein each Ar is a radical containing 6 to 18 carbon atoms and having an aromatic nucleus optionally containing chlorine or bromine as nuclear substituents or is a cyclohexylphenyl, cyclohexylbiphenyl or tetrahydronaphthyl nucleus, n is 0 or 1, each R' is a linear or branched C₁₋₁₂ alkylene or aryl-substituted C₁₋₁₂ alkylene group and may be the same or different, R" and each R is a hydrogen atom or C₁₋₆ alkyl radical and may be the same or different, or a liquid solvent comprising a diphenyl (C₂₋₁₂ alkene), a (C₁₋₆ alkyl)-substituted diphenyl (C₂₋₁₂ alkene), a C₁₋₆ alkyl (C₆₋₁₈ aryl)-indane or a nuclear chlorine-or bromine-substituted derivative thereof.

Claim 13 reads:

A pressure-sensitive mark-recording system comprising

- (a) sheet material,
- (b) mark-forming components supported by the sheet material and arranged in juxtaposition but in unreactive condition, the said components comprising a chromogenic material and an electron-accepting solid material of the Lewis acid type reactive with the chromogenic material to produce a mark when brought into contact with the chromogenic material in the presence of a solvent, and
- (c) a liquid solvent for the chromogenic material, the solvent being supported by the sheet material but separated from the sensitizing agent by a physical barrier which is rupturable on the application of a marking instrument to the sheet material, the said solvent comprising a compound having the structure (as claim 1).

It can thus be seen that, in broad terms, claim 13 relates to the carbonless copy paper itself whereas claim 1 relates to the use of the paper, e.g. by a typist. It can also be seen that an essential feature of both of these claims is the use of a liquid solvent having a chemical structure falling within the specified general formula.

EC are seeking a compulsory licence on two grounds:

first, that the patented invention is capable of being commercially worked in the United Kingdom and that it is not being so worked or is not being so worked to the fullest extent that it is reasonably practicable.

second, that by reason of the refusal of the proprietors to grant a licence on reasonable terms the establishment of the commercial or industrial activities in the United Kingdom is unfairly prejudiced and/or that the financial conditions sought to be imposed by the proprietors upon the grant of a licence unfairly prejudice the manufacture, use or disposal of solvent for carbonless copy paper in the United Kingdom.

EC are manufacturers of a solvent designated 'Actrel 400' which, for the reason explained below, I shall assume falls within the terms of general formula specified in claims 1 and 13 of the patent in suit for the purpose of these proceedings. EC do not want to make or use carbonless copy paper themselves but wish to sell their solvent to manufacturers of carbonless copy paper for this purpose. According to the evidence, EC do not have any customers for their solvent at present but have identified Wiggins Teape Group Limited (hereinafter referred to as "Wiggins Teape") as the most significant potential customer. However, Wiggins Teape have quite properly stated that they would not consider purchasing solvent from EC unless the question of infringement of the patent in suit was totally removed by the patent being revoked or licensed to them.

In support of their application, EC have submitted in evidence a draft licence which contains a paragraph 2.01 in the following terms:

"2.01 Subject to the terms and conditions of this Agreement, Monsanto hereby grant to EC a non-exclusive, non-transferable licence under Monsanto's Patent Rights to import into the United Kingdom and to make, have made, use and sell Solvent in the United Kingdom together with the right to grant to purchasers of Solvent the right to make, have made, use and sell in the United Kingdom Carbonless Copy Paper containing Solvent to third parties for use by said third parties."

The draft licence also contains the following definitions:

"1.01 "MONSANTO's Patent Rights" shall mean United Kingdom Patent B1406107.

1.02 The term "Carbonless Copy Paper" shall mean a pressure-sensitive mark recording system according to Monsanto's Patent Rights.

1.03 The term "Solvent" shall mean a product sold by EC for use in Carbonless Copy Paper, which use is within the scope of the claims of Monsanto's Patent Rights."

In response, Monsanto have denied in their Counterstatement certain of the grounds on which EC are seeking the compulsory licence. In addition, they do not agree to the draft licence proposed by EC and deny that it is appropriate to secure the purposes defined by Section 50 of the 1977 Act.

In addition, as a preliminary point contained in evidence accompanying their Counterstatement, Monsanto ask the comptroller to determine the question as to whether EC should join its potential customers in the United Kingdom as co-applicants for settlement of terms of a compulsory licence under the patent.

Monsanto state that once this issue has been resolved it is their intention to submit an alternative form of draft licence.

However EC do not wish to join their customers as co-applicants because they wish to be able to sell to any customer in the United Kingdom and not merely those who have been joined. Also, as stated above, they do not actually have any customers for their solvent at present.

The parties being unable to agree as to whether one or more of EC's customers should be joined in the proceedings as co-applicants, the matter came before me to determine at a preliminary hearing on 4 February 1988. At the hearing the proprietors were represented by their counsel Mr Fysh and the applicants by their counsel Mr Burkill.

Mr Burkill requested that for the purpose of the preliminary hearing the applicant should not be tied to the particular form of the draft licence submitted in evidence since this could be amended.

Accordingly, the matter I am required to determine is whether or not EC can proceed with their application in their own name only for a compulsory licence under the patent in suit, which licence will entitle EC to make, have made, use and sell solvent for use in the patented invention and will entitle purchasers of the solvent from EC to make, have made, use and sell carbonless copy paper in accordance with the patented invention.

I was asked by Mr Fysh to make several assumptions for the purpose of the preliminary hearing. The first was that the patent is valid. The second was that the only novel feature of the invention is the particular solvent used, all other features of both claims 1 and 13 being conventional. The third was that at least some of these solvents were known at the priority date and thus could not be claimed per se, although their use in carbonless copy paper was not known. The fourth, which I have already

mentioned in setting out the background to the hearing, was that EC's 'Actrel 400' falls within the formula specified in claims 1 and 13. Mr Burkill did not dissent to the assumptions and, since they facilitate consideration of the matter to be determined, I shall proceed on the basis of them.

Mr Fysh's submissions against the application proceeding without EC's customers being joined as co-applicants fell under three heads:-

first: the comptroller could not make a fair determination of the royalty under a licence without evidence from the EC's customers;

second: the provisions of Section 49(1) which give the comptroller the power to grant licences to customers of the applicants are not applicable in the present case;

third: the comptroller should not order the grant of a licence under Section 48 which gives the licensees the right to authorise their customers to carry out acts which they themselves are not authorised to carry out under the licence.

I will deal with each of these submissions in turn. The first is that, in the absence of evidence from EC's potential customers, it is not possible for the comptroller to make a fair determination of the royalty payable under the licence. In particular, Mr Fysh submitted that it would not be possible for the comptroller to determine whether it would be appropriate to award a royalty of 3% based on the sale of EC's solvent, as proposed in EC's draft licence, rather than a royalty based on the sales of carbonless copy paper in accordance with the patented invention.

In reply, Mr Burkill contended that Monsanto had been selling solvent for many years and that, as the proprietors of the patent in suit, they must know the state of the market for the patented products so that additional evidence from, say, Wiggins Teape was unnecessary.

On this matter I would agree with Mr Burkill and I am of the opinion Mr Fysh's argument does not constitute sufficient grounds for refusing to allow the application to proceed without joining EC's customers as co-applicants. Both parties would appear to have access to sufficient information regarding the manufacture of carbonless copy paper for a royalty to be determined and Mr Fysh was unable to identify any particular evidence which the comptroller would need which could only be provided by EC's customers. I therefore see no reason why the application should not proceed on the basis of evidence supplied by the two existing parties.

I should also add that, in relation to the applicants' proposal that the royalty should be based on the sale of solvent and not copy paper, Mr Burkill referred me to the decision in Cassou's Patent [1971] RPC 91, at page 94. In this case it was decided inter alia that the royalty payable under a licence under a patent for an instrument comprising an injection tube and a sheath should be calculated on the basis simply of the number of sheaths sold since the novel feature of the invention was the provision of the sheaths. However, although this may be relevant to the substantive hearing, I do not think it assists me now.

I come now to Mr Fysh's second submission which relates to the applicability of Section 49(1). This section gives the comptroller the power to order the grant of licences to customers of the applicant as well as to the applicant himself. It reads:

"49.-(1) Where the comptroller is satisfied, on an application made under section 48 above in respect of a patent, that the manufacture, use or disposal of materials not protected by the patent is unfairly prejudiced by reason of conditions imposed by the proprietor of the patent on the grant of licences under the patent, or on the disposal or use of the patented product or the use of the patented process, he may (subject to the provisions of that section) order the grant of licences under the patent to such customers of the applicant as he thinks fit as well as to the applicant.

It can be seen that this provision is in respect of an application under Section 48, as in the present case, and is subject to the conditions of that section. I therefore think that it is useful to consider the relevant provisions of Section 48 at this point.

Mr Fysh proceeded on the basis that the application for the compulsory licence was made under Section 48(1)(a) on grounds specified in sub-sections (a), (d) and (e) of Section 48(3) and I am satisfied that this is the case. The relevant provisions are thus as follows:

"48.-(1) At any time after the expiration of three years, or of such other period as may be prescribed, from the date of the grant of a patent, any person may apply to the comptroller on one or more grounds specified in sub-section (3) below -

(a) for a licence under the patent,

.....

(3) The grounds are:-

(a) where the patented invention is capable of being commercially worked in the United Kingdom, that it is not being so worked or is not being so worked to the fullest extent that is reasonably practicable;

.....

(d) that by reason of the refusal of the proprietor of the patent to grant a licence or licences on reasonable terms -

.....

(iii) the establishment or development of commercial or industrial activities in the United Kingdom is unfairly prejudiced;

(e) that by reason of conditions imposed by the proprietor of the patent on the grant of licences under the patent, or on the disposal or use of the patented product or on the use of the patented process, the manufacture, use or disposal of materials not protected by the patent, or the establishment or development of commercial or industrial activities in the United Kingdom is unfairly prejudiced.

The comptroller's powers to order the grant of a compulsory licence to an applicant under Section 48(1)(a) are set out in Section 48(4)(a). This reads:

(4) if he is satisfied that any of those grounds are established, the comptroller may -

(a) where the application is under sub-section (1)(a) above, order the grant of a licence to the applicant on such terms as the comptroller thinks fit;

Mr Fysh noted that there appeared to be no previous cases decided under section 49(1) of the 1977 Act or the corresponding Section 38(1) of the 1949 Act. He contended that although the requirements contained in this section corresponded closely to the grounds set out in section 48(3)(e) and the applicants had pleaded such grounds, these requirements were not satisfied in this particular case. His reasoning was that section 49(1), like Section 48(3)(e), applies only where the material in question - in this case EC's solvent - is not protected by the patent. He contended that although the patent in suit did not contain a claim to the solvent per se, the solvent nevertheless was protected by virtue of Section 60(2).

Section 60(2) provides for so-called 'secondary' or 'contributory' infringement. It reads:

(2)..... a person (other than the proprietor of the patent) also infringes a patent for an invention if, while the patent is in force and without the consent of the proprietor, he supplies or offers to supply in the United Kingdom a person other than a licensee or other person entitled to work the invention with any of the means, relating to an essential element of the invention, for putting the invention into effect when he knows, or it is obvious to a reasonable person in the circumstances, that those means are suitable for putting, and are intended to put, the invention into effect in the United Kingdom."

Mr Fysh's contention was that the effect of this provision was to protect EC's solvent when used in carbonless copy paper and when offered for sale for the purpose of manufacturing such copy paper.

Mr Burkill contested Mr Fysh's submission on the ground that the extent of the protection conferred by a patent was expressly defined by Section 125(1) so that it was not necessary to refer to Section 60(2). Section 125(1) reads:

"125.-(1) For the purposes of this Act an invention for a patent for which an application has been made or for which a patent has been granted shall, unless the context otherwise requires, be taken to be that specified in a claim of the specification of the application or patent, as the case may be, as interpreted by the description and any drawings contained in that specification, and the extent of the protection conferred by a patent or application for a patent shall be determined accordingly."

Mr Burkill contended that this Section meant that a material is only protected if it falls within a claim of a specification, the

claim where necessary being properly interpreted by the description. Accordingly, since EC's solvent is not so claimed in the patent in suit it is therefore not protected for the purposes of Section 49(1). Mr Fysh contested this on the ground that the definition of the extent of protection in Section 125(1) was subject to the condition "unless the context otherwise requires". He submitted that Section 49(1) was a context which requires otherwise when considering the effect of Section 60(2).

Having considered the matter, I am unable to agree with Mr Fysh that EC's solvent is a material protected by the patent for the purposes of Section 49(1). As I read it, Section 60(2) as applied to the circumstances of the present case protects only the acts of supplying and offering to supply the solvent in question and does not protect the solvent per se. Moreover, I note that Section 49(1) and Section 125(1) refer to the protection conferred by a patent whereas Section 60(2) does not and the context of Section 49 does not provide otherwise. I am therefore of the opinion that there is no reason why the application should not proceed under Section 49(1) subject, however, to the proviso that the applicants amend their statement of case to make it clear that licences for their customers are sought under this Section.

Mr Burkill also argued that what EC were seeking to do was not merely a secondary infringement by virtue of Section 60(2) but a primary infringement of the method of claim 1 since EC would be offering the process of this claim for use in the United Kingdom contrary to Section 60(1)(b). Mr Fysh disputed this contention on the grounds that the process to which claim 1 relates, viz the use of carbonless paper by (say) a typist, would be too far divorced from EC's sale of solvent for this to be regarded as offering the process in question. Mr Burkill was unable to point to any precedent which supported his contention on this point and in the absence of any such precedent I am reluctant to accept that what EC wish to do amounts to a primary infringement of claim 1 of the patent in suit. However, as I have already decided that there is no objection to the application proceeding under Section 49(1), I do not need to decide the point.

However, Section 49(1) only provides for the grant of separate licences to the applicants customers. What EC have actually sought to date - in the draft licence submitted in evidence - is a single licence for themselves under which they have both the right to sell solvent for the manufacture of carbonless copy paper and the right to grant to their customers the right to make, have made, use and sell such copy paper. They are thus seeking the right to sub-licence their customers under the patent. This brings me to Mr Fysh's third submission regarding the comptroller's powers under Section 48.

As stated above, Section 48(4)(a) gives the comptroller the power to order the grant of a compulsory licence to the applicant on such terms as he thinks fit.

Mr Fysh accepted that the comptroller had the power under this provision to grant a licence providing for sub-licensing by the licensee having regard to the following precedent decisions:

James Lomax Cathro's Applications, (1934) 51 RPC 475;
A Hamson & Son (London) Limited's Application [1958] RPC 88;
Hilti AG's Patent, [1987] FSR 594.

He went on, however, to refer to a number of precedent cases, of which I think I need mention specifically only the Hilti case cited above, in which the inclusion of sub-licensing clauses was nevertheless refused. Some of these related to the grant of licences of right rather than compulsory licences but, as is clear from the Hilti case and was accepted by Mr Burkill, the general considerations are similar. In the light of these precedents, Mr Fysh submitted that the grant of licences permitting sub-licensing was exceptional, particularly where the proprietor had raised objection. Mr Burkill did not contest this as such and I accept that it is so. But this in itself does not mean that it would necessarily be inappropriate to provide for sub-licensing in the present case.

Mr Fysh further contended that what EC were seeking in their draft licence went beyond what had hitherto been regarded as a sub-licensing provision. He contended that a sub-licensing provision entitled the licensee to licence a third party to do no more than what the licensee himself was entitled to do in accordance with the principle 'nemo dat quod non habet'. However, in their draft licence, EC were seeking the right to authorise their customers to carry out acts they were not authorised to carry out themselves. Mr Fysh submitted that this meant that what the applicants were in effect seeking was what he described as a "book of running licences" which he further submitted the comptroller should refuse to grant by analogy with the decision in James Lomax Cathro's Applications (1934) 51 RPC 75.

In addition, Mr Fysh submitted that, on the principle 'expressio unius est exclusio alterius', Section 49(1) effectively limits the comptroller's powers under Section 48 as regard the licensing of customers of an applicant so that the comptroller should refuse to license customers on other terms as sought by EC in the present case.

In reply, Mr Burkill sought to persuade me that the comptroller's powers under Section 48(4)(a) were sufficiently general to empower me to grant a licence along the lines sought by EC and that I should exercise this power in the present case. In support of this he submitted two arguments.

His first argument, to which I have already alluded, was that it would be inconvenient to join or nominate customers since a further licence would then be required each time EC acquired a new customer for their solvent. However, although I accept that it would be more convenient for EC to proceed on the basis proposed in their draft licence, I do think that this in itself is sufficient to decide the matter.

Mr Burkill's second argument is that it is not necessary for EC's customers to be joined having regard to the decision in Thomas v Hunt 17C.B. (N.S.) 183, referred to in the footnote to paragraph

9.40 of Terrell on the Law of Patents (13th Edition). In this, it was decided that a purchaser from a person who is licensed to "make and vend" is entitled to use and vend the article so purchased. I do not, however, see that this helps in the present case in which the applicants are not seeking the right for themselves to make and vend the article which is actually protected under the patent, viz the carbonless copy paper.

I must therefore return to Mr Fysh's submissions on the matter. After careful consideration, I accept his submission that the right sought by EC to authorise their customers to make, have made, use and sell solvent is essentially different from a conventional sub-licensing provision, in that, it would involve the licensee granting a licence to a third party (a customer) which does not fall within the scope of his main licence. But I do not think that I need to decide, as a matter of interpretation, whether Mr Fysh is right in saying that the comptroller has no power to grant a licence giving the licensee such a right in respect of his customers. To my mind, it is sufficient to say that, even if the comptroller does have such power, it is not appropriate to exercise it where parliament has made provision under Section 49(1) to deal with the sort of circumstances appertaining to the present applicant and his customers. I therefore decide that the application should not proceed in its present form.

In accordance with my decisions above, but without in any way pre-judging whether or not a compulsory licence should be granted, there are two alternative courses of action open to EC if they wish to proceed with the application. The first, of course, is for EC to proceed in the way sought by the proprietors, that is to join their customers in the application instead of seeking the right to license them themselves. This would avoid the objections to the application as presently constituted. The second course would be for EC to proceed with the application in their own name only but to amend their statement of case to request a licence under Section 49(1) for at least one customer as well as themselves. I accordingly allow the applicants a period of three

weeks to amend their application or statement of case if they so wish and order that such amendment should be accompanied by further evidence in the form of a correspondingly revised draft licence.

The proprietors will then have a further period of three weeks, beginning on the date of receipt of the applicants' amended application or statement and further evidence, to file an amended opponents statement together, if they so wish, with the further evidence in the form of an alternative draft licence which they have stated they intend to file.

This being a procedural matter, the period to enter an appeal is fourteen days for the date of this decision.

Dated this *14th* day of *March* 1988

M F VIVIAN

Superintending Examiner, acting for the Comptroller



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