BL O/008/05

5th January 2005

PATENTS ACT 1977

BETWEEN

Secretary of State for Defence — Claimant

and

Farrow System Ltd — Defendant

PROCEEDINGS

Application under section 72 for revocation of GB 2344348 and GB 2372039
Secretary of State for Defence v Farrow System Ltd

HEARING OFFICER P M Back

PRELIMINARY DECISION

1 Applications for revocation of patents numbers GB 2344348 and GB 2372039 ("the patents") in the name of Farrow System Ltd ("the Defendant") were filed by the Secretary of State for Defence ("the Claimant") on 9 January 2004 accompanied by statements of case. In a letter dated 2 April 2004 the Patent Office gave the defendant the usual period of six weeks to file a counter-statement. The defendant sought and was granted three consecutive extensions of one month to this period, their final letter dated 14 July 2004 referring to an approach made to the claimant to settle the dispute by mediation.

2 The defendant then wrote to the Office on 28 July 2004 asking the comptroller to exercise his inherent discretion and order the parties to undertake Alternative Dispute Resolution (ADR) in accordance with a specified timetable and to stay the revocation proceedings until this had been completed. Reference was made to an earlier letter dated 14 July 2004 from the claimant (copied to the Office on 10 August 2004) resisting the use of ADR as an alternative to the revocation proceedings. The defendant was aware of Tribunal Practice Notice 1/2000 [2000] RPC 587, which states at paragraph 42 that "except in the case of

revocation where there may be a public interest, the Office will routinely ask parties whether they have considered ADR", but did not understand this to mean that there were no revocation actions where ADR could be suggested and ordered.

3 The Office wrote to the parties on 12 August 2004 to remind them that even if as a result of ADR the claimant withdrew the revocation action or the defendant offered to surrender the patent, the comptroller would still need to consider in the public interest whether the patent should be revoked (referring to the Manual of Patent Practice (MOPP) 72.24 - 72.41 and *R v Comptroller-General, ex p Ash and Lacey Building Products Ltd* [2002] RPC 46).

4 An interested third party (Quill International Industries PLC) also wrote on 18 August 2004 supporting the claimant's arguments. The Office has taken the preliminary view that this letter does not form part of the proceedings, but the parties do not agree as to whether or not its contents should be taken into account. However Quill do not appear to raise anything of substance which is not adequately covered by the parties' own arguments.

5 In subsequent correspondence in letters dated 18 and 23 August, 27 September and 18 October 2004, the parties maintained their positions, and it therefore arises for determination as a preliminary matter. The parties are agreed that the matter should be decided on the papers.

6 Rather late in the proceedings the Patent Office became aware of a recent Court of Appeal decision which is referred to in the Winter 2004 supplement to the 2004 edition of Civil Procedure. This refers to *Halsey v. Milton Keynes General NHS Trust* [2004] EWCA Civ 576 ("*Halsey*") which appears to be of particular relevance since it relates to the question whether the court has power to order parties to submit their disputes to mediation against their will.

7 In that judgement Dyson L J said at paragraph 9: *"We heard argument on the question whether the court has power to order parties to submit their disputes to mediation against their will. It is one thing to encourage the parties to agree to mediation, even to encourage them in the strongest terms. It is another to order them to do so. It seems to us that to oblige truly unwilling parties to refer their disputes to mediation would be to impose an unacceptable obstruction on their right of access to the court. The court in Strasbourg has said in relation to article 6 of the European Convention on Human Rights that the right of access to a court may be waived, for example by means of an arbitration agreement, but such waiver should be subjected to particularly careful review to ensure that the claimant is not subject to constraint: see Deweer v Belgium (1980) 2 EHRR 439, para 49. If that is the approach of the ECtHR to an agreement to arbitrate, it seems to us likely that compulsion of ADR would be regarded as an unacceptable constraint on the right of access to the court and, therefore, a violation of article 6. Even if (contrary to our view) the court does have jurisdiction to order unwilling parties to refer their disputes to mediation, we find it difficult to conceive of circumstances in which it would be appropriate to exercise it. We would adopt what the editors of Volume 1 of the White Book (2003) say at para 1.4.11:*

> *The hallmark of ADR procedures, and perhaps the key to their effectiveness in individual cases, is that they are processes voluntarily entered into by the parties in dispute with outcomes, if the parties so wish, which are non-binding. Consequently the court cannot direct that such methods be used but may merely encourage and facilitate.*

If the court were to compel parties to enter into a mediation to which they objected, that would achieve nothing except to add to the costs to be borne by the parties, possibly postpone the time when the court determines the dispute and damage the perceived effectiveness of the ADR process. If a judge takes the view that the case is suitable for ADR, then he or she is not, of course, obliged to take at face value the expressed opposition of the parties. In such a case, the judge should explore the reasons for any resistance to ADR. But if the parties (or at least one of them) remain intransigently opposed to ADR, then it would be wrong for the court to compel them to embrace it."

8 Both parties were given the opportunity to consider this judgement and make submissions. Both parties have made submissions on this Court of Appeal decision and I will take account of those along with all other papers submitted in respect of this issue.

9 Initially the Defendant requested a Direction in the following terms:

1. Each party by 4pm on 6 August 2004 to nominate at least one intellectual property barrister (or other suitably-qualified intellectual property practitioner) as mediator and provide the other party with the dates on which the nominated mediator(s) is/are available to act as mediator and the fee which the nominated mediator will charge to act.

2. The parties to agree by 4pm on 13 August 2004 on a choice of mediator and to fix a date for the mediation on the earliest convenient date for the parties and the mediator, such date not to be later than 30 September 2004 without the consent of both parties.

3. Each party to lodge a position statement for the mediation not less than 24 hours before the mediation is schedule to commence.

4. The mediation is to be conducted entirely on a without prejudice basis.

10 However, in the light of the *Halsey* judgement referred to above they subsequently amended their request as follows:

1. There be no further steps in the revocation proceedings for a period of 3 months to enable the parties to attempt mediation.

2. Each party by 4pm on 28th January 2005 shall nominate at least one intellectual property barrister (or other suitably-qualified intellectual property practitioner) as mediator

and provide the other party with the dates on which the nominated mediator(s) is/are available to act as mediator and the fee which the mediator will charge to act.

3. The parties shall take serious steps to agree on a choice of mediator by 4pm on 25 February 2005 and to fix a date for the proposed mediation (if any) on the earliest convenient date for the parties and the mediator, such date not to be later than 18 March 2005 without the agreement of both parties.

4. The parties to take such serious steps as they may be advised to resolve their dispute by alternative dispute resolution procedures before the mediator (if any) chosen in accordance with paragraph 3 above

5. The mediation (if any) is to be conducted entirely on a without prejudice basis.

11 The Defendants have identified two issues which they say I should decide:

(a) whether the comptroller can and should order a stay of proceedings to enable the parties to attempt a mediation or another means of alternative dispute resolution ("ADR").

(b) whether the comptroller can and should not simply order a stay to encourage the parties to consider ADR but whether the Comptroller can and should order ADR itself and if not, how far can he go effectively to compel ADR.

12 I will deal with the Defendant's second issue first since I think that is the more complex and it will be more useful to consider whether I can and should order ADR itself before considering the issue of merely ordering as stay so that the parties can attempt mediation.

13 In response to the *Halsey* ruling referred to above, the defendants argue that the background to *Halsey* is that even if ADR cannot be ordered, the parties attend before a Judge long before trial and the Judge can urge upon the parties the sense in settling the dispute without recourse to litigation. A Judge can therefore effectively compel the parties to ADR even if he can not order it. In this respect they argue that it is critical to appreciate that in the High Court the parties attend before the Judge at a case management conference and a pre-trial review before trial. In most cases, there are several interlocutory applications at which the parties attend before the Judge for case management conferences and pre-trial reviews, the rules require attendance: CPR Part 29.3 At the case management conference, pre-trial review and other interlocutory hearings, the Judge invariably seeks to encourage the parties to settle their dispute without recourse to litigation. Even if a Judge does not have power to compel ADR, because he has the parties before him he can give them a very clear, unequivocal direction that he thinks the case should settle, warn them about costs consequences if the case does not settle and in effect compel ADR. One of the material differences in proceedings before the Comptroller is that many interlocutory applications are resolved on the papers and there is not a formal case management conference or pre-trial review at which the parties are obliged to appear. There is not therefore a stage at which the hearing officer can "bang the parties heads together" to try and encourage them to see sense.

14 The defendant goes on to argue that even if Dyson L J is correct that there is no power to order ADR, his remarks must be read in the context of High Court procedure in which the Judge can effectively compel the parties to attempt ADR. He alleges that in the judgment of the Court in Halsey the practice of effectively compelling the parties to attempt ADR was endorsed. In paragraph 11, the Court of Appeal referred to the robust encouragement that a Judge might give, and at paragraph 30 of the judgment the Court observed the standard practice in the Commercial Court (part of the Queen's Bench Division of the High Court) as follows:

> "*An ADR order made in the Admiralty and Commercial Court in the form set out in Appendix 7 to the Guide is the strongest form of encouragement. It requires the parties to exchange lists of neutral individuals who are available to conduct "ADR procedures", to endeavour in good faith to agree a neutral individual or panel and to take "such serious steps as they may be advised to resolve their disputes by ADR procedures before the neutral individual or panel so chosen". The order also provides that if the case is not settled. "the parties shall inform the court what steps towards ADR have been taken and (without prejudice to matters of privilege) why such steps have failed". It is to be noted, however, that this .form of order stops short of actually compelling the parties to undertake an ADR*"

15 On this basis they say that it is clear therefore that the Court, even if it can not order ADR, can do everything in its power to encourage and effectively compel ADR.

16 Having considered these arguments carefully I come back to *Halsey* and the words of Dyson L J quoted above, where he says "*Even if (contrary to our view) the court does have jurisdiction to order unwilling parties to refer their disputes to mediation, we find it difficult to conceive of circumstances in which it would be appropriate to exercise it*." This seems to me to leave open the **possibility** that the court and the comptroller have jurisdiction to order unwilling parties to refer their disputes to mediation but there would need to be very compelling reasons to do so. This view is reinforced when Dyson L J goes on to say " *If a judge takes the view that the case is suitable for ADR, then he or she is not, of course, obliged to take at face value the expressed opposition of the parties. In such a case, the judge should explore the reasons for any resistance to ADR. But if the parties (or at least one of them) remain intransigently opposed to ADR, then it would be wrong for the court to compel them to embrace it*."

17 The Defendant's second issue referred to above relates to whether the comptroller can and should order ADR itself. In the light of *Halsey* it seems to me that the Court of Appeal has taken the view that the court does not have the jurisdiction to order unwilling parties to refer their disputes to mediation and that even if it has, it is difficult to conceive of circumstances where it would be appropriate to do so. The present dispute is an application for revocation of patents on the grounds of lack of novelty, lack of inventive step and insufficiency. This seems to me to be an entirely conventional action before the comptroller and I can see nothing in the case or the arguments presented by the Defendant which would put into a category where it would be appropriate to order ADR given the words of Dyson L J in

Halsey. Accordingly I am satisfied that even if I have to power to order an unwilling party to ADR (and *Halsey* suggests that is very unlikely), I should not do so in the circumstances of this case.

18 I note that the defendant in early correspondence refers to a High Court precedent: *Shirayama Shokusan Co Ltd v Danovo Ltd* [2003] EWHC 3006, Ch D, which pre-dates *Halsey* in which Blackburne J reviewed the matter and ordered ADR against the wishes of one of the parties. What appeared particularly to clinch the matter was that the parties were in a long term relationship (potentially 20 years) as leaseholder and occupier of a building, with a shared interest in the success of the occupiers' venture, and would need to find ways of working amicably together. I do not think there is anything in this case to change my view based on *Halsey*.

19 The Claimant has presented little argument on the issue of whether the Comptroller can order ADR or a stay except to point out that Rule 75(7) of the Patents Rules 1995 seems only to allow the comptroller to give directions as to procedure once a counter-statement and evidence has been supplied under Rules 75(3) to (5) and as they rightly point out this has not yet happened.

20 Returning now to the Defendant's first issue, whether the comptroller can and should order a stay of proceedings to enable the parties to attempt a mediation or another means of ADR, I do not think that there is any dispute that the Comptroller has the power to order a stay to enable the parties to attempt mediation, indeed, the Tribunal Practice Notice (TPN 1/2000) says "The Office will be prepared to stay proceedings in those cases where ADR is being used or seriously considered." The issue here is whether I should do so in the circumstances of this case.

21 In fact the Claimant has said very little about whether I can order a stay or ADR itself, rather they have addressed the issue of whether it would be appropriate to do so in this case. As I see it, the issues I need to consider are:

- is mediation an appropriate form of dispute resolution where the validity of a patent has been called into question?

- Is it reasonable to compel an unwilling party to consider mediation given the circumstances of this case?

- is there a realistic prospect that ordering a stay will result in mediation taking place and of a satisfactory conclusion being reached rather than merely delaying an inevitable revocation action?

22 If the answer to the first question is "no" I do not need to consider the second and third.

23 The Claimants have argued that ADR is a most unsuitable vehicle as an alternative to revocation for a number of reasons which I will summarise:

- ADR cannot revoke a patent or settle the terms of any amendment to the patent.

- If ADR concludes that the patent is invalid, revocation action will still be required

- ADR would lead to further delay in settling the matter and such delay would be in the Defendants interest

- ADR would be more expensive for the Claimant who say they would be caused to pay fees and costs that they would not incur if the revocation action was heard by the patent Office.

- If ADR results in the revocation action being withdrawn, the comptroller will decide the matter in the public interest.

24 The claimant accepts that there is a wider issue between the parties as to whether the Crown was using the patents under section 55, but says that it proposed the present proceedings under section 72 as a cheaper way of resolving the dispute (almost as a form of ADR in itself) because of the uncertainty being caused in the defence market by the validity issues surrounding the patents - a course of action to which the defendant raised no objection until now. Since ADR is non-binding, the claimant thinks this simply serves to delay a settlement of the validity issues to the advantage of the defendant given that licenses are extant, and does not see any negotiated settlement as being possible since everything turns on the validity issue.

25 Further, the claimant does not believe that ADR will be cheaper than the revocation proceedings before the comptroller, because of the need to use an independent barrister and because the same material will be needed as before the comptroller - which the defendant disputes, saying that the parties need to provide nothing more than a brief written statement of their positions.

26 The defendant in its letter of 28 July 2004 sought to counter the "public interest" issue by arguing that (a) there is no more a public interest in revocation proceedings than in "opposition proceedings ... in which ADR is offered as a matter of routine" although the basis for this assertion is not provided and the type of opposition proceedings are not identified and (b) that the public interest in revoking invalid patents could not be taken into account without assuming against the patentee that the patent is invalid. The arguments are not very clearly put, but in the later letter of 23 August 2004 the defendant suggests that because - unlike *Ash and Lacey* where both parties had at least set out their case in writing - ADR is sought before the counter-statement has been filed, it would therefore be inappropriate for the comptroller to consider revocation since he had only one side of the argument. Thus the defendant appears to be running an argument that the comptroller cannot consider revocation of the patents if ADR succeeds because the issues have not been defined, the consequence of which seems to be that a patent cannot be revoked where the patentee refuses to defend himself. This is simply not the case - if no counter-statement is filed, the application would be considered as if each specific fact in the statement were

conceded, except where contradicted by other documents available to the comptroller (MOPP 72.09 and CIPA Guide 72.39).

27 Similar issues will arise should ADR result in the patents being surrendered since the surrender only takes effect from the date when notice of acceptance of the surrender is published in the Journal. There will therefore have been some time during which the patent was in force. It follows that an offer to surrender during revocation proceedings will not automatically terminate those proceedings. In such circumstances it is Patent Office practice to consider the matter as though no counterstatement had been filed, that is, as if each specific fact set out in the statement had been conceded except insofar as it is contradicted by other documents before the Office (MOPP 72.38).

Summary

28 I have found that it in the light of *Halsey* there is very significant doubt that I have the power to order the parties to mediation and that even if I have that power it would not be appropriate in the circumstances of this case. Accordingly I make no order in this respect.

29 There appears to be no dispute that I have the power to order a stay in the proceedings to enable the parties to attempt a mediation. However, I am satisfied that mediation will not provide an effective resolution to this action which is an application for revocation of two patents in that it will not decide the issue of validity of those patents. For reasons given above neither withdrawal of the application for revocation nor surrender of the patents will end the matter. In addition any proposal to amend the patents cannot be decided by mediation alone. Further, there is no agreement between the parties on the issue of whether mediation will be cheaper than litigation. I do not therefore see any justification for ordering a stay in this case against the wishes of the claimant, who is emphatic that no progress can be made until the validity issue is settled.

30 Accordingly, the revocations proceedings should now continue and it is important that they do so in a timely fashion. I understand that these proceedings have now reached the stage where the Defendants's counterstatement is due. I allow a period of **one month** from the date of this decision for the counterstatement to be filed although the Defendant may apply for an extension.

Costs

31 Neither party has addressed me on the issue of costs at this preliminary stage and I make no order in this respect. Of course the parties will be free to address me on this matter at the substantive hearing.

Appeal

32 Under the Practice Direction to Part 52 of the Civil Procedure Rules, any appeal must be lodged within 28 days.

P M Back
Divisional Director acting for the Comptroller