



BL O/143/05

23rd May 2005

PATENTS ACT 1977

BETWEEN

Neil Eric Paxman

Claimant

and

Derek Hughes

Respondent

PROCEEDINGS

Reference under section 37 of the Patents Act 1977 in
respect of patent application number EP(UK) 1,048,609 B1

HEARING OFFICER

Stephen Probert

DECISION

- 1 Patent EP(UK) 1,048,609 B1 (“the patent”) is jointly owned by Mr Neil Eric Paxman and Mr Derek Hughes. The patent relates to a new type of drinks cooler, and was granted on 2nd May 2003. Only a very small number of the new drinks coolers have been sold because the co-proprietors have fallen out and cannot agree on how to exploit the invention.
- 2 In January 2005, Mr Paxman (“the claimant”) commenced these proceedings under section 37(1)(c) of the Act in which he is asking the Comptroller to make an order allowing licences to be granted to specified third parties to manufacture and supply drinks coolers under the patent. (Although he is a co-owner of the patent, section 36(3) of the Act specifically prevents Mr Paxman from granting a licence under the patent without the permission of Mr Hughes. Mr Hughes refuses permission for such licences to be granted.)
- 3 On 4th March 2005 Mr Hughes (“the respondent”) filed a counter-statement, opposing Mr Paxman’s claim. In his counter-statement, Mr Hughes also suggested that the Comptroller does not have jurisdiction to make an order of the type sought by the claimant, and indicated that he intended to raise this as a preliminary issue. The Patent Office then stayed the formal evidence rounds until this preliminary issue could be resolved. Both the claimant and the respondent confirmed that they wanted to be heard before any decision was made, and a hearing was held on 25 April 2005.

4 At the hearing, the claimant was represented by Mr Piers Acland of counsel, instructed by Lupton Fawcett, and the respondent was represented by Mr Giles Fernando of counsel, instructed by Walker Morris. On the basis of the submissions made by counsel at the hearing, I have concluded that, as matters currently stand, the Comptroller cannot make an order in the terms sought by the claimant, and consequently there is no point in allowing these proceedings to continue through the evidence rounds to a substantive hearing.

Relief sought

5 The claimant's statement concludes by setting out in fairly specific terms the nature of the order sought. Both counsel referred to the terms of the proposed order at some length and much of my decision turns on the nature of the relief sought by the claimant. Paragraphs 46-49 of the claimant's statement are as follow:

ORDER SOUGHT

46. An Order permitting the Applicant to grant to a company set up by the Applicant to exploit the Patent a licence to:
- a. have the Products manufactured and supplied by Celli to such company set up by him or to Brewfitt; and
 - b. itself, or to sub-license Brewfitt to, import, promote, offer for sale or hire, deliver, install and maintain the Products in the United Kingdom or otherwise to do any act set out in section 60(1) and/or section 60(2) of the Patents Act 1977 in relation thereto.
47. An Order permitting the Applicant to grant the necessary rights to Celli to manufacture and supply the Products to the Applicant or to a company set up by him to exploit the Patent or to Brewfitt.
48. An Order permitting the Applicant to, or to grant the necessary rights to Brewfitt to, import, promote, offer for sale or hire, deliver, install and maintain the Products in the United Kingdom or otherwise to do any act set out in section 60(1) and/or section 60(2) of the Patents Act 1977 in relation thereto.
49. Such further or other Order or Orders as the Comptroller may decide.

6 Mr Fernando set out the respondent's case for striking out all or part of the claim on three grounds:

- i) The terms of the order would require an extra-territorial jurisdiction that the Comptroller does not have.
- ii) Any discretion that the Comptroller has to order licences in connection with section 36(3) should only be exercised in a manner consistent with the overall 'scheme', or legislative intendment, of section 36.
- iii) The claimant's fiduciary duties as a company director prevent him from doing any of the things that he is asking the Comptroller to authorise him to do.

7 In giving my reasons in this decision I shall deal with each of the three grounds in turn.

1st Ground — Extra Territorial Jurisdiction

8 Mr Fernando’s first ground was that the Comptroller does not have any extra territorial jurisdiction and cannot make orders in respect of foreign patents. The relevance of this ground becomes clear when one appreciates that Celli is an Italian company, and that there is an equivalent Italian patent, the claims of which correspond to the claims of the EP(UK) patent. I need not say much about this ground since I do not think there is any real difference between the parties’ understanding of the Comptroller’s jurisdiction.

9 Mr Acland readily agreed that the Comptroller does not have jurisdiction to order a licence in respect of a foreign patent. But he suggested that it would be a matter for Celli to decide *where* they manufacture the products and that they may decide not to manufacture in the UK or Italy, eg. they may opt for a territory where there is no patent. However, it is clear that unless Celli were to manufacture the product in the UK, they would not require a licence under the patent, at least, not in the terms sought by the claimant.

10 When I challenged him on this point, Mr Acland agreed that Celli would only require a licence if they were to manufacture in the UK, and that this could be dealt with by submitting a revised order. If I strike out the entire action, there would clearly be nothing to be gained by re-wording the terms of the order sought. But if proceedings continue, the claimant will need to amend his statement to make it clear that all aspects of the relief sought are confined to the UK — eg. that any licence to manufacture under the patent relates to manufacture in the UK, since that is the territorial extent of the patent.

2nd Ground — Consistency with the scheme of Section 36

11 Mr Fernando’s second ground is considerably more complex, and is firmly resisted by the claimant. In essence, Mr Fernando submitted that although the Comptroller does have discretion (under section 37(1)(c)) to order a licence when one or more co-proprietors has denied consent (as envisaged in section 36(3)), that discretion must be exercised consistently with the overall ‘scheme’ of section 36.

12 This argument is based on a legal principle that is recognised in the legal profession by the Latin maxim — “generalia specialibus non derogant”. That is to say, where an issue could conceivably be covered by two different provisions of the same statute, a more general provision cannot derogate from a more specific one. For the claimant, Mr Acland submitted that the Comptroller’s discretion under section 37 is a wide discretion. He referred me to a relevant earlier decision of the Comptroller, *Elliott v Expotech*¹, in which the Hearing Officer says:

“I will say a brief word about the law. I need to say very little because I think both sides agreed this morning that under section 37(1) I have a wider discretion to do what

¹ Roger Michael Elliott and BSP International Foundations Limited v Expotech Limited, BL O/189/04, dated 16th June 2004. See page 3 lines 14-20.

best gives effect to my findings. Both sides were also agreed that if I were to order joint ownership I would still have flexibility to impose conditions and constraints notwithstanding what is in section 36.”

- 13 After reviewing a number of other relevant decisions in this area, the Hearing Officer in *Elliott v Expotech* summarised the position as follows²:

“What is noticeable is that the approaches and solutions are quite varied and reflect the individual circumstances of each case. This highlights the fact that there is a considerable degree of flexibility in sorting out such issues.”

- 14 The Hearing Officer then went on to say how he considered this considerable degree of flexibility should be used. He said:

“I now turn to the question of what factors I ought to be taking into account when deciding what to do in the present case. It seems to me the overriding factor is: what is going to give the fairest balance in all the circumstances?”

- 15 In Mr Acland’s submission, this is entirely the correct approach, and he indicated that it would form the basis of his arguments on the substantive issue in these proceedings. However, he went on to say that while it was appropriate to decide the issue of jurisdiction (eg. Mr Fernando’s first ground, above) on the basis of the pleadings in the statement and counter-statement, anything that turns on the exercise of discretion could only be decided in the light of evidence, and as yet, no evidence has been filed in these proceedings.

- 16 It seems to me that Mr Acland must be right on this latter submission, *if*, as he maintains, the discretion available to the Comptroller under section 37 is as wide as the previously decided cases suggest. However, Mr Fernando clearly did not accept that the discretion was wide enough to enable the Comptroller to make the order being sought by the claimant. To my mind this is clearly a matter that not only *can* be determined at this stage, but also *should* be determined now. It would not be efficient, or otherwise in the interests of justice, to allow these proceedings to continue through the evidence rounds to a substantive hearing, only for the Hearing Officer to accept Mr Fernando’s submission and decide that the Comptroller could not, in any event, order the relief sought by the claimant. I therefore need to consider Mr Fernando’s arguments on this point in more detail.

- 17 Mr Fernando submitted that the ‘scheme’ of section 36 is quite clear. Subsection 2 sets out the freedoms — ie. what a co-proprietor may do —in the following terms:

36(2) Where two or more persons are proprietors of a patent, then, subject to the provisions of this section and subject to any agreement to the contrary -

(a) each of them shall be entitled, by himself or his agents, to do in respect of the invention concerned, for his own benefit and without the consent of or the need to account to the other or others, any act which would apart from this subsection and section 55 below, amount to an infringement of the patent concerned; and

(b) any such act shall not amount to an infringement of the patent concerned.

² BL O/189/04 - At page 6 line 7.

18 Thus section 36(2) sets out what a co-proprietor may do himself or herself (or by his/her agents) in respect of the invention *with or without the consent* of the other co-proprietor(s). It does not give a co-proprietor the right to grant a licence under the patent. That is the specific subject of section 36(3). As Mr Fernando described it to me, section 36(3) is in no way a derogation from 36(2); it is the corollary of it, because if a co-proprietor grants a licence, then he is not working the invention himself or through his agents.

19 The relevant part of section 36(3) reads as follows:

36(3) Subject to the provisions of sections 8 and 12 above and section 37 below and to any agreement for the time being in force, where two or more persons are proprietors of a patent one of them shall not without the consent of the other or others grant a licence under the patent ...

20 The success or failure of Mr Fernando's argument on this (his second) ground depends on the correct interpretation to be given to the wording of this subsection, and in particular, the extent to which it is subject to section 37. Mr Fernando argued that it would be wrong to construe section 37 in a manner that entirely undermines the statutory scheme as set out in section 36. I thought Mr Fernando expressed his argument very well in the following passage which I quote from the transcript:

[Mr Fernando]

Parliament does not give a discretion because what it wants to say is,

“Well, here is the scheme. You know that, but you know what — you can override the scheme whenever you want. Forget the wishes of the legislature as expressed in the statutory scheme.”

That is never why discretion is given and that is not what the authorities say. The discretion is given because Parliament does not have a crystal ball. So what Parliament is saying here is,

“This is how we intend the scheme to work. Look at section 36(2). This is our intention. This is the legislature's intention. But there may be unforeseeable situations, we do not know at the moment, where a discretion is needed to ensure that the scheme works as we intend.”

That is the purpose of discretion. It is not to override the scheme, but it is to ensure that the scheme works as intended; functions as the legislature deems.

21 According to Mr Fernando, the clear purpose of section 36(2) is to avoid a stalemate. More specifically, he said that section 36(2) means that there can never be a stalemate with co-proprietors because they are always entitled to exploit the invention for their own benefit. In Mr Fernando's opinion, the primary purpose of section 36(3) is to reinforce the 'scheme' of section 36(2) — in particular by making it clear that Parliament did not consider it necessary (for the purpose of avoiding a stalemate) for a co-proprietor to have the right to grant a licence under the patent. However, he added that section 36(3) was deliberately made subject to section 37, thereby introducing an element of discretion for the Comptroller, as a safeguard in the event that, in any individual situation, section 36(2) does not function as intended — ie. does not prevent a stalemate.

22 If Mr Fernando is right, it would appear that the Comptroller has exercised this particular discretionary power too widely, or too readily, in the past. Mr Acland had

already highlighted one such case, *Webb v McGriskin*³, in his skeleton argument. In that case it was ordered that the patent should be jointly owned by the two inventors, and that each of them (as co-proprietors) should have the right to license out the invention to third parties without the consent of the other. Mr Fernando accepted that *Webb v McGriskin* was against him on this ground, but he reminded me that *Webb v McGriskin* was a decision made on the papers, without the benefit of formal submissions. Consequently the Hearing Officer was not able to consider many of the points that had been argued before me.

23 So far, I am compelled to recognise the strength of Mr Fernando's argument. The logic behind it is hard to resist. Where I part company with Mr Fernando is in relation to the very narrow construction that he placed on the concept of a stalemate, which I shall come to in a moment.

24 In the meantime, if I accept (as I think I must) Mr Fernando's submission, based on the principle of *generalia specialibus non derogant*, that the discretion arising by virtue of section 36(3) being subject to section 37, must be exercised consistently with the 'scheme' of section 36, then the next question that arises is whether (in the particular circumstances of this case) the scheme is operating as Parliament intended, or whether that intention is being frustrated. If, despite the freedoms of section 36(2), there is a stalemate, then I think it would be entirely consistent with Mr Fernando's submission for the Comptroller to exercise the discretion provided by section 37 to restore the 'scheme'.

25 I come now to Mr Fernando's proposition of what constitutes a stalemate for the purposes of the operation of section 36. Quoting again from the transcript, he said:

[Mr Fernando]

The reason for the power under section 37 is that where different inventors are responsible for and entitled to different inventions in different sub-claims of a patent, as does happen from time to time where you have a whole host of inventors and you are trying to work out who was actually entitled to claim ownership of a particular invention in a particular claim, then section 36(2) does not necessarily operate to prevent a stalemate.

Suppose there are co-proprietors in the invention and let us say sub-claim 3, but sub-claim 3 obviously will refer back to sub-claim 1, so the proprietors who are the proprietors of the invention in sub-claim 3 will not be able to rely on 36(2) to exploit their invention as they necessarily will exploit the invention in the main claim of which they are not the proprietor. So in order to exploit the invention in the main claim, they would need permission.

Now, co-proprietors under 36(3) cannot grant licences to enable exploitation without the consent of all the co-proprietors. So you could see that where you have a case of co-proprietorship of an invention in a sub-claim, in those circumstances one or more proprietors relying on section 36(3) could readily frustrate the purpose of section 36(2) because they could prevent the co-proprietor of a sub-claim from exploiting the invention.

³ *Webb v McGriskin* - BL O/135/00, later amended in a supplementary decision, BL O/410/00.

26 As I have already stated, I consider this to be too narrow a construction. Furthermore, if Parliament intended this discretion to operate only in a specific situation, whether it was the one that Mr Fernando proposed or any other situation, I would expect it to have been spelt out in terms in the Act or the Rules. The fact that there is no such stipulation is consistent with the earlier part of Mr Fernando's argument — ie. that Parliament appreciated that it did not have a crystal ball, and could not foresee and provide for every possible circumstance where the 'scheme' of section 36 might fall down. By making section 36(3) subject to section 37, Parliament has effectively given the Comptroller discretion to "soften" the effects of, or possibly even remove altogether, the prohibition on licensing without consent of co-owners.

27 It seems reasonable to me, and in keeping with the submissions of counsel, that the Comptroller should exercise this discretion when, and only when, it is necessary to restore the 'scheme' of section 36.

Is there a stalemate in this case?

28 This is the question that I envisaged would arise. However, I don't think that I am in a position to answer this question without hearing and seeing the evidence that the parties are yet to bring forward. On the face of the pleadings alone, it is entirely possible that there is a stalemate, and that this might be a situation where the Comptroller should exercise his discretion and order a licence.

29 But that is not the end of this ground, for there were two further threads to the respondent's argument on this ground. Mr Fernando suggested to me that the exercise being urged upon the Comptroller by the claimant is not one that is reconcilable with his judicial function under section 36. Neither, as Mr Fernando insisted, is it reconcilable with sections 48 and 49 which are concerned with compulsory licensing.

30 I hope that I can deal with these two threads fairly briefly, because they appear to me to be fundamentally flawed. Taking them in the order I have presented them in the paragraph above, Mr Fernando argued that it is not part of the function of a judicial tribunal to rule on competing economic policy considerations. In support of this argument he referred me to the words of Lord Hoffman in *Canon*⁴, particularly the passage that I have underlined below, where he said:

"It is not necessary for the purposes of this appeal to form any view on whether the existence of copyright is capable of giving the plaintiff such economic power in the aftermarket as to be anti-competitive and contrary to the public interest. It is sufficient to recognise that the question is a complicated one which cannot be solved by broad generalisation. The courts are ill-equipped to pronounce upon such matters, which often involve questions of economic policy and are generally left to specialised bodies such as the Monopolies and Mergers Commission:"

31 Mr Fernando summarised the question that he considered the Comptroller was being asked to answer in the following words:

"When should the monopoly rights of the co-proprietor be overridden by the desire of third parties to exploit the invention and thereby override the statutory monopoly?"

⁴ *Canon Kabushika Kaisha v Green Cartridge Co. (H.K.) Ltd.* [1997] FSR 817 at page 825.

- 32 He argued that this was an economic policy question. Not only was it a question that had not previously been asked of the Comptroller, but it was not one that sat comfortably with the Comptroller's judicial function. In other words, if the courts are ill-equipped to pronounce on such matters, then the Comptroller is not likely to be in a stronger position.
- 33 I see two weaknesses in Mr Fernando's argument. First, the issues involved in *Canon* were significantly different to the issue here. In *Canon*, the court was considering the "spare parts" exception that was first recognised in the *British Leyland* case⁵. The economic policy question to which Lord Hoffman was referring in the above quotation was whether the "spare parts" exception should be extended to enable a manufacturer of laser printers to control the aftermarket in toner cartridges. In my view that is a considerably wider, and fundamentally different, question to the one that arises in this case.
- 34 The second weakness goes to Mr Fernando's formulation of the question that the Comptroller is being asked to decide in this case. I do not accept that the question is the more general one of third parties wanting to exploit a patented invention. Rather it is the desire of one co-proprietor to grant a licence under the patent, to enable him to exploit the invention by means of licensing; eg. because his relationship with the other co-proprietor has completely broken down and he is unable to work the invention himself (or by his agents) under the terms of section 36(2). This is a much more specific, and isolated circumstance, and I am satisfied that it does not give rise to anything like the sort of legal and policy issues surrounding the "spare parts" exception. It is in a completely different league.
- 35 The remaining thread of Mr Fernando's argument on this ground concerned the compulsory licensing provisions of the Act in sections 48 and 49 as I have said. The argument appeared to me to be based on the premise that there are in this case two third parties (ie. Celli and Brewfitt) seeking a licence to exploit the invention when they have no property in the patent. Mr Fernando submitted that in bringing this action, the claimant was seeking to use section 37 in order to grant compulsory licences to third parties. (Compulsory in the sense that one of the co-proprietors, Mr Hughes, would not agree to such licences.) Mr Fernando insisted that the claimant should not be allowed to bypass the statutory safeguards that govern the operation of compulsory licensing by bringing this action under section 37 when Parliament had provided clear and detailed guidance for such cases under sections 48 and 49.
- 36 The flaw in this argument, as far as I can see, is fundamentally the same as the second weakness that I have already indicated in paragraph 34 above. It is Mr Paxman, one of the proprietors of the patent, who has asked the Comptroller to make an order permitting him to grant a licence; not third parties seeking compulsory licences. I do not doubt that several third parties may benefit if such licences were to be granted, but that is of secondary importance it seems to me. I think it is only reasonable to assume that the claimant has brought this action in his own interest, and that it properly belongs under section 37.

⁵ *British Leyland Motor Corporation v Armstrong Patents Co. Ltd.* [1986] A.C. 577 HL.

37 Despite the eloquence and enthusiasm with which Mr Fernando presented his case on this second ground, he has failed to persuade me that the Comptroller does not have the power to order the grant of a licence in this case. On this point I preferred Mr Acland's submission, conveniently summarised at paragraph 10.91 of *Terrell*⁶, which says:

Power of Comptroller

10.91 Any co-owner registered as a joint proprietor of a patent may apply to the Comptroller for directions regarding whether any right in or under the patent should be transferred or granted to any other person. This provision is to prevent the proper exploitation of a patent being unreasonably prevented by one or more co-owners.

3rd Ground — Fiduciary duties of a Company Director

38 Before considering Mr Fernando's third ground, I need to set out some of the background to this case in more detail. In February 2003 (just a few months before the patent was granted) Mr Paxman and Mr Hughes agreed to form a company, called Trimcool Limited ("Trimcool"), to sell drinks coolers under the patent. Both Mr Paxman and Mr Hughes were directors of Trimcool; as far as I know, they are still directors of Trimcool. Furthermore, they agreed that all sales of the drinks coolers would be made through Trimcool, whoever had manufactured them. These facts are not in dispute — they are pleaded in both the statement and the counter-statement that have been filed in these proceedings.

39 So, given that Mr Paxman is a director of Trimcool, Mr Fernando submitted that even if the Comptroller has the power to order the grant of a licence (as I have concluded that he does), he cannot exercise that discretion in this case because he would be authorising a breach of a director's fiduciary duties.

40 According to Mr Fernando, it is well established in company law that there are a number of fiduciary duties that a company director owes to the company. The first is a duty to act bona fide in the interests of the company. The second is to avoid a conflict of interest and duty. To elaborate a bit further on this second duty, Mr Fernando took me to chapter 16-5 of *Gore-Brown on Companies* — a standard reference work in the field of company law. The text reads:

“Directors are in general bound by the broad principle, affecting all persons who are subject to fiduciary duties, that ‘no one, having such duties to discharge, shall be allowed to enter into engagements in which he has, or can have a personal interest conflicting, or which possibly may conflict, with the interests of those whom he is bound to protect’.”

41 A third fiduciary duty of a director is not to appropriate for himself or another (a) any actual or maturing business opportunities, and (b) any property belonging to the company. The fourth and final duty that Mr Fernando listed was the duty to remain free from outside involvement connected with the company's affairs. Mr Fernando assured me that these are very well established principles of company law, and he took me through several of the leading authorities where these principles were either first laid down or applied by the courts. I see no need to review those authorities here. I

⁶Terrell on the law of Patents. Fifteenth edition.

found it very useful having Mr Fernando to guide me during my first excursion into the unfamiliar territory of company law. Nevertheless, the best summary that I could produce of the journey that we undertook would be a very poor alternative to the material that is readily available in legal text books on the subject. Consequently, except insofar as Mr Acland disagreed on any particular point, I accept that the law regarding the fiduciary duties of a company director is exactly as Mr Fernando explained it to me.

- 42 I need to make this clear because the terms in which Mr Fernando described the fiduciary duties of a director were exceptionally clear and categorical, and they have proved to be decisive in this case. For example, referring to the judgment of Lord Justice Jonathan Parker in the Court of Appeal in *Bhullar v Bhullar*⁷, he said:

[Mr Fernando]

He cites again the judgment in *Aberdeen Railway*⁸. Note here two things. First of all, Lord Cranworth described that principle as being “of universal application” — that is in paragraph 27 — and that Lord Herschel in *Bray v Ford*⁹ described the principle as “inflexible”. That is absolutely critical because throughout this judgment at the Court of Appeal, Jonathan Parker LJ giving judgment, you will find constant references to the inflexibility of the principle.

There is absolutely no way out for a director.

There are no circumstances in which this duty is lifted.

There are no circumstances in which this duty is avoided.

- 43 In his submissions relating to fiduciary duties, on behalf of the claimant, Mr Acland concentrated on two areas in particular. First, that Trimcool is a dormant company; it has never traded at all. Second, that it would not be appropriate for the Comptroller to decide the bona fides or mala fides of Mr Paxman in the absence of evidence. That is to say, I should not conclude that Mr Paxman is in breach of his fiduciary duties without giving him an opportunity to bring forward evidence, and present his case fully.

Trimcool — a dormant company

- 44 The first of these submissions appears not to be in dispute in these proceedings. Certainly when I put it to Mr Fernando, he did not disagree. However he was adamant that it was irrelevant to the matter at hand. He insisted that the legal test was whether the company had “business opportunities”. In his opinion, the pleadings in the claimant’s statement clearly show that Trimcool has business opportunities. He pointed to paragraph 15 of the claimant’s statement which confirms that:

“Trimcool engaged in correspondence with breweries in relation to the marketing of the product. Approximately 50 prototypes of Products were sold as a result of this marketing.”

⁷ *Bhullar v Bhullar* [2003] EWCA Civ 424.

⁸ *Aberdeen Railway Co. v Blaikie Brothers* [1843-60] All ER 252.

⁹ *Bray v Ford* [1896] AC 44 at page 51.

45 This paragraph of the claimant’s statement goes on to say that the sales in question were “not effected by Trimcool, but by a company called Eurosecure Limited”. Eurosecure Limited is a subsidiary of a further company, VM Fabrications Limited, in which the respondent holds a 90% shareholding. According to Mr Fernando, the fact that the sales were effected by Eurosecure does not change the position. The marketing was done by Trimcool, and that is sufficient to prove that Trimcool has business opportunities. I will add that it is also accepted by both parties that several large breweries are waiting to place substantial orders — estimated by the claimant to exceed £1 million in the first year alone. This also suggests to me that Trimcool has business opportunities. Thus Mr Acland’s first line of attack fails. The fact that Trimcool is dormant is irrelevant because it has business opportunities.

Evidence of breach of fiduciary duty?

46 The second of Mr Acland’s submissions on this point was that the Comptroller needs to consider evidence before deciding the bona fides or mala fides of his client. However, it seems to me that for the purposes of determining the matter before me, I am not so much interested in the past behaviour of either party. The question that interests me is whether the claimant is in fact seeking authorisation from the Comptroller to do something in the future (ie. grant a licence to one of Trimcool’s competitors) that would inevitably amount to a breach of his fiduciary duties. That being so, as I think is the case, I cannot see that there is any need for evidence. All that is required in this situation is what I have already been given — ie. detailed and helpful submissions from counsel regarding the relevant aspects of company law.

47 On the basis of those submissions, I am led to the inescapable conclusion that — as matters stand — the Comptroller cannot make an order in the terms sought by the claimant. Accordingly I cannot see any reason to allow these proceedings to continue. In his counter-statement, the respondent makes a cross-reference for a similar licensing scheme, but only in the event that the Comptroller is able to order the grant of licences of the type requested by the claimant. In the circumstances, this cross-reference cannot proceed either.

The way forward

48 At the hearing, it became clear to me that the breakdown in the relationship between Mr Hughes and Mr Paxman is an obstacle that is preventing both of them from exploiting the invention of which they are joint owners. This is precisely the sort of stalemate that section 36(2) appears to be intended to avoid. Ordinarily, both co-proprietors would be able to rely on section 36(2) to manufacture and supply products in accordance with the invention independently of each other. But as they are both directors of Trimcool, a company that they set up for the express purpose of marketing and selling products in accordance with the invention, then, for the reasons that I have given above, neither of them can operate independently under section 36(2) without breaching their fiduciary duties to Trimcool.

49 This is particularly relevant in this case because the respondent, in his counter-statement (paragraph 41), states that his company (VM Fabrications Ltd) “is entitled to manufacture and will manufacture and supply products in accordance with the invention ... under section 36(2)”. As I have said above, I do not see how Mr Hughes can countenance that without breaching his fiduciary duties to Trimcool.

50 The position is not eased if one or other of the directors resigns his directorship of Trimcool. As Mr Fernando established quite clearly from the decided cases, even after resignation a director cannot exploit a business opportunity of the company of which he was formerly a director. The only solutions I can see involve either winding up Trimcool, or applications for compulsory licences made by one or more third parties.

Order

51 In view of the fiduciary duties that the claimant owes to Trimcool, I have found that the Comptroller is unable to provide him with the relief sought in these proceedings. As there can therefore be no prospect of the claimant succeeding, I hereby order that this entire reference under section 37(1)(c) be struck out. In view of the conditional nature of the cross-reference, it is deemed withdrawn.

52 In the event that Trimcool is wound up at some future date, or its activities and/or interests change, such that the parties (freed from their fiduciary duties) are able to exploit the invention independently under section 36(2), the claimant shall be permitted, notwithstanding the rules on estoppel, to bring a new reference under section 37(1)(c) if he considers that the proper exploitation of the patent is being unreasonably prevented by one or more other co-proprietors.

Costs

53 The respondent has succeeded in stopping this action, and so in principle is entitled to a contribution towards his costs. Counsel indicated at the hearing that both parties were content for me to abide by the published Patent Office scale. Taking all factors into account, I award the respondent the sum of £1,000 to be paid by the claimant not later than 7 days after the expiry of the appeal period. If an appeal is lodged, payment will be automatically suspended pending the outcome of the appeal.

54 If new proceedings are commenced at some future date, as permitted by paragraph 52 above, it may be appropriate for the relevant tribunal to take account of the costs awarded in these proceedings when considering any subsequent award of costs between the parties.

Appeal

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

S J PROBERT

Deputy Director acting for the Comptroller