Intellectual Property Office

BL O/517/13

31 December 2013

PATENTS ACT 1977

BETWEEN

Malcolm and Varnham and Diana Hodgins	Claimants
and	
BAE Systems plc	Defendant

PROCEEDINGS

Claim for employee compensation under section 40(1) of the Patents Act 1977 in respect of European patent no EP0461761B1

HEARING OFFICER A C Howard

Alan Johnson of Bird & Bird LLP represented the Claimants
Jonathan Hill of 8 New Square represented the Defendant

Hearing date: 30 October 2013

DECISION

introduction

1 The substantive proceedings relate to a claim for employee compensation under section 40 of the Patents Act 1977 ("the Act") and were commenced on 8 May 2012. The claimants are two of four inventors named in the patent, which relates to inertial sensors such as accelerometers and vibrating gyroscopes for use in navigational equipment.

2 On 15 October 2012 the defendant filed its counterstatement together with a request that the comptroller decline to deal with the claim under section 40(5) of the Act. This request is resisted by the claimants.

3 On 17 May 2013 the claimants requested that the defendant disclose a number of documents before the decline to deal request is heard, and also requested that the proceedings be stayed pending issue of an Office decision in another unrelated case under section 40. In my decision of 19 August 2013 (BL O/338/13) I refused both these requests.

4 An oral hearing on the question of whether the comptroller should decline to deal with the claim subsequently took place before me on 30 October 2013 and this decision is concerned with that question.

The law

5 The relevant provisions of the Act are as follows:

> ***Section 40(1)***
>
> *Where it appears to the court or the comptroller on an application made by an employee within the prescribed period that –*
>
> > *(a) the employee has made an invention belonging to the employer for which a patent has been granted,*
> >
> > *(b) having regard among other things to the size and nature of the employer's undertaking, the invention or the patent for it (or the combination of both) is of outstanding benefit to the employer, and*
> >
> > *(c) by reason of those facts it is just that the employee should be awarded compensation to be paid by the employer,*
>
> *the court or the comptroller may award him such compensation of an amount determined under section 41 below.*
>
> ***Section 40(5)***
>
> *If it appears to the comptroller on an application under this section that the application involves matters which would more properly be determined by the court, he may decline to deal with it.*

6 The parties are in agreement that the correct approach to be taken by the comptroller in deciding whether to decline to deal with a claim under section 40 is as set out by Warren J in *Luxim Corp v Ceravision Ltd* [2007] EWHC 1624 (Ch), [2007] RPC 33. This was an entitlement case, but the respective statutory provisions are couched in very similar terms to section 40(5) and there is no doubt in my mind that the same principles apply.

7 Prior to *Luxim*, the comptroller had declined to deal only where the issues were so difficult and complex that the hearing officer felt he could not address them effectively. The *Luxim* judgment found that this was the wrong approach, and that the question to be considered by the comptroller was whether the court could "more properly" determine the issue. The comptroller should consider exercising discretion to decline to deal whenever a case was complex and should not do so "sparingly" or "with caution". To quote from paragraph 68:

> *"So, provided that one recognizes what is complex is not an absolute standard, I do not think that the Comptroller can go far wrong if he were to consider exercising his discretion [to decline to deal] whenever a case is complex; he is to be the judge of what is and is not complex in this context. What he should not do is start with a predisposition to exercise his discretion sparingly, cautiously, or with great caution. Complexity can be manifested in various aspects of a question or the matters involved in a question and counsel have identified different areas to which different considerations may apply – technical issues, factual issues, patent legal issues and non-patent legal issues to name some. What may seem technically complex to a lawyer may not seem technically complex to a hearing officer; and, the other way, what may seem complex legally to a hearing officer may seem*

straightforward to a lawyer. It is for the Comptroller to judge how each relevant matter or question appears to him given its complexity. I do not read Jacob LJ as saying anything different from this in paragraph 44(iii) of IDA either (i) when he refers to complex cases or (ii) when he says that the Comptroller's jurisdiction should be reserved for relatively straightforward cases. The phrase "relatively straightforward" of itself involves a comparison of scale. An involved technical issue may be relatively straightforward to a hearing officer; a legal issue which to a lawyer may be relatively, straightforward may not be to a hearing officer, and may not, on that basis, so appear to the Comptroller."

8 And at paragraph 69:

"Accordingly, I reject the submissions of Mr Birss and Mr Mitcheson about the principles governing how the Comptroller should exercise his discretion to decline to deal and in particular the submission that, where complexity is the only relevant factor, he should do so only in highly complex cases. However, what Jacob LJ said in one or two brief sentences about the general approach is not to be taken as legislation or even to represent a complete statement. It is a statement of the general approach which needs to be adapted to fit the facts of each case; in particular, the concept of complexity (or whether an issue is relatively straightforward) needs to be judged in relation to different areas where different issues can arise (eg, technical, factual, legal) and needs to be judged against the expertise and experience to be expected of a hearing officer as compared with that of a judge."

9 And further at paragraph 87:

"In my view, it is the cumulative effects of the issues involved by reference to which the issue of referral must be judged. The fact that a question involves, say, three issues each of which taken in isolation would not make it appear to the comptroller that the question involved matters which would be more properly determined by the court does not mean, when those three issues are taken together, that the overall appearance is the same. The question involves three matters which, taken together, may well make it appear to the comptroller that the question does involve matters which would be more properly determined by the court."

10 Regarding how to approach the various issues which may contribute to making a case "complex", the judge said (at paragraph 55), in endorsing an approach that had been proposed to him by one of the parties:

"Mr Thorley draws attention to four sorts of issue which an entitlement dispute might throw up, and considers the suitability of a hearing officer to deal with them bearing in mind that he is a technical person not a lawyer:

a. Technical issues: this may need expert evidence to assist the decision maker. Ordinarily, a hearing officer will be equipped to deal with such issues.

b. Factual issues unrelated to technical issues: these are bread-and-butter matters for a judge. Of themselves, they may not merit a referral to the court. But the issues may be seen to be sufficiently complex to merit transfer, especially, I would observe, if findings of fraud or breach of fiduciary duty are to be found against a party or a witness, a factor which, whilst not by itself conclusive, one might normally expect to be more appropriate for a judge.

c. Patent law issues; the hearing officer is usually to be expected to be a suitable tribunal to deal with such issues, be they English or foreign law issues.

d. Non-patent law issues: I agree with Mr Thorley in thinking that issues of this sort (whether of English or foreign law) would ordinarily be regarded as the province of the judge. Of course, it cannot be said that any case which involves a point of law is one which would more properly be dealt with by a judge, but it is a factor and may very well be an important factor."

11 Thus, in making the determination, it is necessary to consider the technical, factual and legal aspects of the case and judge these against the expertise and experience of a hearing officer as compared with that of a judge. Technical matters, expert witness evidence, English or foreign patent law would not indicate transfer to the court. Fraud, breach of fiduciary duty, and legal issues falling outside patent law, for example, might do so. The limited costs regime in the Office and its effect on the parties could also be a relevant factor. It was further made clear that it is the overall complexity of a case that is important and that even if there is no single factor that warrants transfer to the court, when everything is considered together it may be appropriate to do so.

The matters to be considered

12 I was addressed on the specific aspects identified in *Luxim* and also on certain other points which it was suggested I should take into consideration. I shall proceed to deal with these in turn.

Technical issues

13 Part of the defendant's case relates to the extent to which the commercialised products focussed on by the claimants fall within the claims of the patent in question. This will require an understanding the technology used in the products and is exactly the kind of question that the comptroller is well geared up to handle. Mr Hill likened the determination to an infringement action and argued that the comptroller has in practice little experience of such matters, but it is my view that construing a patent claim and determining whether a product falls within its scope is bread-and-butter to the Office's activities, for example in respect of patent examination as well as determining validity post-grant. The Office has also issued a number of statutory opinions on the question of infringement as such. I therefore have no doubt that the technical issues raised in the claim are well within the comptroller's ability to handle them.

Factual issues

14 Mr Hill argued that the claim involves a number of complex factual matters in dispute. These include the extent of the benefit attributable to the invention claimed in the patent relative to the contribution of other patented technology incorporated in the commercialised products; the contribution made by the claimants (as opposed to the other inventors) to the invention; the role of the patent in the commercial relationship between the defendant and its joint venture partner; the benefit brought to the defendant through being able to prevent the grant of broad patent claims to a competitor; and the benefit the patent brought through the securing of research and development contracts. In Mr Hill's submission, resolution of these issues will require consideration of forensic accountancy evidence and extensive cross-examination to tease out the complex interactions between the different factors involved.

15 While accepting that expert accountancy evidence will be required and there will be extensive cross-examination, Mr Johnson contended that none of the issues raised falls outside the ambit of the matters that the comptroller is able to handle and that the factual issues in dispute (such as the extent of the benefit and whether this is "outstanding") are matters of the kind which will arise in any claim under section 40.

16 I accept that the issues in dispute here arise under provisions of the Act. This does not of course mean that the comptroller is automatically the most appropriate forum to hear the claim. What I believe that *Luxim* tells me is that the comptroller is likely to be more geared up to resolve factual disputes arising under the ambit of patent law than ones falling under some other legal framework, but that it is still possible for such matters to be so complex (for example in terms of the evidential issues raised) that the court is better placed to resolve them.

17 Mr Johnson suggested to me that if I decline to deal with this claim then it would be difficult to see how the comptroller could hear any claim under section 40, but I disagree. I can envisage scenarios involving claims which are relatively straightforward in a non-technical sense, which it would be wholly appropriate for the comptroller to hear. However, in this case I favour Mr Hill's view of the likely complexity of the factual issues needing to be resolved. While determining the contribution of inventors lies within the sphere of matters routinely considered by the comptroller, the consideration of forensic accountancy evidence in particular falls far outside the comptroller's normal range of experience. I am accordingly of the opinion that this factor points strongly in the direction of declining to deal.

Patent and non-patent legal issues

18 I have already commented that the main issues to be resolved in this case fall within the ambit of patent law. The defendants have not sought to argue that there are important non-patent legal issues needing to be addressed. While it is true that there have in practice been very few cases under section 40 heard before the comptroller, it is my view that this does not of itself carry weight in determining the most appropriate forum. Overall I do not see that the case raises any legal issues of a patent or non-patent nature that are of sufficient complexity to justify a conclusion that the court should deal with the case.

Potential duration of the case

19 The parties agree that the hearing will last at least one week (although the defendant considers that it will be more like two). While even a single week is on the long side for proceedings in the Office, I was referred by Mr Johnson to *Luxim* at paragraph 104 in which Warren J considered that a five to six day hearing (with a handful of key witnesses required to give evidence in relation to two key meetings) was within the ambit of an ordinary entitlement dispute and did not justify transfer. What I take from this is that there is no hard and fast rule along the lines of "if the case is expected to take longer than 'x' days, then it should be transferred". Nevertheless, the length of a hearing can be a reasonable proxy for complexity to the extent that the more witnesses there are and the more evidence to be considered, the greater the potential for inconsistencies and conflicts which need to be resolved in order to reach factual conclusions. My view of the present case is that it is likely to be far more complex than the example of the "handful of key witnesses required to give evidence in relation to two key meetings" cited in *Luxim.*

The difference between the comptroller's jurisdiction and the Court

20 Mr Hill made some more general observations about the distinction between the IPO and the Court – first on the basis of the difference in skills and experience

between IPO hearing officers and High Court judges, and secondly in respect of resources, facilities and procedures for hearing long and complex cases.

21 It is self-evident that there are areas where the Court in general has more experience and other areas where perhaps the IPO does. This much was acknowledged in the *Luxim* case. While this case is likely to give rise to a number of procedural issues (for example applications for disclosure, including third party disclosure), this in itself need not be determinative, since the comptroller has the same procedural powers as the Court (and Warren J, at paragraph 98 of *Luxim*, said he attached little weight to different disclosure regimes in the two tribunals). However, where, as in this case, there are likely to be complex questions to handle, it seems to me that the greater experience of the Court does weigh in favour of transfer.

22 In terms of the resources and facilities available, Mr Hill put it to me that IPO hearing officers have other duties and calls on their time which may make it hard to find the time to write a decision on a complicated dispute. While it is true that IPO hearing officers have a range of duties, many of which are not connected with hearing and deciding cases, I do not believe that this is a factor which should be taken into account for the present purposes. Parliament has conferred a jurisdiction on the comptroller. While the legislation provides a mechanism for transferring cases to the Court, the grounds for doing so have been clearly interpreted by the Court (as explained above) and I see no room for the comptroller decline to deal with a case effectively because his hearing officers are too busy.

Value of the case

23 Mr Hill pointed out to me that the compensation claimed by the inventors, of £1million each, is a sum that would normally be appropriate for the Patents Court and is higher than the limits set for the IPEC following the Jackson reforms. However there is no cap set for the jurisdiction of the comptroller, which does not have the same relationship with the Patents Court as does the IPEC. I also accept the point put to me by Mr Johnson, that a benefit that is found to be “outstanding” is likely by its very nature to warrant a substantial award. While I could envisage circumstances where a claim of an exceptionally high value might warrant being heard in the Court, I do not consider this issue to be of any weight in the present case.

Public interest

24 Mr Hill argued that there was a general public interest in this case, at least as far as employee inventions are concerned, because the comptroller would be setting a new bar if he departed from the existing guidance in *Kelly v GE Healthcare* and *Shanks v Unilever*.

25 I do not find this argument persuasive. While there may only have been a small number of earlier cases, it has not been seriously suggested that there is an important point of law that is uncertain and needs to be decided by the Court. On the contrary, it seems to me that the outcome is likely to turn on the facts. I am therefore not of the view that transferring the case to the Court would better fulfil any public interest objectives.

Potential cost burden on the claimant

26 Warren J held in *Luxim* that the different costs regime between the Office and the court was a factor which could be taken into account when exercising the comptroller's discretion but it might, on the facts of any particular case, carry no weight at all.

27 In that case both parties were businesses, the claimant Ceravision being a company limited by guarantee, and the defendant Luxim being a Corporation; both sides were represented by Counsel before the IPO.

28 In the present proceedings the claimants are private individuals. It was put to me that they would have to change their representation in order for their case to proceed in the High Court. In particular they are concerned about the level of cost risk. Even though the defendant has agreed to accept cost budgeting in the High Court, Mr Johnson argued that this does not give the claimants any assurance over the level of costs that they may be exposed to, whereas in the IPO they can place some reliance on the fixed scale and can continue with the same representation. Mr Hill referred to the possibilities of third party involvement in funding, for example through insurance, conditional fee arrangements, or damages-based agreements, and urged me not to attempt to evaluate the claimants' ability to continue the action in the Court. However, Mr Johnson stated quite clearly on instructions that his clients would not proceed should I decline to deal with the claim.

29 This is a very serious issue. If I take Mr Johnson's submission on behalf of his clients at face value (and Mr Hill did point out to me that I have no evidence on this point), then a decision to decline to deal could be said to be denying access to justice.

30 Whether or not I have any reason to doubt the truth of the claimants' assertion about their intentions should I decline to deal with the case, this nevertheless remains a matter for their judgement having regard to all the circumstances, including their assessment of the likelihood of success of the claim, the financial means available to them and the other possibilities of limiting exposure to costs as were outlined to me by Mr Hill. Moreover, I do not think it would be right to consider such an argument as trumping all other considerations. To do so would effectively hand any litigant with limited means with the possibility of vetoing transfer of a case to the Court.

31 I therefore consider that this is a factor (albeit a strong one) to be weighed alongside all the others in coming to a decision on whether the Court or the comptroller is the more appropriate forum.

Overall assessment

32 I have concluded that the claim raises no technical issues or questions of substantive law that might warrant transfer to the Court. However, certain of the factual and evidential questions as well as the procedural issues likely to arise are in my view highly complex and I have no doubt that they call for the greater experience and expertise of a judge. Retaining the case in the Office in these circumstances would entail an increased risk that something could be overlooked which could render the resultant decision vulnerable to appeal. Such an outcome would not be in the interests of justice for the claimants whichever way the decision went.

33 Against this must be weighed the claimants' assertion that they would not be able to afford to go ahead in the High Court. I have already commented that this is a very serious issue albeit not an absolute red line. Absent this argument, I would have no hesitation whatsoever in declining to deal, but in the present circumstances the question is more finely balanced. Nevertheless, on careful consideration I find the point set out in the preceding paragraph persuasive and I therefore have to come down on the side of transferring the case to the Court.

Conclusion

34 For the above reasons I find that this claim would more properly be determined by the court and I therefore decline to deal with it in accordance with section 40(5) of the Act.

Costs

35 Both parties said they would prefer to see this decision before considering the issue of costs. I therefore allow the parties four weeks to make submissions on costs, following which I will decide on what award to make.

Appeal

36 Any appeal must be lodged within 28 days.

A C HOWARD
Divisional Director acting for the Comptroller