



**COPYRIGHT DESIGNS AND PATENTS
ACT 1988**

BETWEEN

Penny Hydraulics Limited

Applicant

and

Reid Lifting Limited

Licensor

PROCEEDINGS

Application under section 247 to settle the terms of a licence of right available under section 237 in respect of certain design rights

HEARING OFFICER

Phil Thorpe

DECISION ON COSTS

Introduction

- 1 In a decision dated the 11th March 2011 I settled the terms of a licence of right available under section 237 of the Copyright, Designs and Patents Act 1988 (the Act) in respect of certain design rights for which Reid Lifting Limited (Reid) claimed ownership. In that decision I deferred the question of costs pending further submissions from the parties. I did however indicate that any submissions should provide argument why I should depart from the general presumption in licence of right cases that each side bears its own costs.
- 2 Each side subsequently filed submissions. In its first submission dated 6th April 2011 Reid puts forward arguments supporting its claim for a compensatory cost award in its favour of £7,437.50 to reflect as it puts it “the level of unreasonableness” of the applicant Penny Hydraulics Limited (Penny).
- 3 Penny, in its submission dated 7th April 2011, argues that no costs should be awarded to either side but that if I am minded to make such an award then it should be in its favour.
- 4 Reid filed a further submission on the 11th April 2011 responding specifically

to a claim by Penny that Reid had misled it about the nature of the design in suit.

What approach should I adopt?

- 5 Rule 22(1) of the Design Right (Proceedings before Comptroller) Rules 1989 provides that:

The Comptroller may, in respect of any proceedings, by order award such costs or, in Scotland, such expenses as he considers reasonable and direct how, to what party and from what parties they are to be paid.

- 6 As Reid notes this provision gives the Comptroller wide discretion when awarding costs. Reid does however recognise that the usual order in design right licence of right cases is one of no order for costs. This is reflected in Tribunal Practice Notice TPN 2/2000¹, which deals with costs in proceedings before the comptroller and which includes the following:

It has been customary in licence of right cases for the Comptroller not to make an award of costs unless one side pursues unreasonable terms or the circumstances of the particular case are sufficiently unusual to warrant a departure from that practice. It is not intended to alter that approach, except to the extent that the flexibility to address procedural difficulties may bite.

- 7 This is reiterated in the Patents Hearing Manual² which notes at paragraph 5.39:

In licence of right cases, usually neither side can be described as the “winner”. Accordingly it is customary for the comptroller not to make an award of costs in respect of the substantive issues unless there are some exceptional circumstances, eg one side pursuing unreasonable terms.

- 8 Reid suggests the key factors in the exercise of the Comptroller’s discretion are the circumstances governing discretion as to costs as set out in the Civil Procedure Rules (CPR). It refers specifically to subsection 4(a) of CPR 44.3 which states:

(4) In deciding what order (if any) to make about costs, the court must have regard to all the circumstances, including – (a) the conduct of all the parties;

- 9 In its submission Reid has sought to substitute “the court” with “the comptroller” in the above provision. The Comptroller has at least in patent cases been found³ not to be bound by the CPR and I can see no reason why that finding would also not apply in design right cases. Even though I am not bound by CPR 44.3, I am content to follow the principle that it sets out. Indeed

¹ <http://www.ipo.gov.uk/p-tpn-22000.htm>

² <http://www.ipo.gov.uk/p-manual-hearing-content/chapter-5.htm>

³ [Rhône-Poulenc Rorer International Holdings Inc & Anor v Yeda Research and Development Co Ltd \[2006\] EWHC 160 \(Ch\) \(16 February 2006\)](#)

the comptroller has unsurprisingly always had regard to the conduct of the parties when considering costs. This is reflected in for example the cost decision in *PJ International Leathercrafts*⁴, which like here followed a decision setting the terms of a design right licence of right.

10 In that decision the Hearing Officer noted in paragraphs 9 and 10 that:

“The [Hearing] manual goes on in paragraph 5.47 to provide examples of certain circumstances that might be considered exceptional. This is in the context departing from the scale that the comptroller would normally apply in cases other than licences of right, but I feel it is equally appropriate in deciding whether to award costs at all in a licence of right case. The list of examples in this paragraph is not exhaustive, and indeed, arguably none of the examples reads on to the present circumstances. However, in very general terms one could say that what characterises all the examples is behaviour that could be considered unreasonable, I shall use that principle for deciding whether I should award costs in the present case. Note, though, that as paragraph 5.47 goes on to say, merely because a party has lost does not of itself mean that their behaviour in fighting the case was unreasonable.

On quantum, paragraph 5.47 says that where costs differing from the scale are awarded, the increase or decrease should be commensurate with the extra expenditure incurred by the other side as a result of the behaviour. That must, I believe, be the appropriate approach. It is the approach I adopted in *Stafford Engineering* after finding that one of the parties had acted in a way that constituted an abuse of process, and it is also the approach I adopted more recently in *Statoil v University of Southampton*.”

Assessment of the present case

- 11 Reid's main argument is that Penny has not at any time in these proceedings been prepared to enter into discussions with Reid to negotiate a settlement of the case or to try to settle the dispute through mediation. This Reid submits has lengthened proceedings and resulted in increased costs for Reid.
- 12 Reid has submitted a variety of correspondence which it claims supports its case that it was continually willing to negotiate whereas Penny was not. This correspondence, most of which is marked as “Without prejudice save as to costs”, starts on 24th December 2009 with a letter from Reid to Penny. In this letter, Reid proposes a royalty rate and also seeks to explain how it arrived at that particular figure.
- 13 The response from Penny sent on the 6th January 2010 noted that the rate asked for by Reid was unacceptable and was some “four or five times” what it expected the IPO to set. The letter noted that since the two parties were “so far apart, there seems little point in continuing this correspondence”.
- 14 The request that the Comptroller settle the terms of the licence was filed by Penny on 11th January 2010.
- 15 Reid wrote again to Penny on the 13th January 2010 seeking reasoning from Penny as to why it believed that the comptroller would set a royalty rate significantly below that demanded by Reid. The letter also noted that Reid

⁴ [*P J International Leathercrafts Limited and Peter Jones \(ILG\) Limited* BL0/370/06](#)

would be seeking a substantive cost order in its favour if Penny declined to enter into meaningful negotiation. Penny did not respond to this letter.

- 16 The IPO served the reference on Reid on the 4th February 2010. In the accompanying letter that was copied to both sides the IPO noted:

“Mediation

3. It seems to me that this is a dispute where mediation may result in a quicker and less costly resolution. You are strongly advised to consider the use of mediation in this dispute

4. If you are unfamiliar with mediation, there is further information in the leaflet enclosed and on our website at the following address:

<http://www.ipo.gov.uk/pro-types/pro-patent/pro-p-dispute/p-mediation.htm>

In addition if you wish, I can arrange for you to speak to one of the Intellectual Property Office’s trained mediators.

If you are not prepared to try mediation, you should be aware that the hearing officer may ask you to explain your reasons (without prejudice to matters of privilege).

If you and the other side agree to try mediation, and would like us to suspend the current proceedings until the outcome of the mediation, you will need to put the request in writing and send to us.”

- 17 Penny’s response to this was set out in a letter to the IPO dated 16th March 2010. In this Penny notes:

(1) As stated in our letter dated 21 January, the only matter in issue here is a royalty rate.
(2) Whilst it is accepted that mediation may avoid litigation, in circumstances, as here, where there is no possibility of litigation, the mediation facility is facile, as the mediator’s remit palpably does not extend to reaching a decision on a royalty rate.

(3) ..

(4) ..

(5) However the parties are so far apart on royalty rate (Penny Hydraulics have offered 5% whilst Reid Lifting are demanding 19.9% to 24.9%) that it is the opinion of this side that there is no prospect of an agreed settlement.

(6) ..

(7) ..

(8) Accordingly, what Applicants Penny Hydraulics seek is a decision on royalty rate.
-Nothing else is in dispute – and a decision on royalty rate will not be forthcoming from the mediator.

(9) The prospect of a design right owner making exorbitant demands to frustrate the licence of right provisions of the Act, were of course envisaged by the legislature and resulted in the provisions of Section 237(2) and Penny Hydraulics has an entitlement to a decision under this section.

(10) It follows that Penny Hydraulics does not agree to any mediation process.

- 18 After this the proceedings followed the normal course. I did convene a case management conference (CMC) to try primarily to give some guidance as to the sort of evidence that might be useful to me in setting the terms of the licence. Reid attended the CMC with its representative. Penny’s representative joined by phone. Both sides subsequently submitted evidence. The matter then went to a hearing which only Reid attended.

- 19 Reid does not argue that the behaviour of Penny was unreasonable in any way other than in its failure to negotiate or participate in mediation. It does argue that the expense it incurred in terms of filing and considering evidence and attending the CMC and hearing was unnecessarily incurred as a result of this unwillingness to negotiate or engage in mediation.

Was Penny's refusal to negotiate or engage in mediation unreasonable?

- 20 Reid refers me on this point to two decisions. The first is that of the Court of Appeal in *Dunnett v Railtrack PLC*⁵. Here the court suggested that the parties try mediation. The defendant however rejected this out of hand. Although the defendant did succeed with the appeal, it was given no costs because of its unreasonable refusal to mediate. Brooke LJ noted that:

“Mr Lord [the defendant's representative], when asked by the court why his clients were not willing to contemplate alternative dispute resolution, said that this would necessarily involve the payment of money, which his clients were not willing to contemplate, over and above what they had already offered. This appears to be a misunderstanding of the purpose of alternative dispute resolution. Skilled mediators are now able to achieve results satisfactory to both parties in many cases which are quite beyond the power of lawyers and courts to achieve. This court has knowledge of cases where intense feelings have arisen, for instance in relation to clinical negligence claims. But when the parties are brought together on neutral soil with a skilled mediator to help them resolve their differences, it may very well be that the mediator is able to achieve a result by which the parties shake hands at the end and feel that they have gone away having settled the dispute on terms with which they are happy to live. A mediator may be able to provide solutions which are beyond the powers of the court to provide. Occasions are known to the court in claims against the police, which can give rise to as much passion as a claim of this kind where a claimant's precious horses are killed on a railway line, by which an apology from a very senior police officer is all that the claimant is really seeking and the money side of the matter falls away.”

- 21 The second is the Court of Appeal's decision in *Rolf v De Guerin*⁶. In this case one party spurned the offer to try mediation or negotiate outside of formal mediation until the very last minute. In deciding not to make any order for costs, a decision adverse to the party who had spurned mediation, Rix LJ giving the leading judgement noted that:

“In the present case, even the offer, often repeated, for round-table discussions was spurned. No reason was given at the time, and the reasons advanced by Mr Guerin at this appeal do not bear real examination and are unreasonable. It is possible of course that settlement discussions, or even mediation, would not have produced a solution; or would have produced one satisfactory enough to the parties to have enabled them to reach agreement but which Mr Guerin might now, with his hindsight of the judge's judgment, have been able to say did him less than justice. Nevertheless, in my judgment, the facts of this case disclose that negotiation and/or mediation would have had reasonable prospects of

⁵ [Dunnett v Railtrack plc \[2002\] EWCA Civ 303](#)

⁶ [Rolf v De Guerin \[2011\] EWCA Civ 78](#)

success. The spurned offers to enter into settlement negotiations or mediation were unreasonable and ought to bear materially on the outcome of the court's discretion, particularly in this class of case.”

22 I accept that these two cases do support Reid's assertion that failure to engage in mediation can be considered as unreasonably behaviour. It was found to be in these cases and I am aware of other cases where it has similarly been found. However that does not mean that every instance of a refusal to engage in mediation would necessarily be considered unreasonable. Rix LJ in paragraph 44 of *Rolf v De Guerin* notes:

“In *Halsey v. Milton Keynes General NHS Trust* [2004] EWCA Civ 576, [2004] 1 WLR 3002 , this court gave detailed consideration to the circumstances in which it might be said that a party had acted unreasonably in refusing ADR: such as the nature of the case, its merits, the extent to which other settlement methods had been attempted, its costs and delay, and whether it had reasonable prospects of success. This court there held that an unusual order on the ground of a refusal to mediate always had to be justified, with the burden on the party seeking such an order to show that the refusal was unreasonable. It seems to me, for the reasons stated above, that such considerations strongly militated in this case in favour of attempts at settlement, even mediation.”

23 Each case therefore needs to be considered on its merits. Before however I turn to the circumstances of this case I would make the following general observations. Disputes involving the terms of licences, particularly where the only issue is the rate of royalty are in my opinion ripe for ADR in particular mediation. Such mediation is more likely to succeed the closer that the two sides are to each other. But even where the parties are far apart then mediation may still work. The mediator does not make a decision. Rather his role is to help the parties themselves to agree a solution which can be made binding. The benefits of mediation are potentially reduced costs for both sides as well as speedier resolution of the dispute. Where parties are likely to be having a continued relationship then a mediated resolution is preferable to one imposed as a result of litigation. Early mediation can also reduce the resources that the court or tribunal needs to allocate to the case. It is for these reasons that the IPO promotes mediation as an alternative to litigation.

24 I turn now to the particular circumstances of this case. Penny, in its submission on costs, emphasises that the number of products likely to be subject to the licence is very small, around 15 a year. So the commercial value of the licence to Penny is very low. In his witness statement, Mr David Battrum Finance Director of Penny states that they considered the commercial value of the portable davit business to be “so insignificant as to make it cheaper to volunteer to pay a royalty – in circumstances where a licence of right was available rather than to incur indeterminate legal costs in contesting the matter”.

25 Penny has clearly sought to keep down its own costs. It did not attend in person the CMC and it did not participate at all in the hearing. Its evidence extended to one eight page witness statement with three short attachments. There was also the official fee for bringing the action although that was only

£65. So the investment that Penny appears to have put into this case seems consistent with its view that this was a dispute of low value.

- 26 That it was at least to Penny a low cost dispute is a factor that I believe I must take into account when considering its response to the offer of mediation. Mediation is not without cost. There is the cost of the mediator – in this case Reid had suggested that Penny pay half the expected £500 fee. On top of that would have been the cost in time and money of Penny and possibly its representative participating in the mediation.
- 27 There was also the risk of the mediation being unsuccessful which Penny believed to be greater because of the difference between the two sides on the rate of royalty. The parties had also been in discussion for around 18 months according to Penny before the reference was filed. There is claim and counterclaim about what happened during these discussions. Penny claims that Reid falsely maintained during this period that design right continued to subsist in the original design of the davit. According to Penny it was not until April 2010 that Reid accepted that design right in that particular design had expired in December 2009. Reid strongly contests this. It refers to its letter of 24th December 2009 to Penny in which it accepts that the original design was first marketed in 1999 but that the significantly redesigned version was not made available for sale until July 2001.
- 28 I cannot ignore the possibility that prior to December 2009 there may indeed have been some confusion between the parties as to the designs in which design right was claimed to subsist. Penny's claim that it was misled is not in my opinion substantiated. In contrast I am satisfied that, by the time the reference was filed and subsequently when mediation was proposed, it was sufficiently clear that the original design was not part of the dispute. However notwithstanding that I accept that the experience of the exchanges between the two sides may have led Penny to doubt whether further settlement negotiations or mediation was likely to be successful. This is reflected in the witness statement of Mr Battrum where he notes that the reference was filed "with a view to terminating some 18 months of inconclusive discussions".
- 29 So what can I conclude? It is likely that Penny was doubtful of the likelihood of success of further negotiation or mediation given the discussions to date and the gap between the parties. Mediation may also have further delayed proceedings. Pushing ahead with litigation was unlikely to involve much additional expenditure for Penny and would provide the certainty of a decision. It is I believe understandable why in the circumstances Penny chose the route it did. It was not in my mind the best route. I still think mediation would have been preferable particularly in getting a more speedy resolution. But what matters is not whether Penny took the best route but whether the one it did take was unreasonable. I do not believe it was.
- 30 Is there any other justification for departing from the usual no cost award? Penny did not in my opinion seek to pursue unreasonable terms. It sought to keep its own costs down and its behaviour overall did not push up the costs for Reid. The expense incurred by Reid was essentially of its own choosing. It

chose to attend the CMC with its representatives as well as to make oral submissions at a hearing. Reid does suggest that it is more of a winner than Penny because the royalty rate I set was closer to what it was asking for. In fairness to Reid, it was not arguing that this alone justified a cost award in its favour. Rather it was seeking to demonstrate that the royalty rate it was asking for was reasonable and a good basis for a settlement. In that respect I would agree it was reasonable however for the reasons set out above I still believe that Penny's decision not to enter into settlement talks or mediation was not unreasonable.

- 31 Penny suggests that a cost order in its favour is justified because Reid falsely claimed design right in the original design in the earlier discussions between the two sides. If a rights holder is looking to enforce its rights then it is desirable that it knows clearly what rights it has. There does unfortunately appear to have been some confusion on the part of Reid as to the nature and duration of the design rights it was seeking to assert and this confusion, as I have discussed, did appear to generate some unnecessary mistrust. Reid to its credit did seek to clarify things before the reference was filed although it was not really until the CMC that the aspects of shape and configuration that were to be covered by the licence were finally agreed. It is unfortunate that it took that long to sort it out however my experience is that it is not unusual for there to be this sort of confusion in a field of intellectual property that is based on unregistered rights. In this instance, although it might have dragged things out a bit and generated a bit of mistrust, I do not believe that this confusion resulted in Penny incurring any significant extra expenditure. Hence I see no reason to make an award on its favour.

Conclusion

- 32 I conclude that having regard to all the circumstances that there is no justification for departing from the usual practice in design right licence of right cases of each side bearing its own costs. I therefore make no award of costs.

Appeal

- 33 Under section 249 of the Act, any appeal lies to the High Court. Any appeal must be lodged within 28 days.

Phil Thorpe
Deputy Director acting for the Comptroller