

specifically to equipments the same remarks are true for the new advanced electronic components which make advanced equipment performance possible. A particularly important case to note is semiconductor devices whose manufacture is highly capital intensive and in which the price/volume characteristic is very steep. The price to be paid for anything limited to a national requirement is therefore relatively very high.

Since industry makes its money by manufacture the most important factor in effective utilisation of its R & D is a real market for its products at realistic prices. In saying this I am not implying that industry should be "feather-bedded" in any way but simply that, where the Government is the sole, or principal, purchaser of the products of R & D, it has a particular responsibility to recognise the economic effects of (frequently smaller) market volume. Without this recognition prices will be too low and R & D can, as a result, be wasted.

In free market conditions the onus is quite clearly on industry to determine potential market volumes and the prices necessary to achieve these volumes. The success or failure of any product and hence the ef-

Readers of *Les Nouvelles* will note that it carried an item concerning the items given below. Now these lawsuits have been settled, according to this article:

**New York Times — March 27, 1972**

Settlement of two lawsuits relating to the manufacture of high pressure polyethylene in Sardinia, Italy, was announced March 20 by the plaintiffs, Dart Industries Inc. and El Paso Products Company, and the defendants, Societa Italiana Resine S.p.A. (SIR) of Milan, Rumianca S.p.A. of Turin and Stiral S.p.A. of Sardinia.

The suit filed by Dart and El Paso against S.I.R. and Rumianca last June in Federal Court in New York has been settled and the suit has been dismissed by agreement of the parties.

In addition, an earlier suit filed by Dart against Stiral, an S.I.R. subsidiary, in the Court of Sassari, Sardinia, charging infringement of Dart's Italian patents, has also been dismissed. The litigation in New York arose out of a dispute concerning royalty obligations of Rumianca, as a licensee of Dart and El Paso. It also involved a controversy as to whether S.I.R., in collaboration with Rumianca, which Rumianca denied and continues to deny, had wrongfully appropriated and used proprietary technology of Dart and El Paso in the construction and operation of a polyethylene plant at Porto Torres, on the northern coast of Sardinia.

In announcing the settlement, Dart and El Paso have stated that they concluded that S.I.R. and/or Stiral has not appropriated any of their proprietary technology.

The dispute concerning Rumianca's royalty obligations has also been resolved with the recognition of the mutual rights and obligations of the parties.

March 20, 1972

fectiveness of the R & D is to a very large extent a function of how well this assessment is made.

This brings me naturally on to R & D in electronics for the free market.

In the same way that the market requirements have to be determined by industry so, I believe, should the associated R & D be carried out solely in industry. With a falling work load in some of our Government Establishments there has been a tendency to try to use the surplus capacity to contribute to R & D in the free market field. This is a classic case of a solution looking for a problem, which I deprecate.

While it is perfectly reasonable to allow skills within these Establishments to be hired by industry if required, I believe it is quite wrong to have a policy aimed at making these Establishments major contributors to R & D in free-market electronics.

This is, in no way, a criticism of the competence of the R & D personnel involved, since I do not believe University, Government, or Industrial R & D personnel can be identified at birth or at any early age. There may be some personal characteristics which bias an individual to one or other of these types of R & D but I believe there is fairly complete overlap of characteristics of the populations involved. The key differences between them stem from the environments in which they work, and I believe the only real environment for this type of R & D is the market-conscious environment of industry.



*J. E. Bowler*

**"SOME THOUGHTS ON ROUTINE CLAUSES"**

*by*  
*J. E. Bowler\**

A lecture delivered before the U.K. Chapter  
at  
STORNOWAY HOUSE, LONDON

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My text for this evening's sermon is taken from that well-known legal text-book "Alice through the Looking-glass" by Lewis Carroll. "When I use a word"

Humpty Dumpty said in a rather scornful tone, "it means just what I choose it to mean — neither more nor less".

"The question is" said Alice, "whether you can make words mean different things".

As licensing executives we are very much aware that words can mean very different things; just what they do mean may be decided by one of the standard clauses which one finds in almost all agreements. This is my subject for this evening.

I ask you to visualise the scene at the end of a license negotiation. All very familiar to us. The dealing has been tough; the attorney for the other side has scared us stiff with Anti-Trust and the like; our own patent attorney has scored a couple of shrewd blows on validity, and we have succeeded in getting the royalty rate reduced by 2%, with no minimums in the first 3 years and no down payment. So we feel that euphoria which comes from success; soon we shall be on our way to the East Side Air Terminal, Kennedy Airport and England, stopping only to grab a few presents for the family, and the usual duty-free allowances. As one of the 3 glamorous mini-skirted secretaries who seem to be an essential part of any good U.S. law firm helps us into our overcoats the U.S. attorney says "Oh, say, we didn't discuss the jurisdiction and termination rights". If we are not on our toes; if the vision of a welcoming Chairman, and our wife and family waiting at home blind us; then we say "Oh; yes . . . well . . . the usual routine clauses I suppose".

So what do we mean by "routine clauses". Some people might say "almost anything which doesn't involve or affect the payments". Others might say "anything which doesn't affect the substance of the agreement". And superficially there are some clauses which are so innocuous that they can't really have much effect on the day to day operation. For instance one might doubt if anything really significant would hinge on "All communications between the parties shall be addressed to the Secretary XYZ Co. etc. etc. and sent by registered post".

I want now to draw your attention to certain clauses which are usually considered as routine but which can have a very serious effect on the agreement.

#### *Jurisdiction and Proper Law*

I remember the first time I was involved in a licensing agreement, some 20 years ago, I was Personal Assistant to the Managing Director of a company, and as is the casual habit of M.D.'s he passed an agreement over to me and asked me to "just glance through it and let me have your comments". Well of course a layman always finds the reading of agreements difficult at first, and the only thing I thought I really understood was a very simple clause "This Agreement shall be interpreted according to the laws of England".

I felt a glow of patriotism; however dimly I comprehended the other clauses I knew this one was good; British through and through. And I regret to say that many business men and some lawyers really go no further than a form of patriotism in deciding on this clause. It may be rationalised in their minds as something else, like superior English justice, but how often

do the responsible people really examine the implications of a jurisdiction clause?

There is really no substitute for discussing each clause with a legal expert of the country whose jurisdiction is selected, and making quite sure that there are no pitfalls inherent in accepting the clause.

May I give an example? A company operating in U.S.A. but having its registered office in the Bahamas granted a license to a British company to manufacture and sell a patented product in U.K. Royalties were to be paid including a very substantial annual minimum. The proper law was that of the Bahamas.

As you know in such cases it is usual to include a clause about obtaining permission from the Inspector of Foreign Dividends of the U.K. Revenue, to pay royalties gross, which will make plain the intention of the parties that tax is payable either at source, or by the recipient.

In my example such a clause was not included and when the licensee attempted to apply the provisions of Section 170 of the income tax act 1952 it was pointed out that the procedure laid down therein does not apply when the obligation under the contract is not governed by U.K. law.

It is thought that the same situation would have applied even if the licensor had been a registered U.S. company, if the proper law was that of the Bahamas. The fact that a Double Taxation convention existed between U.S. and U.K. would not have helped. So with the wrong proper law you may find yourself paying tax on a royalty payment and still remitting the royalty gross to the licensor.

Of course by paying too much attention to one feature of a proper law clause one may miss another and perhaps more important one. I have mentioned Double Taxation; this may make it appear desirable to have the agreement according to U.K. law. But U.K. patent law contains certain provisions not common to most jurisdictions, such as a limitation on duration of patent licenses. (Sec. 58, Patents Act 1949) It also has certain case law about confidential disclosure which goes further than usual.

On the other hand U.S. Patent case law has developed certain principles recently which make the chances of the patentee in patent actions very doubtful. The Supreme Court has held in *United States v. Adams* that where integers known previously for use in a certain art are combined in a new way and give unexpectedly improved technical results, it is an invention. On the other hand in *Calmar and Colgate-Palmolive v. Cook Chemical Co.* it held that if such combination behaves technically in a predictable way though giving outstanding and unexpected commercial success it is not an invention.

Some District Patent Courts in U.S.A. have interpreted these decisions more severely than others, but the general climate of judicial opinion is so unfavourable to patentees that one should certainly avoid clauses which lead to litigation in U.S.A. One can perhaps select the state if it must be U.S.A.; Professor Irving Kayton in "The Crisis of Law in Patents" gives statistics suggesting that there is only a 20% chance of a patent being held valid in the New York, New Jersey and California circuits. The chances be-

come better in Florida and Texas and Chicago where they are around 50%. See the table in Appendix I.

One must anyway recognise that patent law is domestic to each country and the courts of most countries adjudicating on domestic patents commonly apply domestic patent law. In one recent agreement which we made we used the following clause:

"This Agreement is acknowledged to have been made in and shall be interpreted and governed by the laws of the State of Ohio, United States of America, and/or Federal Laws of the United States in a like manner as an Agreement made and wholly to be performed in the State of Ohio, United States of America; provided that all questions concerning the construction or effect of patent applications and patents shall be decided in accordance with the laws of the country in which the particular patent application or patent at issue has been filed or granted, as the case may be".

#### *Bankruptcy*

One usually finds a clause providing that an agreement may be terminated by either party on the bankruptcy of the other. It is probably wise to have this as an option, but not, as one sometimes finds, a compulsory clause. The main aim is for the parties to be clear that the benefits of the agreement do not become part of a distribution of assets later.

#### *Rights of Assignment*

Most licensors are anxious to protect themselves against transfer of rights to an unknown 3rd party. One cannot reasonably object to the transfer of the whole business since with it may go most of the people who you selected as congenial licensees, but to see your licensed product hived off to a third party who you wouldn't have chosen and who could well be a competitor of yours in another product area, is galling and should be avoided by appropriate wording.

#### *"Best endeavours" and the like*

In the absence of minimums or other ways of applying the carrot or stick to a licensee, the licensor may call upon you to use your "best endeavours" to achieve certain ends. Such phraseology again highlights the jurisdiction point. If the agreement is to be according to U.K. law and in the English Courts, "best endeavours" will there be given a specific meaning — everything short of bankruptcy. (See *Terrell v. Mabie-Todd* 69 RPC 1952 p. 234). But the same phraseology is little more than a pious platitude in some other jurisdictions.

Many years ago in my inexperience I chose to conclude a license arrangement with an inventor in which I included certain words carefully chosen not to be "best endeavours". The inventor's solicitor interpreted the wording as an agreement binding the company for whom I was working at the time to go ahead, and the inventor's bank gave him advances on the security of the agreement. When the product was proved unsaleable we decided to drop it and the inventor went to arbitration against us, claiming that the agreement meant that we must do everything short of bankruptcy to sell the product. After the arbitration had gone on for 4 days it was settled out of court but with legal

costs and everything else it cost the loser some £7000.

So be careful that any phraseology calling upon you to do something, doesn't have a special meaning in the country of execution or of jurisdiction. To quote again from Lewis Carroll "It's too late to correct it" said the Red Queen "When you've once said a thing that fixes it, and you must take the consequences".

#### *Arbitration*

Reference to arbitration reminds me of another routine clause frequently included in agreements. This goes something to the effect that "Any dispute between the parties shall be submitted to the arbitration of a sole arbitrator to be appointed by the parties or in default of agreement thereon, by the President for the time being of the I.Mech.E."

Many people tend to accept this sort of clause in the belief that thereby they get cheaper and quicker judgment. They visualise an avuncular gentleman sitting down with them, listening to their stories and making a broadly fair decision, much in the style of the judgment of Solomon. But in fact this is not how it happens at all. I will not bore you with all the procedural details but I have been involved in two arbitrations, relating to patent licenses and I can assure those of you who have not had experience in this process that in general form and procedure it differs little from a High Court action. There is the usual exchange of particulars of breaches, further and better particulars, orders for directions and so on. There are meetings with solicitor, meetings with patent agents, conferences with counsel and the like.

In the one of our two cases which actually reached the arbitrator, my records indicate that the claim was made in December 1961, discussions with solicitors and counsel went on until May 1962 at which time the arbitrator dealt with an order for directions as to how the arbitration should proceed, and the actual hearing took place over 4 days in May 1963. The matter was finally tidied up between solicitors in September 1963 almost 2 years after it started. There were at least 3 conferences with Counsel, two opinions from Counsel, and many meetings with our solicitors. The solicitors bill amounted to £1609 of which £371 was Arbitrators fees and £403 for Counsel.

It is worth remembering that arbitration does not exclude later reference to the High Court. If one party feels the arbitration is going against it, it can ask the Arbitrator to state a case for the High Court even though it may have agreed to accept the Arbitrators decision.

My recommendation is not to accept arbitration clauses. The process is neither appreciably quicker nor appreciably cheaper than the Courts, and it does not exclude later reference by either party to the Courts. A minor advantage to both parties is that publicity is avoided.

Perhaps I might digress for a moment to say that in one arbitration we established a procedure new to arbitration cases.

We acquired the world rights in a certain agricultural machine from the inventor. The rights included an agreement made with a European national who had undertaken to put the machine into produc-

tion in some foreign countries including France. This agreement included an arbitration clause. The European gentleman paid us no royalties and after a decent interval we began to put pressure on him for results. This approach got us nowhere so we had our solicitors warn him of our intention to terminate by six months notice.

The response to this was a notice from his solicitors calling for arbitration and claiming £25500 including alleged loss of £50 profit per machine on 460 machines he had contracted to have made — a sum of £23,000. I made some enquiries in France and established that although a number of small contractors had made sample machines, they had never been paid and did not believe in our licensees solvency. When I reported this to our Counsel he advised us to apply to the Courts for security for costs on the ground that the claimant was a foreign national with no assets in U.K. and of doubtful financial standing in his own country.

There was no precedent for such a step in an arbitration, but we were successful in the Chancery Division — an order for £2000 was made, the proceedings to be stayed until payment was made. We never heard anything further on this particular arbitrations, but our costs still amounted to £1070, the matter was running for 2 years and we had about 6 conferences with Counsel.

*Variation in terms only in writing signed by both parties*

Having gone to the trouble of making a written agreement it is only logical to refuse any changes which are not also written. I do not think we can dispute the need for such a clause; it may be said that rigidity in these matters betrays a pessimism about the ability of the parties to work together. But in agreements between great corporations there is no place for changes by word of mouth which may be made between executives who are liable to move to other appointments.

But this form of clause does have certain disadvantages; in particular delay in getting agreement to an amendment asked for by one party cannot be short-circuited by the technique of sending a registered letter saying that if no reply is received within a given time agreement will be assumed. Though in passing it might perhaps be mentioned as reinforcement of my point about jurisdiction that in Germany such a technique may be valid, in spite of the clause to the contrary.

*Confidential Disclosure*

I turn now to a much-neglected aspect of routine clauses. A typical clause reads as follows:

“LICENSEE agrees (and shall instruct all his officers, directors, engineers and other persons to whom it discloses the same) to keep all drawings, specifications, manufacturing instructions and information relating to the licensed product and not available to the public whether furnished to LICENSEE by LICENSOR or in any manner acquired by LICENSEE as strictly confidential and the same shall be used by LICENSEE solely under and for the purpose of this agreement and LICENSEE will not communicate the same to any third party save to such sub-contractors and employees and to such

extent as may be necessary to enable the proper manufacture and sale of the licensed product to be carried on by the LICENSEE in accordance with the provisions of this agreement.”

Just what does this mean? Well of course one tends to apply common sense and one's ideas of fair play to such a clause. One thinks “Well this clause only operates on termination in the first few years, before the product patents have expired and/or before the specialist know-how passed on to us by the licensor has become commonplace. It cannot surely apply after we have paid the licensor hundreds of thousands of pounds in royalties over many years”. But our ideas of fair play would be quite wrong.

I want to refer you to certain decisions of the U.K. Courts over the years and to point out the meaning of these decisions. For convenience of reference I have summarised these cases in Appendices:

Saltman Engineering v. Campbell Engineering — Appendix II

Terrapin Ltd. v. Builders Supply Ltd. — Appendix III

National Broach — Appendix IV

Seager v. Copydex — Appendix V.

A typical instance of the effects of these decisions would be a long term licence, between a foreign Licensor and a British Licensee for the manufacture and sale of a range of products. Perhaps it may have been going for 30 years or more; the original patents have long since expired, and if the business has become large and profitable there will certainly have been competitive enterprises established. Indeed juniors from the original days of the licence may have had the enterprise to set up themselves, using the know-how originally supplied by the licensor. The product and the know-how are therefore in the public domain, and it may well be that the only reason for continuing the association between licensor and licensee is some flow of new patented items, know-how and market information.

In these circumstances a change in policy by the licensor can place the licensee in a very difficult if not impossible situation. Perhaps the licensor is the subject of a take-over; the new owner may be a company with strong international trade policy which would prefer to extend its own business into U.K. rather than be satisfied with a royalty return. Since the licence is quite old the licensor can take advantage of Sect. 58 of the Patents Act 1949 and terminate the licence on 3 months' notice, and there is no way of defeating this clause.

How does the licensee stand then? With or without the confidential clause quoted at the beginning it can no longer use the know-how which came from the licensor 30 years ago. To repeat Mr. Justice Roxborough in *Terrapin Ltd. v. Builders Supply* —

“As I understand it, the essence of this branch of the law, whatever the origin of it may be, is that a person who has obtained information in confidence is not allowed to use it as a springboard for activities detrimental to the person who made the confidential communication, and springboard it remains even when all the features have been published or can be ascertained by actual inspection by any member of the public . . . The possessor of the

confidential information still has a long start over any member of the public . . . It is, in my view, inherent in the principle upon which the Saltman case rests that the possessor of such information must be placed under a special disability in the field of competition to ensure that he does not get an unfair start".

Once the licensee has got himself into this position, can he get out again? The answer to this really depends upon the nature of the know-how and the product. In the case of *National Broach v. Churchill Gear* the main confidential know-how lay in certain clearances and tolerances in a gear shaving machine. The judge said that the defendant had taken advantage of this clearance and tolerance information from the plaintiff's drawings rather than going through the months of testing of a machine otherwise almost exactly according to plaintiff's general conceptions. The implication is clear that if the former licensee copies the general arrangement and expired patent features but does his own detail design in regard to material specifications, finishes, tolerances, hardnesses, he will be free to continue manufacture outside the licence. But a word of warning here; to be safe one should avoid using a designer who has acquired his know-how from the former licensor. He will be tainted with the confidential material received from the licensor. But there should be no really serious difficulty in re-creating the necessary prescribed know-how using a competent and untainted consulting engineer where a high value short-run product such as a lathe or gear shaper is concerned.

The real difficulty arises when the formerly licensed product is perhaps an extensive range of small components such as hydraulic valves. Such little parts, produced in many thousands per week, have quite complex shapes which have to be accurately repeated within a ten-thousandth of an inch. The tolerances required for correct clearances so that the valves operate under varying pressures, with a variety of liquids of different lubricating properties and in varying ambient temperature conditions are determined by experience and experiment. This kind of know-how is essential throughout the range of parts and is embodied in the detailed part drawings and in the tool drawings which run into many hundreds. If one had to cease to use these drawings the time and effort involved in re-drawing them using outside consultants untainted by the original know-how would virtually close down the business.

So what should one do to protect oneself against this confidentiality problem? The simplest action would be to include a clause such as the following:

"There shall be no restriction on or payment required for the use by the licensee and each of its sub-licensees of technical information in its possession at the termination date; provided however that neither the licensee nor its sub-licensees shall by reason of this para. obtain title to such technical information".

Note that the absence of a contractual clause relating to confidentiality is no defence, as is made clear in *Saltman Engineering*.

Although the U.S. Courts have been criticised above

for their rather "anti" attitude to patents, one faces a rather similar attitude to know-how and confidential information which inures to the benefit of the licensee. Indeed it is only about 2 years ago that a bombshell was thrown into the arena in the case of *Painton v. Bourne*, where Judge Motley in the New York District Court held that the U.S. Constitution recognised only one form of monopoly — a patent monopoly. There were no rights in know-how. This has since been upset on Appeal but the strong anti-trust sentiment in U.S. tends to prevent know-how and confidential disclosure rights validly extending after an agreement is finished.

#### *Conclusion*

So what conclusions do we draw from the above?

I think we have to make a clear distinction between short and long term agreements. *Prima facie* there is no particular merit in slogging away exchanging draft after draft and arguing about the points I have discussed, if the ultimate agreement is to last only a year or so. It is unlikely that in the short term the intrinsic value of the rights of each party will have become tremendously valuable.

On the other hand "in the long run", as Lord Keynes said "we are all dead". Where an agreement is made to last for 50 or 100 years it must all be spelt out in detail so that those who succeed the makers, will know clearly what is intended. But again one must be realistic; how many products on which we negotiate agreements in 1972 will be of any significance in the year 2000, let alone 2072? And who can say what unimaginable horrors will by that time have been perpetrated on the various legal systems on which we now rely? Of course it is our duty as licensing executives to foresee as many as possible of the pitfalls which may open before us, and to ensure that our license agreements appear fair to both parties while having a built-in bias in our favour.

I suspect that change in the framework of law, especially in the areas of anti-trust and of patents, makes vain and even dangerous our attempts to pin down our partners in every possible way. That great constitutional thinker Edmund Burke once said, in his "Reflections on the Revolution in France":

"A state without the means of some change is without the means of its conservation".

Our agreements may very well found industries which are themselves miniature states and Burke's comment needs our attention.

We may too long have quoted to ourselves in support of certainty in our agreements the old saw against gentlemen's agreements that they are "documents which are not agreements and are not between gentlemen". Against this let me quote Francis Bacon in "The Advancement of Learning";

"If a man begins with certainties he shall end in doubts; but if he will be content to begin with doubts he shall end in certainties".

And if we leave certain areas of uncertainty for later negotiation rather than accepting a distasteful clause for the sake of certainty are we not applying to our licenses the observation of Samuel Butler:

"Life is the art of drawing sufficient conclusions

from insufficient promises”.

Thank you for your courteous attention, ladies and gentlemen.

*APPENDIX I*  
*LAST 5 YEARS 1965-1970*

	<i>Valid</i>	<i>Valid and infringed</i>
<i>CIRCUIT 1</i> Maine, New Hampshire, Massachusetts, Rhode Island, Puerto Rico.	33.3% (3/9)	11.1% (1/9)
<i>CIRCUIT 2</i> New York, Connecticut, Vermont.	23% (6/26)	15.4% (4/26)
<i>CIRCUIT 3</i> New Jersey, Pennsylva- nia, Delaware, Virgin Islands.	27.7% (5/18)	5.5% (1/18)
<i>CIRCUIT 4</i> Maryland, Virginia, West Virginia, North Carolina.	13.6% (3/22)	9.1% (2/22)
<i>CIRCUIT 5</i> Texas, Louisiana, Mis- sissippi, Alabama, Georgia, Florida, Canal Zone.	51.8% (16/31)	42% (13/31)
<i>CIRCUIT 6</i> Tennessee, Kentucky, Ohio, Michigan.	35.2% (6/17)	17.6% (3/17)
<i>CIRCUIT 7</i> Illinois, Indiana, Wis- consin.	45.6% (31/68)	32.4% (22/68)
<i>CIRCUIT 8</i> Arkansas, Iowa, Minne- sota, Nebraska, North Dakota, South Dakota, Missouri.	00.% (0/17)	00.% (0/17)
<i>CIRCUIT 9</i> California, Arizona, Nevada, Oregon, Wash- ington, Idaho, Montana, Alaska, Hawaii, Guam.	16.3% (8/49)	6.1% (3/49)
<i>CIRCUIT 10</i> Colorado, Kansas, New Mexico, Oklahoma, Wy- oming.	14.3% (1/7)	14.3% (1/7)

*APPENDIX II*

*Saltman Engineering v. Campbell Engineering 1948*  
*R.P.C. p. 233.*

This case was heard before Mr. Justice Vaisey in the Chancery Division in 1947 and appealed to the Court of Appeal in 1948.

Saltman Engineering were in business which inter alia related to the manufacture of punches for leather work. Through an intermediary they ordered supplies of punches from Campbell Engineering. They pro-

vided drawings of tools for the manufacture of the punches and instructed Campbell Engineering to manufacture 5,000 punches for them. In fact Campbell Engineering made 8,700 punches which they later sold at a loss on their own account.

Saltman Engineering claimed that it was an implied term of the delivery of the drawings and of the contract that Campbell Engineering should not use the drawings except for the supply of punches to them.

Defective evidence and certain inferences drawn therefrom by the judge of first instance led to a hearing before the Court of Appeal.

The judgement of the Appeal Court was that it was an implied term of the contract that the drawings supplied to the defendants for the purposes of the contract should be treated as confidential. The Court also said that a document may be confidential if it is the result of work on it by its maker even if the matters on which he worked were public knowledge.

The Master of Rolls, Lord Greene, said in his judgment.

- (i) "If two parties make a contract, under which one of them obtains for the purpose of the contract or in connection with it some confidential matter, even though the contact is silent on the matter of confidence the law will imply an obligation to treat that confidential matter in a confidential way, as one of the implied terms of the contract; but the obligation to respect confidence is not limited to cases where the parties are in contractual relationship".
- (ii) "If a defendant is proved to have used confidential information, obtained directly or indirectly from a plaintiff, without the consent, express or implied, of the plaintiff, he will be guilty of an infringement of the plaintiff's rights".

*APPENDIX III*

*Terrapin Ltd. v. Builders Supply Ltd. 1960 R.P.C. 128*

Terrapin had for many years designed, manufactured and sold portable dismantlable buildings on a large scale. Builders Supply were given a five year contract to construct and supply such buildings to Terrapin and were given all technical information and knowhow for this purpose.

While the contract was running Terrapin designed a new building having a stressed-skin flat roof. Towards the end while negotiations were going on for a renewal of the contract Terrapin disclosed to Builders Supply the details of the new building. The contract was not renewed and later Builders Supply became involved on its own account in the manufacture and sale of a portable building a copy of the new Terrapin design.

Terrapin began an action for an injunction to restrain Builders Supply from making any use of or disclosing any confidential information obtained from them. Mr. Justice Roxburgh granted an interlocutory injunction. The Court of Appeal supported Roxburgh except in certain minor details.

Roxburgh J. based his finding on Saltman En-

gineering but in referring to that case he made an illuminating comment:

"As I understand it, the essence of this branch of the law, whatever the origin of it may be, is that a person who has obtained information in confidence is not allowed to use it as a springboard for activities detrimental to the person who made the confidential communication, and springboard it remains even when all the features have been published or can be ascertained by actual inspection by any member of the public . . . The possessor of the confidential information still has a long start over any member of the public . . . It is, in my view, inherent in the principle upon which the Saltman case rests that the possessor of such information must be placed under a special disability in the field of competition to ensure that he does not get an unfair start".

In his judgement in the Court of Appeal the Master of the Rolls, Lord Evershad said:

"It may broadly be stated, as a result of the decision of this Court in *Saltman Engineering Coy. Ltd. v. Campbell Engineering Coy. Ltd.* (1948) 65 R.P.C., p. 203 that if information be given by one trader to another in circumstances which make that information confidential, then the second trader is disentitled to make use of the confidential information for purposes of trade by way of competition with the first trader".

#### APPENDIX IV

*National Broach v. Churchill Gear Co.* 1965 R.P.C. p. 61 and 516

National Broach were and are U.S. manufacturers of gear shaving machines. Churchill were their U.K. agents before the 1939 war, and became manufacturers under licence in 1947. The Agreement was rather unusual in that the patent royalty was only 1% but Churchill were to pay an engineering service charge of 14% as well.

Not surprisingly after about 5 years in 1953 the parties agreed to a reduction of the service charge to 9%. However in 1960 the agreement was terminated, it having proved impossible for the parties to agree to mutually acceptable new terms at even lower rates.

Thereafter Churchill decided to manufacture gear shaving machines which would not infringe National's patents. They designed alternative components to those protected by National and covered them by their own patents. They also genuinely intended to cease use of drawings provided by National but this intention was not completely carried out by their employees.

The agreement contained a clause which in various forms is very common in patent licences:

"Should this agreement be terminated for any reason whatsoever Churchill Gear shall resell to National if requested by National all tools and machines, specifications and other data which they have obtained from National specifically for the manufacture of gear shaving machines under this Agreement at the price paid by Churchill Gear for such material, specifications or data less depreciation thereof".

National brought an action for an injunction to restrain the defendants from making use of confidential information communicated under the agreement.

The evidence showed that from 1947-1959 the licensees were continually seeking the assistance of National in the solution of problems in the manufacture of gear shaving machines and that National were always ready to place their skill at the disposal of Churchill. The dependence of Churchill on National was very marked in the early years. However they took steps to become independent technically and no doubt thought that once the patents had expired or had been designed around, and the agreement terminated in a proper fashion, they would be free to manufacture non infringing gear shavers.

Churchill admitted at the Trial that they had continued to use drawings supplied by the plaintiff in making their own improved machine. But they were under pressure to get the machine out for an exhibition and did not have time to carry out the long period of tests usual in new designs and which enable tolerances to be determined and the success of the new product ensured.

The Court — Mr. Justice Cross — granted an injunction stopping Churchill from making any use whatsoever of confidential information supplied to them by National, or selling any gear shaving machines made in accordance with National's confidential information.

There were other issues before the Court which are not relevant to the subject of confidential disclosure — an appeal went in favour of National, the licensors.

Note in this case that substantial payments had been made over a period of 12 years, no patent infringement was taking place, but nevertheless the licensee could not continue to use confidential information supplied by the licensor once the agreement terminated. And this confidential information could to a very large degree have been developed from the product available to anyone to buy in the open market.

#### APPENDIX V

*Seager v. Copydex.* 1967 R.P.C. p. 349

This case relates to information passed during negotiations for a licence agreement.

Mr. Seager was a private inventor who was negotiating with Copydex Ltd. for them to manufacture a room-carpet fixing device. During one of the meetings Mr. Seager mentioned a new idea for a toothed stair-carpet fixing device. Copydex were not interested and there was some conflict of evidence as to whether Mr. Seager had given details of the tooth penetration.

The negotiations with Mr. Seager fell through and Copydex decided to manufacture a stair-carpet fixing device having several features including the trade name INVISIGRIP which Mr. Seager alleged he had suggested to Copydex.

Mr. Seager brought an action for misuse of confidential information.

In the court of first instance Mr. Justice Buckley

found that no information of any significance had passed, and dismissed the action.

Mr. Seager appealed and in the Court of Appeal it was held that he had disclosed his idea to Copydex, and that they were guilty of taking and using confidential information for which they must pay damages.

In his judgement the Master of Rolls, Lord Denning said:

"I start with one sentence in the judgement of Lord Greene, M.R. in *Saltman Engineering Co. v. Campbell Engineering Co.* (1948) 65 R.P.C. p. 213. "If a defendant is proved to have used confidential information, directly or indirectly, express or implied, of the plaintiff, he will be guilty of an infringement of the plaintiff's rights".

To this I add a sentence from the judgement of Roxburgh, J. in the *Terrapin Ltd. v. Builder's Supply Co. (Hayes) Ltd.* (1960) R.P.C. 130, which was quoted and adopted as correct by Roskill, in *Cranleigh Engineering Co. v. Bryant and Another* (1965) 1 W.L.R. 1293 at 1319 (1966) R.P.C. at 96.

"As I understand it, the essence of this branch of law, whatever the origin of it may be, is that a person who has obtained information in confidence is not allowed to use it as a springboard for activities detrimental to the person who made the confidential communication, and springboard it remains even when all the features have been published or can be ascertained by actual inspection by any member of the public".

The law on this subject does not depend on any implied contract. It depends on the broad principle of equity that he who has received information in confidence shall not take unfair advantage of it. He must not make use of it to the prejudice of him who gave it without obtaining his consent. The principle is clear enough when the whole of the information is private. The difficulty arises when the information is in part public and in part private. As, for instance, in this case. A good deal of the information which Mr. Seager gave to Copydex Ltd. was available to the public, such as the patent specification in the Patent Office, or the room carpet grip, which he sold to anyone who asked. If that was the only information he gave them, he could not complain. It was public knowledge. But there was a good deal of other information he gave them which was private, such as the difficulties which had to be overcome in making a satisfactory grip; the necessity for a strong, sharp tooth; the alternative forms of tooth; and the like. When the information is mixed, being partly public and partly private, then the recipient must take special care to use only the material which is in the public domain. He should go to the public source and get it; or, at any rate, not be in a better position than if he had gone to the public source. He should not get a start over others by using the information which he received in confidence. At any rate, he should not get a start without paying for it. It may not be a case for injunction or even for an account, but only for damages, depending on the worth of the confidential information to him in saving him time and trouble.

#### Conclusion

Applying these principles, I think that Mr. Seager should succeed. On the facts which I have stated, he told Copydex Ltd. a lot about the making of a satisfactory carpet grip which was not in the public domain. They would not have got going so quickly except for what they had learned in their discussions with him. They got to know in particular that it was possible to make an alternative grip in the form of a "V-tang" provided the tooth was sharp enough and strong enough, and they were told about the special shape which would produce this result. The judge thought that the information was not significant. But I think it was. It was the springboard which enabled them to go on to devise the INVISIGRIP and to apply for a patent for it. They were quite innocent of any intention to take advantage of him. They thought that, as long as they did not infringe his patent, they were exempt. In this they were in error. They were not aware of the law as to confidential information. They were not at liberty to make use of any confidential information he gave them without paying for it.

I would allow the appeal and give judgement for Mr. Seager for damages to be assessed.

*\*About the Speaker: John E. Bowler is Managing Director of Firth Cleveland Research Ltd., London, which position he has held since January 1966. His organisation monitors technological trends which may affect the present products of the Firth Cleveland Group, identifies and assesses potential new products, and negotiates licences.*

*A native of Loughborough, Leicestershire, England, Mr. Bowler attended Loughborough College of Engineering and Nottingham University where he qualified in Mechanical and Electrical Engineering.*

#### "LICENSING THE RIGHTS OF COMPOSERS"

(An address to the U.K. Branch of the Licensing Executives Society in London on 8th March 1972 by Michael Freegard, F.C.I.S., General Manager, the Performing Right Society Ltd.)

Mr. Chairman, Ladies and Gentlemen,

I have prepared what I want to say to you tonight on the assumption that most of you would know pretty well nothing about the licensing of copyrights, and I would like to begin by quoting something that was said to Queen Elizabeth I by her Lord High Treasurer, William Cecil, on being told to award a pension of £100 a year to the poet Edmund Spenser. "What!" he exclaimed, "all this for a song?" I'd like also to read you an excerpt from a letter sent by the great Mozart to a wealthy Viennese merchant on 14th August 1790 "I could not sleep all night for pain. Picture to yourself my condition, ill and consumed with worries and anxieties. Can you not help me out with a trifle? The smallest sum would be very welcome just now."

You may have seen from the Press the other day that at least one composer has recently gone rather expensively bankrupt, but you may not know that