

PATENTS ACT 1977

IN THE MATTER OF a reference
under section 8 by Cerise Innovation
Technology Limited in respect of four
UK patent applications in the name of
Melih Abdulhayoglu

PRELIMINARY DECISION

1. Cerise Innovation Technology Limited (“the referrer”) has referred to the Comptroller under section 8(1)(a) of the Patents Act 1977 the question of entitlement to the grant of patents in respect of certain inventions made by Melih Abdulhayoglu (“the inventor”). These inventions were the subject of four UK patent applications - 9801764.3, 9801765.0, 9801767.6 and 9801768.4 - which have all been withdrawn prior to publication.
2. The inventor has filed a counterstatement, but seeks an order for security of costs from the referrer before the action proceeds any further. The referrer has resisted such an order. Both sides have submitted arguments in writing and agreed that I should decide whether or not to order security for costs on the basis of their written submissions. That is the sole issue with which this decision is concerned.
3. The first question I have to decide is whether I have the jurisdiction to make such an order in the circumstances of this case. If the answer is yes, I then have to decide whether I should exercise my discretion to do so. If the answer to that is also yes I would need to decide the amount, but that is not really an issue. The Comptroller announces from time to time the level of security he will ordinarily require when he makes an order for security for costs. That level currently stands at £900 and both sides accept that if I do decide to require security for costs, the amount should be £900. Indeed, the referrer has already said he will provide this level of security if I so order.

The law

4. Section 107(4) of the Act gives the Comptroller power to require security for costs in certain circumstances. It says that if a person making a reference under section 8:

“ . . . neither resides nor carries on business in the United Kingdom, the Comptroller may require him to give security for the costs or expenses of the proceedings and in default of such security being given may treat the reference . . . as abandoned.”

5. It is worth noting that there is a similar provision in the Rules of the Supreme Court. Order 23, rule 1 states:

“Where, on the application of the defendant to an action or other proceeding in the High Court, it appears to the Court -

(a) that the plaintiff is ordinarily resident out of the jurisdiction, or

(b) to (d) . . .

then if, having regard to all the circumstances of the case, the Court thinks it just to do so, it may order the plaintiff to give such security for the defendant’s costs of the action or other proceeding as it thinks just.”

6. In the present case, the referrer is a UK based company with an address in Widnes so the provisions just recited are inapplicable. Neither side disputes that. However, the inventor has drawn my attention to section 726(1) of the Companies Act 1985 which reads:

“Where in England and Wales a limited company is plaintiff in an action or other legal proceeding, the court having jurisdiction in the matter may, if it appears by credible testimony that there is reason to believe that the company will be unable to pay the defendant’s costs if successful in his defence, require sufficient security to be given for those costs, and may stay all proceedings until the security is given.”

The inventor submits that this section applies to *inter partes* proceedings before the

Comptroller. The referrer says it does not. I must therefore resolve this question of jurisdiction before I can go any further.

Jurisdiction

7. The inventor has put forward rather fuller arguments than the referrer on the question of jurisdiction, but I do not draw any implications adverse to the referrer from that. As I indicated via an Official letter dated 20 January, the amount of security at stake here (£900) is fairly modest, and running up large legal bills to fight over it is difficult to justify. Thus I recognise the referrer may well have decided not to go into lengthy legal arguments simply because the issue is not important enough to justify the cost of doing so. However, the inventor has put in lengthy arguments, and that means I will now have to deal with a number of arguments for which I do not have the benefit of counter-submissions from the referrer.

8. The referrer's case is very simple: section 107(4) of the Patents Act 1977 is the only legislation giving me the power to require security for costs; the present case does not fall within its scope, so that is the end of the matter. It is an attractive and powerful argument. It is consistent with past practice, since to the best of my knowledge the Comptroller has never ordered security in circumstances falling outside the scope of section 107(4) and its predecessor, section 82(2) of the Patents Act, 1949. It is also strengthened by a noticeable difference between the provisions in the Patents Act and those in the Rules of the Supreme Court. Order 23, rule 3 of the latter states:

“This Order is without prejudice to the provisions of any enactment which empowers the Court to require security to be given for the costs of any proceedings.”

9. There is no corresponding “without prejudice” provision in the Patents Act. Whilst I would not go so far as to suggest that the absence of a “without prejudice” provision in the Patents Act is necessarily fatal to the inventor's case, it suggests to me that I should not presume to exercise powers under any other enactment unless it is quite clear they must apply to the Comptroller.

10. With that I will turn to the inventor's arguments. They are directed at showing that the Comptroller is a "court" within the meaning of section 726(1) of the Companies Act 1985 and that proceedings before him are "legal proceedings". First he has referred me to the 4th edition of Halsbury's Laws, vol.10 paragraph 701, which explains that the term "court":

“. . . has come to mean the persons who exercise judicial functions under authority derived either directly or indirectly from the Sovereign. All tribunals, however, are not courts, in the sense in which the term is here employed. Courts are tribunals which exercise jurisdiction over persons by reason of the sanction of the law, and not merely by reason of voluntary submission to their jurisdiction. Thus arbitrators, committees of clubs and the like, although they may be tribunals exercising judicial functions, are not "courts" in this sense of that term. On the other hand, a tribunal may be a court in the strict sense of the term even though the chief part of its duties is not judicial.”

11. He has then put forward a number of arguments to support an assertion that the Comptroller, in addition to his administrative functions, also exercises judicial functions within the meaning of Halsbury and that proceedings before him are indeed "legal proceedings". He says that proceedings before the Comptroller determine legal rights such as ownership, that his decision is binding subject to appeal, that the Comptroller's jurisdiction in many matters is closely parallel to the High Court's and that the Comptroller has the same powers as the High Court on matters such as attendance of witnesses and discovery. Indeed, he points out that many Patent Office hearings take place in a room that the Office itself calls its "court room". He also draws my attention to the fairly old case of *Woolfe v Automatic Picture Gallery Ltd (1902) 19 RPC 425* concerning patent amendment proceedings, where Kekewich J says at line 24 on page 425, as though the matter were beyond any possible argument:

“It seems to me entirely against principle to say that a proceeding in the nature of a legal proceeding before the Patent Office (the Comptroller is occupying a judicial position, and it is a legal proceeding), should . . .”

12. The referrer has not addressed the question of whether the present proceedings are legal proceedings, but I have no hesitation in saying that they are, for the reasons given by the inventor. Indeed, some support for this can be found in the Patents Act 1977 itself, where a number of sections dealing with the Comptroller's jurisdiction - eg sections 101, 102, 103, 107, 108 - appear under the general heading "Legal Proceedings", although I am aware that one must be wary of attaching too much significance to such headings.

13. The more difficult question is whether the term "court" in section 726(1) of the Companies Act 1985 applies to the Comptroller. Under Halsbury's explanation I accept that the Comptroller must be a court, because he is a tribunal - that much is clear from the Tribunals and Inquiries Act 1992, which includes the Comptroller in its list of tribunals - and he clearly exercises jurisdiction over persons by reason of the sanction of the law. However, whilst Halsbury is a respected and learned work, it is not an act of Parliament and so I cannot take it as a binding authority on the meanings of words in legislation. I need to look at the legislation and case law.

14. There is no definition of "court" in the Interpretation Act 1978. Indeed I am only aware of two statutory definitions of "court" that could conceivably be relevant, and those are in the sections on interpretation in the Patents Act 1977 and the Companies Act 1985. The Patents Act definition is in section 130(1) as amended by the Copyright, Designs and Patents Act 1988:

"In this Act, except so far as the context otherwise requires -

. . . "court" means (a) as respects England and Wales, the High Court or any patents county court having jurisdiction by virtue of an order under section 287 of the Copyright, Designs and Patents Act 1988; . . . "

15. Valuable though this definition might be in the context of the Patents Act, it is of no help to me in the present context because it does not tell me what "court" means in section 726 of the Companies Act. The definition in the latter Act is in section 744:

“In this Act, unless the contrary intention appears, the following definitions apply:
. . . . “the court”, in relation to a company, means the court having jurisdiction to wind up the company;”

16. If this definition applies to section 726, there can be no question of that section extending to the Comptroller. However, I am satisfied that section 726 is a section in which “the contrary intention appears” because of the very general reference to “action or other legal proceeding”. Indeed, the section would make little sense if “court” had this very narrow meaning. I am supported in this view by *Unisoft Group Ltd (No.1) Saunderson Holdings v Unisoft Group Ltd and others [1993] BCLC 1292 CA*, where the Court of Appeal was happy to apply section 726 to proceedings that were not for winding up. I shall come back to this case later, but for the moment I am satisfied that the section 744 definition does not debar the possibility that section 726 could apply to the Comptroller. Of course, it does not follow that section 726 must therefore apply, so I will go on to consider the inventor’s other arguments.

17. He has drawn my attention to the fact that whereas Order 23 rule 1 refers to an action or other proceeding “in the High Court”, this qualification is missing from section 726 of the Companies Act. This, he says, strongly suggests the latter is intended to include proceedings in other tribunals. I agree entirely, because it is quite clear section 726 would apply, say, to County Court proceedings, but simply because section 726 goes wider than the High Court does not mean it applies to the Comptroller.

18. The inventor has also drawn my attention to some precedents. The first is *Bilcon Ltd v Fegmay Investments Ltd [1966] 2QB 221*. This case concerned arbitration proceedings under the Arbitration Act 1950. Nield J found that a judge of the High Court had power to order security for costs in such proceedings, under both Order 23 of the Rules of the Supreme Court and under the Companies Act. The inventor is, I think, implying that because arbitration proceedings are not “proceedings in court”, this precedent shows the reference to “court” in the Companies Act must be interpreted fairly broadly.

19. Having looked at it carefully, I find *Bilcon Ltd v Fegmay Investments Ltd* does not help

me decide whether “court” in section 726(1) embraces the Comptroller. Crucial to the judge’s decision was the fact that section 12(6) of the Arbitration Act expressly says that:

“The High Court shall have, for the purposes of and in relation to a reference, the same power of making orders in respect of - (a) security for costs . . . as it has for the purpose of and in relation to an action or matter in the High Court . . .”

20. There is no analogous provision in the present case, so one cannot infer from the judge’s finding that the relevant Companies Act provision applied to arbitration that the provision must also apply to proceedings before the Comptroller. Further, *Bilcon Ltd v Fegmay Investments Ltd* was decided under section 447 of the Companies Act 1948 which used the expression “any judge having jurisdiction in the matter” rather than the word “court” as in the later Act, and because of this difference in wording one would have to be even more careful about applying the finding in that case to the present circumstances. The inventor submits that “court” is wider than “judge having jurisdiction”, but I think that is a moot point.

21. The referrer’s second precedent is the *Unisoft* case which I mentioned above. In this case the Court of Appeal held that in section 726 “other legal proceeding” refers to any matter in which the jurisdiction of the court is invoked by an originating process other than a writ (which is covered by the term “action”), and that correspondingly the term “plaintiff” has to be construed broadly as embracing a person who invoked the jurisdiction of the court by any form of originating process. On this basis, in an *obiter* comment the Court accepted that section 726 would cover a petition made under the Patents Act. The inventor submits that the word “court” must therefore be construed equally broadly, and since there was an “originating process” in the present action - the filing of a form 2/77 - section 726 must apply. I do not believe this submission is sound. The Court of Appeal were not considering the meaning of “court”, and what they said is fully consistent with either a broad or a narrow interpretation of this term. Thus I do not feel this case helps me at all in deciding whether section 726 applies.

22. In support of his argument on *Unisoft*, the inventor has also drawn my attention to *St Trudo’s Trade Mark [1995] RPC 370* at page 373. In that case the Comptroller (wearing his

Registrar's hat) and the court had concurrent jurisdictions. Ferris J observed:

“It is for the applicant to choose in which forum to initiate his application. It would be strange if the scope of the evidence in support of or against the application were to differ according to which tribunal is chosen. It would be equally strange if the court, on appeal from the Registrar, were confined to evidence different from that considered by the Registrar or permitted to consider evidence different from that which it could itself receive if it were not dealing with the matter on appeal.”

23. The inventor adopted these words and submitted that it would be strange if the classification of the proceedings (as “legal” or otherwise) were to differ according to whether the Comptroller or the High Court was chosen when they have identical jurisdictions. I quite agree, and the finding I made earlier that these are legal proceedings is fully consistent with that. However it does not follow that the two available fora - the Comptroller and the High Court - must therefore both be courts within the meaning of section 726.

24. None of these precedents, therefore, help me with the interpretation of the word “court” in section 726. There is, though, one other angle I ought to consider. Using the basic principles of statutory interpretation, would construing the term either way - ie as either including or excluding the Comptroller - lead to an absurd result that cannot reasonably be supposed to have been the intention of Parliament? At first glance, the mischief against which section 726 is directed is a general one. If an impecunious limited company launches legal proceedings, the risk that the defendant might end up out of pocket even if he wins does not depend on the nature of the proceedings. Thus arguably there is no obvious reason for Parliament to have intended covering some proceedings and not others. However, I feel that argument is too simplistic. Proceedings in a “proper” court such as the High Court or even the County Courts can be very expensive. Proceedings before the Comptroller, on the other hand, are supposed to be relatively cheap, and the same probably applies to other similar tribunals. Thus the potential mischief is much smaller, and in view of this I do not feel one can conclude that Parliament cannot possibly have intended to exclude tribunals such as the Comptroller from section 726. On the contrary, I think one could construe the absence of a

“without prejudice” clause in the Patents Act, even though one is present in the Rules of the Supreme Court, as implying that Parliament may quite deliberately have intended to restrict the circumstances in which the Comptroller could require security for costs.

Conclusion

25. Notwithstanding the definition of “court” in Halsbury and notwithstanding the fact that we have a so-called “court room”, having considered all the arguments I have come to the conclusion that the Comptroller is not a “court” for the purposes of section 726 of the Companies Act 1985, and accordingly that I do not have jurisdiction to order security for costs in the present case. I do not, therefore, need to go on to consider whether I would have exercised my discretion to do so in the circumstances of this particular case.

Appeal

26. In my judgement this decision is on a matter of procedure. Accordingly, under Order 104 rule 19 of the Rules of the Supreme Court any appeal must be lodged within 14 days.

Dated this 12th day of February 1999

P HAYWARD

Divisional Director, acting for the Comptroller

THE PATENT OFFICE