

The 50th APAA Council Meeting  
Fukuoka

# Mock Case Workshop

October 25, 2004

## Workshop Schedule

### **I. Opening Session – 14:00 ~ 15:10**

#### **Opening Remarks**

Mr. Dato Kandan, APAA President

#### **Presentation of Workshop Topic**

Mr. C. K. Kwong, Moderator

#### **Opening Presentations**

The Honorable Judge Toshiaki Iimura

Mr. Peter Michaelson

Mr. Desmond Ryan

Mr. Christian Wichard

*Coffee Break - 15:10 ~ 15:30*

### **II. Mock Case Session – 15:30 ~ 17:00**

#### **Case Discussion**

The Honorable Judge Toshiaki Iimura

Mr. Peter Michaelson

Mr. Desmond Ryan

Mr. Christian Wichard

#### **Question and Answer Session**

#### **Summaries**

## **Scenario of Facts for the APAA Workshop in Fukuoka Japan on the 25<sup>th</sup> October 2004**

### **A. Background**

The Claimant, Hurrimone AS, is a small Norwegian company which is the patentee of an invention in relation to “a shaving device” (“the Invention”) and the owner of the trade mark “Queenplug” (“the Trademark”). The Respondent, Whaghton Inc., is a big US chain store with factories and sub-contractors in the People’s Republic of China and sales outlets throughout the world.

### **B. Patent Application & Licence Agreement**

Hurrimone forwarded a set of the technical specification, engineering drawings and a few engineering samples of the shaving device incorporating the Invention in March 1995 to another US company, 3PCO, which had substantial sales network in the States and was interested in the product. Hurrimone considered that the information and materials in relation to the product were supplied to 3PCO for its evaluation in confidence although they did not mention it to 3PCO. The relevant correspondence and receipt signed for the materials disclosed did not specifically mentioned anything about confidentiality. As Hurrimone was then occupied by other business projects, the matter was not followed up until about the 1<sup>st</sup> April 1996 when its first patent application for the Invention was filed in Australia. Priority was claimed in subsequent applications including those filed in Japan and USA.

Soon after they met in a trade exhibition, Hurrimone granted Whaghton an exclusive licence to manufacture and sell Queenplug shavers incorporating the Invention in Australia, China, Europe, Hong Kong, Japan and USA (the “Territories”).

The initial term of the Licence Agreement ran from the 1<sup>st</sup> July 1998 to the 30<sup>th</sup> June 2003 during which Whaghton had to pay a royalty of US\$0.50 per unit. Subject to there being no breach of the terms of the Licence Agreement during the initial term, Whaghton had an option to renew the licence for another three years from the 1<sup>st</sup> July 2003 to 30<sup>th</sup> June 2006 during which the royalty of US\$1 per unit would be payable to Hurrimone. The Licence Agreement also contained, inter alia, the following clauses :-

Clause 10 :

- (a) Any dispute, controversy or claim arising under, out of or relating to this contract and any subsequent amendments of this contract, including, without limitation, its formation, validity, binding effect, interpretation, performance, infringement of intellectual property rights, breach or termination, as well as non-contractual claims, shall be submitted to mediation in accordance with the WIPO Mediation Rules. The place of mediation shall be Singapore. The language to be used in the mediation shall be English.
- (b) If, and to the extent that, any such dispute, controversy or claim has not been settled pursuant to the mediation within 60 days of the commencement of the mediation, it shall, upon the filing of a request by arbitration by either party, be referred to and finally determined by arbitration in accordance with the WIPO Arbitration Rules. Alternatively, if, before the expiration of the said period of 60 days, either party fails to participate or to continue to participate in the mediation, the dispute, controversy or claim shall, upon the filing of a request for arbitration by the other party, be referred to and finally determined by arbitration in accordance with the WIPO Arbitration Rules. The Arbitral Tribunal shall consist of a sole arbitrator. The place of arbitration shall be Hong Kong. The language to be used in the arbitral proceedings shall be English. The dispute, controversy or claim referred to arbitration shall be decided in accordance with the law of [to be advised].

Clause 11 : Notwithstanding the provisions under Clause 10 above, if either party to this contract institute legal proceedings in anyone of the Territories and the other party has filed a defence against the claim in such legal proceedings, such conduct will amount to waiver of Clause 10 and the parties shall no longer be bound by the provisions set out under Clause 10 in respect of those Territories in which such legal proceedings are filed.

During the initial term of the licence, the goods were manufactured by Whaghton's factories in Mainland China and shipped through Hong Kong to Australia, Japan, Europe and USA. The shaving device experienced immediate commercial success and both parties were happy that they found each other for the commercial exploitation of the Invention.

### C. Commercial Success

The following royalties were received by Hurrimone in respect of the Queenplug ;

<b>Year</b>	<b>Units Sold</b>	<b>Sales (USD)</b>	<b>Royalty (USD)</b>
1.7.98/30.6.99	120,000	5,400,000	60,000
1.7.99/30.6.00	240,000	10,800,000	120,000
1.7.00/30.6.01	500,000	22,500,000	250,000
1.7.01/30.6.02	1,200,000	54,000,000	600,000
1.7.02/30.6.03	6,000,000	270,000,000	3,000,000
1.7.03/31.12.03	15,000	675,000	15,000

The regional sales breakdown were as follows :-

Australia	=	5%
Japan	=	25%
USA	=	50%
Europe & the Rest	=	20%

Upon expiry of the initial term under the Licence Agreement, Whaghton exercised its option to continue to manufacture the shaving device but complained about the increase of royalty to US\$1.00 per unit.

### D. The Alternative Product

Whaghton came up with an alternative device which would substantially perform the same functions as the Queenplug. They use the mark "Queenie" for the alternative product.

## **E. Dispute**

On a business trip to the Far East, the CEO of Hurrimone discovered that both Queenplug and Queenie shavers were available in the local markets. The Queenie was selling at US\$45 per unit, the same price as the Queenplug. In the meantime, the royalty payment from Whaghton has fallen drastically from a high of US\$250,000 per month to US\$2,500 per month. Upon further investigations, Hurrimone traced the source of supply of Queenie shavers back to Whaghton. In fact, Whaghton has enjoyed another phenomenal success with the new product Quennie with sales of up to 300,000 units per month since its first launching in July 2003 using the same sales network for the Queenplug. By December 2003, the total sales of Queenie had reached 2,400,000 units i.e. an average of 400,000 per month. The average advertising expenses for both Queenplug and Queenie at all relevant times was only about 0.5% of the sales figures because of the popularity of the product itself. Hurrimone raised complaint with Whaghton by a letter on 1<sup>st</sup> of March 2004 alleging breach of contract, infringement of patent, infringement of trade mark and passing-off.

Both parties obtained legal advice from leading counsel soon after the complaint was raised by Hurrimone purely based on the information and materials provided to their respective legal teams. Whaghton and Hurrimone's own legal adviser were not aware of the supply of information and samples by Hurrimone to 3PCO in 1995. On the 15<sup>th</sup> March 2004, the parties would have accepted their respective legal positions as follows although they kept it to themselves :-

Australia : Australian patent not infringed.  
Japan : Japanese patent infringed.  
USA : US patent may or may not be infringed.

Whaghton promptly provided an undertaking not to use the mark "Queenie" on a without admission of liability basis and immediately started using the mark "Bonnie".

Legal proceedings were soon commenced in Australia and Japan where Defences were filed. Action was commenced in USA but Whaghton applied for a stay of the proceedings on the basis of the mediation and arbitration agreements.

Both Hurrimone and Whaghton considered that the other side was wrong. They would listen to what APAA has to say.