



OUTER HOUSE, COURT OF SESSION

[2018] CSOH 97

CA29/18

OPINION OF LORD BANNATYNE

In the cause

WESTERTON (UK) LIMITED

Pursuer

against

EDGE ENERGY LIMITED

Defender

Pursuer: Upton; Thorntons Law LLP
Defender: MacColl QC; Anderson Strathern LLP

11 October 2018

Introduction

[1] A debate came before me in the commercial court in terms of the defender's first plea in law which in substance attacked the relevancy and specification of the pursuer's pleadings.

Background

[2] The pursuer is engaged in the business of providing fishing and milling consultancy services to the oil and gas industry and wished to develop Down Hole Tubular Cutters ("DHTC's"). The defender had the expertise and resources to develop such devices. On

24 and 25 January 2012 parties contracted for the defender to develop and build two 7 inch cutter tools with the control panels and custom accessories required to run the devices for use in the oil and gas industry (“the contract”).

[3] The material provisions of the contract for the purposes of the matters before me are these:

- “4.1 All Background Intellectual Property is and shall remain the exclusive property of the party owning it (or, where applicable, the third party from whom its right to use the Background Intellectual Property has derived).
- 4.2 Edge Energy acknowledges and agrees that all Foreground Intellectual Property and Edge Energy Technical Information (and including all Deliverables) shall belong to Westerton and that it is intended that Westerton shall be entitled fully to exploit and develop the Deliverables. Accordingly, Edge Energy hereby:
 - 4.2.1 with effect from creation assigns to Westerton by way of present assignment of future Intellectual Property, its entire right, title and interest in and to all Foreground Intellectual Property, all Intellectual Property in the Deliverables, all Edge Energy Technical Information and any other work or material produced by Edge Energy and/or its employees, agents and subcontractors in the course of the Project free from encumbrances; and
 - 4.2.2 irrevocably licences on a worldwide, perpetual, royalty-free and non-exclusive basis all rights in and to any of Edge Energy’s Background Intellectual Property to the extent necessary or reasonably considered by Westerton to be desirable in order to deploy, further develop and exploit the Deliverables.
- 4.5 Edge Energy shall, promptly at Westerton’s request and reasonable expense, do (or procure to be done) all such further acts and things and procure the execution of all such other documents as Westerton may from time to time require for the purpose of securing for Westerton the full benefit of this Agreement, including all right, title and interest in and to the Intellectual Property and all other rights assigned to Westerton in accordance with this clause 4.”

[4] The following terms contained within the said clauses had agreed definitions in terms of the contract:

“Background Intellectual Property’ – ‘Any Intellectual Property in existence and owned by either party as at the Effective Date or which is developed by either party outside the scope of the Project and not used in the connection with the Project’

‘Deliverables’ – ‘Prototypes and any related Technical Information, relevant Intellectual Property; information manuals and technical documentation relating to the Prototypes plus such test reports and certificates of conformance as demonstrate that the Prototypes conform to the Specification’

‘Technical Information’ – means all unpatented inventions, designs, information, knowhow, specifications, formulae, data, processes, methods, techniques, research technology, data, test results, databases, unpublished patent applications’

‘Edge Energy Technical Information’ – any technical Information originated or held by Edge Energy and used in, or disclosed to Westerton in connection with the project.

‘Foreground Intellectual Property’ – ‘all intellectual property which is not Background Intellectual Property and which arises or is obtained or developed by either party, or by a contractor on behalf of, either party in the course of or in connection with the Project’”

[5] Since in or about August 2017 the defender has been advertising for sale a DHCT named the Edge Tubing Cutter (“the Edge Tool”).

[6] The present litigation arises out of the defender’s production of the Edge Tool. The pursuer seeks in substance to interdict the defender “from making, selling, supplying, hiring or leasing, or offering to make, sell, supply, hire or lease anywhere the Edge Tubing Cutter...”. It also seeks certain orders for delivery from the defender of certain documents relating to the DHCT manufactured for it (the first conclusion).

The issues

[7] The questions before the court at the debate were these:

1. Whether on a proper construction of clause 4.2 in the context of the parties’ 2012 agreement the pursuer in condescendence 8 relevantly avers a breach of that clause by the defender; and

2. Whether on a proper construction of clause 4.5 the pursuer at condescendence 5 relevantly avers an obligation on the defender to produce the items sought in the first conclusion of the summons.

The law

[8] The pursuer advanced its position on the basis of asserted breaches of the contract. It did not seek to advance its case on any wider claim for infringement of its Intellectual Property or, indeed any other property rights under the general law.

[9] Given the foregoing basis upon which the pursuer's case was advanced the issues before the court turned on the proper construction of the contract. It was not a matter of contention between the parties that the proper approach to the construction of the contract was this: to consider what the parties to the contract meant with the language that they have used, read in the context of the contract as a whole and against the background knowledge available to the parties at the time that the contract was entered into. Thus, the meaning of any particular clause is to be assessed in light of: (a) the natural and ordinary meaning of the language used; (b) any other relevant provisions of the contract; (c) the overall purpose of the relevant clauses under contract as a whole; (d) the facts and circumstances known or assumed by the parties to the contract at the time it was executed; and (e) commercial common sense (in the context of the agreement of the provisions of the contract). The foregoing propositions were extracted from: *Rainy Sky SA v Kookmin Bank Co Limited* 2011 1 WLR 2900 at paragraph [14]; *Arnold v Britton* [2015] AC 1619 at paragraph [15]; and *Wood v Capita Insurance Services Limited* [2017] AC 1173.

The submissions on behalf of the defender

[10] It was Mr MacColl's general position that the pursuer had failed relevantly to aver in article 8 of condescence any breach of clause 4.2 of the contract.

[11] The critical averments in article 8 were these:

“Separatim, since at least August 2017 the defender has been advertising for sale a down hole cutting tool named the Edge Tubing Cutter ('the Edge Tool'). They created the Edge Tool after it developed the Westerton Tool. It is the only cutting tool which the defender advertises. Several aspects of the Edge Tool are identical to or substantially the same as the design of the Westerton Tool. The similarities include ... In so designing and making the Edge Tool the defender has used the pursuers Edge Energy Technical Information and Deliverables. It is continuing to use that information in as much as it is marketing, making and selling the Edge Tool. It has thereby breached clause 4.2 of the contract.”

[12] Mr MacColl argued that on a proper reading of clause 4.2 it simply provided as follows: (1) that any Foreground Intellectual Property, Edge Energy Technical Information and Deliverables are to be the property of the pursuer, and (2) that any Foreground Intellectual Property, Edge Energy Technical Information, Deliverables and other work product produced under the parties' contract are assigned to the pursuer.

[13] Mr MacColl then contended that the critical flaw in the argument advanced on behalf of the pursuer was that it sought to equiparate the asserted use by the defender of certain Intellectual and other property with a breach of contractual provisions found in clause 4.2 of the contract relating to the ownership of that property. He described this position as being a non sequitur. In development of this he simply stated that clause 4.2 regulated ownership and it did not seek on a proper reading to regulate use. What the clause sought to regulate was: the identity of the person to whom various categories of property belong. It is, accordingly, not enough to set up a breach of clause 4.2 to maintain that the Intellectual and other Property in question is being used by someone other than the pursuer.

[14] Mr MacColl submitted that the incorrect analysis of the provision by the pursuer was seen most clearly at paragraph 3 of the pursuer's note of argument where it states:

“Clause 4.2 provides that in a question between the parties, the design which the defender created in implement of the contract may not be used by the defender, including using it to make and supply articles to that design.”

[15] He contended that the above assertion simply did not reflect the wording that is actually used in clause 4.2. Neither in clause 4.2 or in clause 4.2.1 are the words “use” or “used” referred to. Moreover there is no reason to read these words into the clause. Merely because someone owns certain property does not mean that, as a matter of necessary inference, another person is barred from making use of that property; far less does a contractual provision which bears to transfer the ownership of certain property amount to a provision which regulates the use of that property. The concept of ownership and the concept of the right to make use of property are separate and distinct.

[16] Further it is suggested by the pursuer that the construction of the clause 4.2 contended for by the defender renders the clause devoid of any meaning or effect.

Mr MacColl replied to that point by saying this: The clause is a clear and plain effect of transferring to the pursuer ownership of all property required for the pursuer to be able to use, develop and sell the equipment that has been designed in terms of the contract between the parties. Thus the clause has both meaning and effect.

[17] For the foregoing reasons he submitted that the case based on a breach of clause 4.2 was fundamentally irrelevant and that the action should be dismissed on that basis.

[18] In respect of the second issue Mr MacColl submitted that on a proper construction of clause 4.5 of the contract, the pursuer has failed relevantly to aver any obligation on the part of the defender to produce the items sought in terms of the first conclusion of the summons.

[19] Applying the ordinary approach to the construction of this clause it was his position that it provided that, where the pursuer requires certain documents to be executed or other acts to be undertaken by the defender with a view to the pursuer obtaining the full benefit of the contract, and where the pursuer has requested that the defender execute such documents or perform such acts, the defender is obliged to comply with that request.

[20] What the pursuer had failed to aver was that it had made any request to the defender under clause 4.5 requiring further documents to be delivered or acts to be undertaken in order to secure to the pursuer the full benefit of the contract. In the absence of such averments the provisions of clause 4.5 are not engaged.

[21] In respect to this second issue, Mr MacColl accepted that it did not raise as fundamental an issue as was raised in relation to point one. He accepted that, if the court were with him in relation to this second point, it of itself should not lead to dismissal of the action, but rather the pursuer should be given an opportunity to amend its pleadings.

The reply on behalf of the pursuer

[22] In short Mr Upton's position was this: clause 4.2 provides that in a question between the parties, the design which the defender created in implement of the contract may not be used by the defender, including using it to make and supply articles to that design. The pursuer relevantly avers that the defender has breached and is breaching the clause by making, offering to supply and supplying articles which use that design.

[23] In respect to clause 4.5 it obliges the defender to take such ancillary steps as to provide documents which it contracted to deliver, and it is for that purpose relevantly invoked by the pursuer.

[24] In development of his position in respect to the first issue Mr Upton argued: the defender puts forward an erroneously narrow reading of clause 4.2. It is an agreement that the records of the design of the tools and of the information created by the defender which informed that design “shall belong” to the pursuer. The quoted words can only mean that, as between the defender and the pursuer, control of the design is to be in the hands of the pursuer. For practical purposes the use of the design which the contract had in contemplation was for “the providing of ... services to the oil and gas industry”; the agreement that the design belonged to the pursuer can only mean that the defender is not entitled to use the design for the provision of services to the industry.

[25] He further submitted that the first part of the opening paragraph of clause 4.2 ie the agreement about EETI and Deliverables makes the foregoing sufficiently clear, but for the sake of completeness it can also be observed that the second part of the paragraph entails the same conclusion. The defender acknowledges and agrees that the pursuer “shall be fully entitled to exploit and develop the Deliverables”. The concept of full exploitation by the pursuer is not compatible with the suggestion that the defender reserves a parallel right to use the design.

[26] Mr Upton then turned to consider the overall purpose of the contract and the application of commercial common sense thereto.

[27] In elaboration of the above he made this point: if the defender’s construction is correct, then the contract would leave it at liberty to use the design, for example to market articles of substantially the same design. The facts set out at condescence 8 would disclose no breach of the agreement. In return for clause 2.3 contract price the defender would have been paid both: (1) to develop and deliver to the pursuer the tools, and (2) equip itself to compete with the pursuer on the open market by supplying substantially

identical tools. The contract would be one for the defender to be subsidised in the development of a product with which to compete with its customer. That consequence of the defender's construction defies any plausible view of the contract's overall purpose, and the commercial common sense which the law ascribes to the parties in making it.

[28] In conclusion, Mr Upton's position was that Mr MacColl's argument making a distinction between breach of contract and breach of a property right was without substance. Moreover, the position advanced by Mr MacColl was based on an outdated and traditional view of pleadings and amounted to no more than a pleading point which a court such as the commercial court should not uphold. The pursuer had satisfied the well-known test in *Jamieson v Jamieson* 1952 SC (HL) 44.

[29] The contract which was the basis of the property right was pled in full, that was sufficient for a relevant case.

[30] Mr Upton placed particular emphasis on his fourth plea in law which was in the following terms:

"The defender, being obliged not to use the design and information which it has agreed belonged to the pursuer, and it being reasonable to apprehend that it will do so, should be interdicted in terms of the fourth conclusion."

[31] He submitted that this plea in law was in the widest terms. As I understood it the point he was seeking to make was this: the plea in law was not limited to a breach of contract rather it was wide enough to encompass a breach of a property right.

[32] In reply to the argument regarding clause 4.5 Mr Upton first said this: so far as lack of averment of request the summons is plainly a request, the summons is a sufficient demand. If the summons was the first occasion on which the call was made the court could then deal with the question by reference to expenses. However, it was his position that the information had been sought in correspondence before the action was raised although he

accepted that there was no averment in relation to this. It was his position that notice was given in the pleadings, in the note of argument and in productions.

[33] Secondly as regards there being no express averment that delivery of the various items called for was required in order to obtain full benefit he described the argument of Mr MacColl as inept in the context of (a) the sufficiency of summary pleadings in the commercial court and, if more need to be said, the fact that in any event (b) standing the contracts provision that the pursuer was to have the benefit of possession of these items, to aver non delivery is to aver the absence of the full benefit of the contract.

Discussion

[34] The first issue raised is a short and sharp contractual construction issue.

[35] In respect to this first matter I am persuaded that Mr MacColl's analysis is the correct one.

[36] The case advanced by the pursuer in article 8 is a short one and has been set out in full earlier in this opinion.

[37] What is pled in that section of the summons is no more and no less than that the use of the information and Deliverables by the defender breaches clause 4.2.

[38] However, on a sound analysis clause 4.2 is an assignation of certain property rights. What it does not do is carry with it a use restriction. It does not carry such a use restriction as nowhere in the provision is it said that it does. Nor was the case pled on the basis that such a term was implied into their contract.

[39] Clause 4.2 is the preamble to the operative provision, 4.2.1. The first sentence thereof by the use of the word "belong" relates to a concept of ownership.

[40] What can be taken from that is the following: the pursuer is to derive ownership of these matters so that it can sell that which it got from the contract on the market or develop what it got from the contract and sell it on the market.

[41] Clause 4.2 concludes with the following phrase:

“Accordingly, Edge Energy hereby:”

4.2.1 then provides:

“4.2.1 with effect from creation assigns to Westerton by way of present assignation of future Intellectual Property, its entire right, title and interest in and to all Foreground Intellectual Property, all Intellectual Property in the Deliverables, all Edge Energy Technical Information and any other work or material produced by Edge Energy and/or its employees, agents and subcontractors in the course of the Project free from encumbrances; and”

[42] Read in accordance with its plain meaning and against the background of the parties bargain as a whole it is an assignation or a transfer of the listed property. Thus, but for this clause what would have belonged to the defender is now the property of the pursuer, but it provides no more than that. It deals with the ownership of property, not its use.

[43] 4.2.2 in relation to the items listed gives to the pursuer a license to use those items.

[44] Reading 4.2.1 and 4.2.2 together there is a transfer by assignation of the property right created under and during the project which vests in the pursuer and the pursuer gets a license to what remains with the defender.

[45] Returning to what I said at the outset of the discussion section what is not provided for in 4.2 is any restriction of use on the part of the defender.

[46] Some light on the proper construction of clause 4.2 is cast by a consideration of clause 5.1 which deals expressly with the question of use of confidential information. This shows that parties were aware of the issue of “use” and in the light of that have sought to

impose certain restriction on use. That can be contrasted with the position in clause 4.2 where there is no such restriction on use.

[47] On a sound construction clause 4.2 provides that any Foreground Intellectual Property, Edge Energy Technical Information and Deliverables are to be the property of the pursuer and secondly that any Foreground Intellectual Property, Edge Energy Technical Information, Deliverables and other work product produced under the parties' contract is assigned to the pursuer. What the pursuer cannot do is to equiparate certain use by the defender of the listed property with a breach of the provisions of clause 4.2. I agree with Mr MacColl that this is a non sequitur.

[48] Mr Upton argued that Mr MacColl's construction is not a commercial one in that it means the pursuer has paid for what he did not get. That is not a sound analysis.

Mr MacColl is not arguing the pursuer has no rights. Rather what he is saying is that the rights are protected by the general law and not in terms of this contract.

[49] A second part of Mr Upton's reply on this issue was to the effect that Mr MacColl's argument was no more than a pleading point. I am not persuaded by this argument.

[50] In the commercial court, as in any other court, the defender is entitled to a relevant case being pled against him and fair notice of the case pled against him.

[51] If it is argued that it is a property right which has been breached then the defender is entitled to know that and moreover it is entitled to know the nature of the property right which is allegedly breached.

[52] The importance of this point can be illustrated by considering one of the listed items in clause 4.2.1, namely: Intellectual Property.

[53] The general law makes provisions as to the nature and extent of the protection provided in respect to Intellectual Property rights. It is in respect to such issues that the defender is entitled to fair notice.

[54] Thus it appears to me that the point taken by Mr MacColl is not a mere pleading point, rather it goes to the core of the pursuer's case. The defender's case if relevantly pled must be pled as a breach of property rights and if so pled the defender is entitled to fair notice of the basis in the general law upon which protection is sought. This issue impacts directly on the defences which may be available to the defender. Nor is the pursuer's case made relevant by reference to its fourth plea in law. The proper focus in considering relevancy is the averments not the plea in law.

[55] I believe the pursuer's pleadings in regard to the core of its case are irrelevant and moreover wholly lacking in specification. For the foregoing reasons I do not believe that the defender's argument is a mere pleading point.

[56] In respect to the second argument regarding clause 4.5 I believe that the present averments are insufficient insofar as the question of whether the conditions in order to engage clause 4.5 have been satisfied. I believe these averments should have been made. However, had this been the only issue I would have had the matter put out by order in order for an appropriate amendment to be prepared by the pursuer.

[57] Lastly in respect to the first issue it was Mr Upton's position that if I were against him then I should have the matter put out by order in order that he could deal with the issue, I presume by way of seeking leave to amend. I have considered whether I should follow that course, it being the position of Mr MacColl that I should not. I have decided not to follow that course for the following reasons: the points argued at debate (1) had been foreshadowed in arguments put forward at earlier hearings; (2) the argument was clearly

put forward in Mr MacColl's note of argument and (3) Mr Upton had an opportunity in the course of the debate having heard all of the argument to seek leave to amend, he did not do so. Accordingly I believe that Mr Upton has had a large number of opportunities to consider the defender's position on this first issue and has decided that he wished to debate the matter. In these circumstances and where I believe the argument put forward by Mr MacColl as regards to the first issue went to the core of the pursuer's case it would not be appropriate for the matter to simply be put out by order and I believe that in the circumstances the appropriate course is to dismiss the action.

Decision

[58] For the foregoing reasons I uphold the defender's first plea in law and dismiss the action. I have reserved all questions of expenses.