

Toronto  
1966  
June 13, 14  
Ottawa  
June 24

BETWEEN :

BARBARA B. DEFREES AND BETTS }  
MACHINE COMPANY . . . . . }

APPELLANTS;

AND

DOMINION AUTO ACCESSORIES }  
LIMITED . . . . . }

RESPONDENT.

*Patents—Compulsory licence—Appeal from grant of—Component parts imported—Application for compulsory licence—Subsequent commencement of manufacture in Canada—Whether abuse of rights—Amount of royalty—Commissioner's decision—Appeal from—Patent Act, s. 67 (2)(a) and (b), s. 68.*

Appellant company of Pennsylvania, as licensee of the other appellant, owner of U.S. and Canadian patents relating to marker lights for highway trucks, marketed the product in the U.S.A. from 1951 and also in a relatively small way in Canada, employing a distributor located in Montreal. Until 1963 appellant company shipped component parts for assembly in Canada but in 1963 (which was seven or eight years after issue of the Canadian patent) it arranged for manufacture of the components in Canada. Respondent company produced and sold an infringing product in Canada from 1953. In 1960 appellants brought action for infringement against respondent company and obtained judgment in their favour in 1963 and this was affirmed by the Supreme Court of Canada in 1965. In 1962 respondent applied for a compulsory licence of the patent under s. 68 of the *Patent Act* and the Commissioner of Patents granted a compulsory licence at a 3½% royalty in 1965 on the grounds described in s. 67(2)(a) and (b). Appellants appealed.

*Held*, it could not be concluded that the Commissioner of Patents acting judicially could not have come to the conclusion he did on the facts before him, and the appeal must therefore be dismissed.

- (1) Respondent's own infringing activities could not be held to constitute a working of the invention in Canada on a commercial scale within the contemplation of s. 67(2).

- (2) The commencement of manufacture of the invention by appellant in Canada after respondent had applied for a compulsory licence was colourable and not such a working of the invention in Canada as is contemplated by s. 67(2).
- (3) On an application for a compulsory licence the activities alleged to constitute the working of the invention both at the time of the application and up to the time it is heard should be considered.
- (4) The Commissioner's determination of the royalty at 3½% was supported by the evidence adduced before the Commissioner.

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*Gordon Johnson Co. et al v. Callwood* (1960) 34 C.P.R. 73; *Aktiebolaget Astra. Apotekarnes Kemiska Fabriker v. Novocol Chemical Mfg. Co. of Canada Ltd.* (1966) 44 C.P.R. 15; *Hoffman-LaRoche Ltd. v. Bell-Craig Pharmaceutical Division of L. D. Craig Ltd.* (1966) 32 Fox Patent Cases 106; *Celotex Corporation et al v. Donnacona Paper Co. Ltd.* [1939] Ex. C.R. 128; referred to.

APPEAL from decision of Commissioner of Patents.

*David M. Rogers and R. J. Parr* for appellants.

*Donald F. Sim, Q.C.* for respondent.

GIBSON J.:—This is an appeal from a decision of the Commissioner of Patents dated February 16, 1965 granting a compulsory licence to the respondent, Dominion Auto Accessories Limited, under Canadian Patent 522,093.

The patent is owned by the appellant, Barbara B. DeFrees of Warren, Pennsylvania, U.S.A., and the appellant, Betts Machine Company of Warren, Pennsylvania, U.S.A., is a voluntary licensee.

The patent relates to marker lights sometimes called clearance lights which are used affixed to the edges and corners of transports, trailers and other like vehicles. These lights are usually attached on the back but also may be attached on the front and sides of such vehicles. The relevant parts of such marker lights to which the patent relates consist of: (1) the lenses, (2) the housing, and (3) the "O" ring.

The appellant, Betts Machine Company, markets a particular marker lamp embodying the invention of this patent under their catalogue number B-50 under the trade name of "snap-seals". The respondent, Dominion Auto Accessories Limited, marketed for some years as an infringer of the said patent and now under the compulsory licence granted to it, which is the subject of its appeal, under its catalogue number VP-235.

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The compulsory licence issued by the Commissioner of Patents is dated September 27, 1965.

Compulsory licences may be issued by the Commissioner of Patents at any time after the expiration of three years from the date of the grant of a patent if he is satisfied that there has been a case of abuse of the exclusive rights of the patent within the meaning of s. 67 of the Act. The abuse with which we are concerned in this appeal is prescribed in s. 67(2)(a) and (b)<sup>1</sup> of the Act. Section 2(j)<sup>2</sup> of the Act defines what is meant in s. 67 by the words "work on a commercial scale".

If the Commissioner of Patents is satisfied that a case of abuse of the exclusive rights under a patent has been established, he may exercise any of his powers as he deems expedient in the circumstances as are prescribed in s. 68 of the Act. If in exercising his powers, he decides to award a compulsory licence and orders the granting of such a licence, in settling the terms of it, the Commissioner must be

<sup>1</sup> 67. . . .

(2) The exclusive rights under a patent shall be deemed to have been abused in any of the following circumstances:

- (a) if the patented invention (being one capable of being worked within Canada) is not being worked within Canada on a commercial scale, and no satisfactory reason can be given for such non-working, but if an application is presented to the Commissioner on this ground, and the Commissioner is of opinion that the time that has elapsed since the grant of the patent has by reason of the nature of the invention or for any other cause been insufficient to enable the invention to be worked within Canada on a commercial scale, the Commissioner may make an order adjourning the application for such period as will in his opinion be sufficient for that purpose;
- (b) if the working of the invention within Canada on a commercial scale is being prevented or hindered by the importation from abroad of the patented article by the patentee or persons claiming under him, or by persons directly or indirectly purchasing from him, or by other persons against whom the patentee is not taking or has not taken any proceedings for infringement;

. . . .

<sup>2</sup> 2. . . .

- (j) "work on a commercial scale" means the manufacture of the article or the carrying on of the process described and claimed in a specification for a patent, in or by means of a definite and substantial establishment or organization and on a scale that is adequate and reasonable under the circumstances.

guided as far as possible by the considerations set out in s. 68(a) (i), (ii) and (iii)<sup>1</sup> of the Act.

The formal grounds of appeal of the appellant are as follows:

1. The Commissioner of Patents erred in granting a licence because:
  - (a) manufacturing of the patented article in Canada had been commenced prior to the date of the hearing. The patentee had so far as possible worked the patented invention within Canada on a commercial scale, and under the circumstances there was no abuse.
  - (b) the patented invention was being worked in Canada on a commercial scale by the respondent herein since the date of the patent, and the Commissioner of Patents should have taken the working by the respondent into account

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<sup>1</sup> 68. . . .

- (a) he may order the grant to the applicant of a licence on such terms as the Commissioner may think expedient, including a term precluding the licensee from importing into Canada any goods the importation of which, if made by persons other than the patentee or persons claiming under him would be an infringement of the patent, and in such case the patentee and all licensees for the time being shall be deemed to have mutually covenanted against such importation; a licensee under this paragraph is entitled to call upon the patentee to take proceedings to prevent infringement of the patent, and if the patentee refuses, or neglects to do so within two months after being so called upon, the licensee may institute proceedings for infringement in his own name as though he were the patentee, making the patentee a defendant; a patentee so added as defendant is not liable for any costs unless he enters an appearance and takes part in the proceedings; service on the patentee may be effected by leaving the writ at his address or at the address of his representative for service as appearing in the records of the Patent Office; in settling the terms of a licence under this paragraph the Commissioner shall be guided as far as may be by the following considerations:
  - (i) he shall, on the one hand, endeavour to secure the widest possible user of the invention in Canada consistent with the patentee deriving a reasonable advantage from his patent rights,
  - (ii) he shall, on the other hand, endeavour to secure to the patentee the maximum advantage consistent with the invention being worked by the licensee at a reasonable profit in Canada, and
  - (iii) he shall also endeavour to secure equality of advantage among the several licensees, and for this purpose may, on due cause being shown, reduce the royalties or other payments accruing to the patentee under any licence previously granted, and in considering the question of equality of advantage, the Commissioner shall take into account any work done or outlay incurred by any previous licensee with a view to testing the commercial value of the invention or to securing the working thereof on a commercial scale in Canada;

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(c) the activities of the respondent since the date of the patent constitute a satisfactory reason for non-working by the patentee, and the Commissioner of Patents should have taken the activities of the respondent into account.

2. The Commissioner of Patents erred in fixing the royalty to be paid under the license because:

- (a) the evidence before the Commissioner was inadequate to enable him fairly to fix the royalty;
- (b) the 3½% royalty that was fixed is unreasonably low having regard to Section 68(a) of the Patent Act.

As mentioned, the subject patent was infringed by the respondent for some years by the marketing of its said marker lights, their catalogue number VP-235. An infringement and validity action concerning the same was tried in this Court and there was an appeal from the Judgment of this Court to the Supreme Court of Canada. In the result, it was held that this patent was valid. The application for a compulsory licence by the respondent was made at about the same time the action for infringement and validity was commenced, but the hearing before the Commissioner did not take place until after the decision of this Court in the infringement and validity action and before the decision of the Supreme Court of Canada on the appeal from the former decision.

In brief, the chronology of all these proceedings is as follows:

- (1) The patent was applied for on November 9, 1951.
- (2) The patent issued February 28, 1956.
- (3) On May 4, 1960 the appellants instituted suit in the Exchequer Court of Canada against Dominion for infringement of the patent. Dominion contested validity and infringement of the patent.
- (4) On May 18, 1962, Dominion filed application for a compulsory license.
- (5) ...The infringement action was tried in October, 1962. At trial, Dominion admitted that its lamp model VP 235 infringed, and the only issue at trial was validity.
- (6) On October 23, 1963, judgment issued in the infringement action, finding the patent valid and enjoining Dominion from further infringement.
- (7) On December 13, 1963, Dominion filed a notice of appeal from the judgment of the Exchequer Court in the patent infringement action.
- (8) On February 24, 1964 the hearing in the present compulsory license application took place, and the Commissioner by decision of February 16, 1965 granted a compulsory license to Dominion.
- (9) Notwithstanding the grant of a license, Dominion continued to contest the validity of the patent and on March 17, 1965 the appeal in the infringement action was heard by the Supreme Court of Canada.

(10) On June 17, 1965 the Supreme Court of Canada dismissed the appeal, affirming the finding of the Exchequer Court that the patent was valid. ([1965] S.C.R. 599).

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The inventor of the invention described in this Canadian patent was Joseph H. DeFrees of Warren, Pennsylvania, U.S.A., who is the husband of the appellant, Barbara B. DeFrees, to whom he assigned his rights in this Canadian patent. He also, on September 7, 1951, filed an application in the United States for a patent for the same invention and subsequently a United States patent was issued to him which he in turn assigned to his wife, Barbara B. DeFrees. Barbara B. DeFrees voluntarily licensed the appellant, Betts Machine Company, under both the Canadian and the United States patents for this invention.

The appellant, Betts Machine Company, carries on a most extensive business in the United States and the product produced by this invention is only one part of its business; but it is the volume of sales of this product in the United States when compared with the sales of it made or caused to be made by it in Canada, in relation to all sales of the identical product by the respondent as an infringer of the patent that is relevant.

The appellant, Betts Machine Company, had as its distributor in Canada at all material times, Faucher & Fils Limited, whose head office is in Montreal, Quebec.

The history of the marketing of the product of this invention, both through the instrumentality of the appellant, Betts Machine Limited, and of the respondent, Dominion Auto Accessories Limited, briefly is as follows.

Betts Machine Limited began marketing in the United States the product of this invention shortly after the patent application was filed, namely, September 7, 1951.

In June, 1952, a representative of the respondent visited the plant in Warren, Pennsylvania, U.S.A., of Betts Machine Company and inspected the same and ordered from it 700 of the marker lamps made by it. This was the first and last purchase from Betts Machine Company by the respondent of its lamps.

Thereafter, the respondent copied the product of Betts Machine Company and from about October 1953 until the judgments of the Courts above referred to, continued to

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produce and sell in Canada their own marker lamp under their said catalogue number VP-235. These sales were quite substantial.

Until 1963, Betts Machine Company shipped from the United States three component parts of their marker lights which when assembled in Canada, were sold under their said catalogue number B-50, that is, (1) the lenses, (2) the "O" rings and (3) the housings, through their said distributor Faucher & Fils Limited in Montreal. This assembly was a relatively simple matter, cost very little compared with the total selling price of the product, and it was common ground that such assembly did not constitute "manufacture" of the marker lights in Canada within the meaning of s. 67 of the Act. The sales of the marker light by the appellant, Betts Machine Company, through its distributor Faucher & Fils Limited up to 1963 and also after that date and up to 1964 which was the last date there were figures of sales put in evidence, were relatively small, both in the total dollar volume and also in proportion to the dollar volume of sales by the respondent of its marker lights which infringed the said Canadian patent.

In 1963 pursuant to an agreement dated March 22, 1963 made between the appellant, Betts Machine Company, and its said distributor Faucher & Fils Limited, the three component parts of the marker lights commenced to be manufactured in Canada by Faucher & Fils Limited. The evidence adduced was that Betts Machine Company, since July 28, 1961 had been attempting to get Faucher & Fils Limited to manufacture these three component parts of its marker lights but the latter was apparently reluctant to do so.

Pursuant to this said agreement, however, Faucher & Fils Limited first manufactured the "O" rings in June, 1963, the lenses in August, 1963, and the housings by February, 1964.

This manufacture in Canada therefore was commenced 7 and 8 years after the issue of the patent.

It would seem a reasonable inference also that this decision to manufacture in Canada was inspired solely by the activities of the respondent and the proceedings taken by it, having in mind the power of the Commissioner of Patents under ss. 67 and 68 of the *Patent Act*.

The said licence agreement between the appellant, Betts Machine Company, and Faucher & Fils Limited was the subject of comment by the Commissioner of Patents in his decision on the application for a compulsory licence. I might add in supplement, that this agreement is curious in that, although it is called a licence, there is no provision in it for a fixed royalty payable. Instead the royalty payable is the differential in the purchase and sale price of Betts Machine Company for the parts that go to make up this marker light and it has absolute control over what the selling price of it will be from time to time to Faucher & Fils Limited. This has vital significance when read in the light of the evidence before the Commissioner given by Mr. J. Vaillancourt, Sales Manager of Faucher & Fils Limited, when he said that it was possible to do so and they did lower their selling price of their marker lights to the customers in Canada after the parts for the marker lights were obtained from manufacture in Canada and not from importation from the United States from the appellant, Betts Machine Company. The significance is that manufacture in Canada permitted a lower selling price of the patented product to the public in Canada, and so long as the respondent was a competitor in the field of some financial substance and of merchandising efficiency, the public in Canada did benefit from such lower prices. If the respondent was removed from competition, then the price paid for these marker lights in Canada would solely be in the discretion of the appellant, Betts Machine Company and it is a reasonable inference that such price to the public would increase.

At the hearing before the Commissioner of Patents, the appellants, in evidence and in argument, submitted that there was no abuse of the exclusive rights under this Canadian patent within the meaning of s. 67 of the Act and relied in the main for the same on the manufacturing of the respondent from 1952 of its infringing marker lights under their said catalogue number VP-235; and in the event that the Commissioner of Patents considered this application a case for the granting of a compulsory licence that the royalty fixed by him should not be any lower than the 10% royalty paid by Betts Machine Company to the patent owner Barbara B. DeFrees under the said voluntary

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licences, notwithstanding the fact that the original inventor Joseph H. DeFrees without other consideration devoted part of his time within the scope of his talents for Betts Machine Company to the promotion of the sales of these marker lights. (The inventor Joseph H. DeFrees was also the inventor of an invention, the product of which were certain valves in respect of which Betts Machine Company was a licensee also. The royalties from the valves were paid to Joseph H. DeFrees and as stated the royalties on the marker lights were paid to his wife Barbara B. DeFrees by arrangements among these parties which are not disclosed in total in the evidence but which are irrelevant to the decision of this appeal.)

On an appeal such as this, under s. 73 of the *Patent Act*, from a decision of the Commissioner of Patents and an order for the granting of a compulsory licence under ss. 67 to 72 of the Act, the Court must consider the same not only with regard to the questions of law which arise, but also on the facts. (See Thurlow, J., in *Gordon Johnson Co. et al v. Callwood*<sup>1</sup>). But an appellant to succeed must establish that the same were against manifestly sound and fundamental principles; or as it has been put, the Court on such an appeal as this will not allow the appeal unless it comes to the conclusion that no person properly instructed as to the law and acting judicially could have come to the conclusions that the Commissioner did on the facts before him, and this is so even though the Court itself on those same facts might have come to a different conclusion. (Compare Jackett, P., in *Aktiebolaget Astra, Apotekarnes Kemiska Fabriker v. Novocol Chemical Manufacturing Co. of Canada Ltd.*<sup>2</sup>; and Abbott J., in *Hoffman-LaRoche Limited v. Bell-Craig Pharmaceutical Division of L. D. Craig Limited*<sup>3</sup>.)

Employing such criteria, the grounds of appeal for decision are:

- (1) whether the commencement of manufacturing of the patented article in Canada after the date of the application of the respondent for a compulsory licence, but before the date of the hearing of such application, constituted working the invention within Canada on a

<sup>1</sup> (1960) 34 C.P.R. 73 at 77.

<sup>2</sup> (1966) 44 C.P.R. 15 at 19.

<sup>3</sup> (1966) 32 Fox Patent Cases 106 at 108.

commercial scale so that there was no abuse within the meaning of s. 67(2) (a) of the Act;

- (2) whether the activities of the respondent (an infringer) constituted working the patented invention in Canada on a commercial scale;
- (3) whether such activities by the respondent constituted a satisfactory reason for non-working of the patented invention by the appellants;
- (4) whether the relevant date to consider, if the patented invention was being so worked, is at the time of the respondent's application or at the time of the hearing of such application; and
- (5) whether there was evidence before the Commissioner of Patents to have enabled him to fix the royalty pursuant to the provisions of s. 68 of the Act.

As to grounds of appeal numbered 1, 2 and 3 above, I am of opinion (a) that since under the *Patent Act* patents are granted for new inventions not only to encourage inventions, but also to make sure that there be attained without undue delay a working of the invention on a commercial scale within Canada adequate and reasonable under the particular circumstances, (cf. Maclean, P., in *Celotex Corporation et al v. Donnacona Paper Company Limited*<sup>1</sup>) that it would be incongruous to hold that the activities of the respondent in this matter, while an infringer of the patented invention, constituted such working of the invention as to result in there being no abuse by the appellants within the meaning of s. 67(2) (a) of the Act; and (b) that the activities of the appellants in respect to their working of the invention within Canada on a commercial scale were clearly colourable and collusive; and accordingly there is no reason in respect to these three grounds of appeal to interfere with the decision and order of the Commissioner of Patents.

As to ground of appeal numbered 4 above, I am of opinion that the manufacturing activities constituting working the invention in Canada both at the time of the application for the compulsory licence and during the interval up to the hearing of such application by the Commissioner should be considered, although naturally the manufacturing activities during such interval will be looked at

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<sup>1</sup> [1939] Ex. C.R. 128 at 138.

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by the Court with greater scrutiny. The Commissioner considered the activities at and between both these times, and accordingly in respect to this ground of appeal also there is no reason to interfere with his decision and order.

As to the final ground of appeal numbered 5 above, I am of opinion that the appellants elected, at the hearing of the application before the Commissioner, to adduce evidence as to the matter of the quantum of the royalty, and that the factual evidence so adduced, coupled with the factual evidence adduced by the respondent, was sufficient in law to support the Commissioner's conclusion. This is not a case, therefore, where the question of royalty should be sent back for the adducing of further evidence before the Commissioner. (Clearly, however, the better practice to have followed in this case and all similar cases would have been for the appellants to request the Commissioner to permit them to elect not to call any evidence, on the hearing of the application for a compulsory licence, on the matter of royalty until the Commissioner had decided whether or not the case was one for a licence, as was suggested by Jackett, P., in *Aktiebolaget Astra, Apotekarnes Kemiska Fabriker v. Novocol Chemical Manufacturing Co. of Canada Ltd.* (*supra*))

The findings of abuse and the order of the Commissioner of Patents in this case, therefore, are well founded in fact and in law.

Abuse of a Canadian patent of invention, it is clear, often arises from the fact that a foreign owner of a patent or those claiming under him usually do not act in the same way as a Canadian owner of a patent because there are important differences between what is in the best interests of the public in Canada and what is in the best interests of the public in such foreign country; and in such circumstances, the latter interests usually prevail. This manifests itself, for example, by the foreign owner of a Canadian patent concerning himself primarily with increasing his profits in the foreign country in which he resides because all normal influences and pressures on him from third parties in his foreign country will be directed to that end, where it helps the interests of the public in that foreign country, and at the same time such are in conflict with the interests of the public in Canada; and so if abusing a patent of invention in Canada within the meaning of s. 67

of the *Patent Act* happens to accomplish this, such foreign owner of a Canadian patent will act on such incentive to the detriment of the public in Canada.

In this case, although the total sums involved in relation to the annual gross national product in Canada are relatively insignificant, and therefore not too important in the overall picture, it is nevertheless clear that the abuse of this Canadian patent came about for the above reasons. The appellant, Betts Machine Company, caused the product of the Canadian patent to be marketed by the importation of the three component parts from the United States by its Canadian distributor, Faucher & Fils Limited from 1952 until 1963; and during all this period (or at least after the patent issued) that it did so cause this importation, it could have caused the product of this patent to be manufactured in Canada, which is one of the precise duties of the owner of a patent who is given an exclusive monopoly under the *Patent Act*. Only the activities of the respondent and the knowledge of the power of the Commissioner of Patents under the Act caused the manufacture in Canada in 1963 with resulting lower prices to the public in Canada. The peculiar so-called licenced arrangement between Betts Machine Company and Faucher & Fils Limited, it is obvious, would not assure a lower price of the product of this patent to the public if the respondent was prevented from selling its product under this compulsory licence to the public in Canada.

In the result, therefore, the appeal is dismissed with costs.

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