1938

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Exchequer Court of Canada

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1938

JUDGES

OF THE

EXCHEQUER COURT OF CANADA

During the period of these Reports:

PRESIDENT:

THE HONOURABLE ALEXANDER K. MACLEAN,
(Appointed 2nd November, 1923)

PUISNE JUDGE:

THE HONOURABLE EUGENE REAL ANGERS

(Appointed 1st February, 1932)

DISTRICT JUDGES IN ADMIRALTY OF THE EXCHEQUER COURT OF CANADA

The Honourable ARCHER MARTIN, British Columbia Admiralty District—appointed 4th March, 1902.

do CHARLES D. MACAULAY, Yukon Admiralty District—appointed 6th January, 1916.

His Honour DONALD McKINNON, Prince Edward Island Admiralty District—appointed 20th July, 1935.

do LEONARD PERCIVAL DEWOLFE TILLEY, New Brunswick Admiralty District—appointed 14th August, 1935.

The Honourable WILLIAM F. CARROLL, Nova Scotia Admiralty District—appointed 23rd April, 1937.

do LUCIEN CANNON, Quebec Admiralty District—appointed 18th October, 1938.

His Honour FRED H. BARLOW, Ontario Admiralty District—appointed 18th October 1938

DEPUTY LOCAL JUDGE:

The Honourable Sir JOSEPH A. CHISHOLM—Nova Scotia Admiralty District.

ATTORNEY-GENERAL FOR THE DOMINION OF CANADA:

The Right Honourable ERNEST LAPOINTE, K.C.

The Honourable Louis Philippe Demers, District Judge in Admiralty for the Quebec Admiralty District, retired from the Bench during the current year.

His Honour Frank M. Field, District Judge in Admiralty for the Ontario Admiralty District, retired from the Bench during the current year.

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DETERMINED BY THE

EXCHEQUER COURT OF CANADA
AT FIRST INSTANCE

AND

IN THE EXERCISE OF ITS APPELLATE JURISDICTION

1937

April 9.

Nov. 3.

BETWEEN:

VANITY FAIR SILK MILLS............APPELLANT;

AND

THE COMMISSIONER OF PATENTS...RESPONDENT.

Patent—Invention—Prior publication—Subject-matter—Lack of novelty.

The invention is one which relates to hosiery, especially the provision in knit hosiery of a circumferential zone of greater elasticity than the basic fabric, and designed to function as a strain absorber to prevent garter runners and to give lengthwise stretch of the stocking at the knee when the knee is bent. Two claims in the application of appellant's assignor for a patent were disallowed by the Commissioner of Patents on the grounds of prior publication and want of subject-matter. The Court found that the process of manufacture described and claimed is but a slight variation of a prior patentee's idea, and lacks invention.

Held: That a patentee to uphold a patent must show novelty; it is not sufficient to show newness in the sense of doing a thing which has not been done before, but he must show newness in the shape of novelty by producing a thing which required some exertion of mind that could properly be called invention.

APPEAL by Vanity Fair Silk Mills from the refusal of the Commissioner of Patents to accept certain claims in the specification accompanying an application for Letters Patent for an invention relating to hosiery.

The appeal was heard before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa.

W. A. MacRae for appellant.

W. P. J. O'Meara K.C. for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT, now (November 3, 1937) delivered the following judgment:

This is an appeal from the refusal of the Commissioner of Patents to grant a patent, in respect of claims numbered 3 and 4 in the application of Howard B. Snader, assignor

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of Vanity Fair Silk Mills, the appellant, for letters patent for an alleged invention of new and useful improvements in Hosiery With Elastic Strain Absorber. The application, serial number 409,112, was filed on May 26, 1934. The two claims mentioned were disallowed by the Commissioner on the grounds of prior publication and want of subject-matter.

The invention is said to relate to hosiery, and more particularly, the provision in knit hosiery of a circumferential zone of greater elasticity than the basic fabric, and designed to function as a strain absorber to prevent garter runners and to give lengthwise stretch of the stocking at the knee when the knee is bent. A more specific object of the invention is said to be the provision of a stocking with a circumferential zone of covered latex thread, integrally knitted below the welt and designed to prevent the disintegration of the fabric by the strains just above referred to, at the knee. Another object of the invention peculiar to Snader's application is said to be the provision of the strain absorbing zone in the form of a plurality of narrow bands of knit latex thread, alternating with narrow bands of the knit basic fabric of the stocking, whereby, it is claimed, certain advantages are obtained.

It will not be necessary to quote at length from the specification, Snader's description of his invention, because its substance may, I think, be sufficiently expressed for our purposes here, in relatively short terms. The invention is concerned with knitted hosiery and consists in providing, below the welt of a stocking—that is the top of the stocking, and which is usually double the thickness of the body of the stocking—and above the knee, what the patentee calls "a strain absorbing zone," the said absorbing zone being integrally knit with the adjacent portion of the leg of the stocking and comprising a plurality of narrow bands, constituted alternately by courses of covered latex rubber thread, which may be called elastic yarn, and courses of relatively inelastic yarn, which latter yarn the patentee refers to as "the base fabric of the stocking," and which are of a gauge approximately that of the inleastic yarn. It is claimed that the stress created by pressure of the knee when flexed, "is referred to the said absorbing zone without substantially stretching the fabric in the region contacted by the knee." The alternating bands of relatively elastic and relatively inelastic knitting are repeated a number of times until the desired width of the strain absorbing zone is built up.

The specification states that

> the zone of knit covered latex rubber is extremely stretchable both circumferentially and longitudinally so that strains originating in the welt from the pull of the garter are absorbed by the elastic zone, and distributed laterally so that the fabric beneath the elastic zone is relieved from said strains and runners will not be incited.

and also that

> the stretching of the front of the stocking when the knee is bent will be transmitted to the fabric of said elastic zone, relieving the basic fabric in the region of the knee from excessive strain and preventing runners from this cause.

The claims in question are as follows:

> 3. Stocking having a strain absorbing zone below the welt and above the knee, the adjacent portion of the welt and the adjacent portion of the leg of the stocking down to a point at least below the knee being knit from relatively inelastic yarn, said strain absorbing zone being integrally knit with the said adjacent portions and comprising a plurality of narrow bands constituted alternately by courses of covered latex rubber thread and courses of relatively inelastic yarn, whereby the stress created by pressure of the knee when flexed, against the relatively inelastic fabric, is referred to the said strain absorbing zone without substantially stretching the fabric in the region contacted by the knee.
>
> 4. Stocking having a strain absorbing zone below the welt and above the knee, the adjacent portion of the welt and the adjacent portion of the leg of the stocking down to a point at least below the knee being knit from relatively inelastic yarn, said strain absorbing zone being integrally knit with the said adjacent portions and comprising a plurality of narrow bands constituted alternately by courses of covered latex rubber thread of a gauge approximately that of the relatively inelastic yarn, and courses of relatively inelastic yarn, whereby the stress created by pressure of the knee when flexed, against the relatively inelastic fabric, is referred to the said strain absorbing zone, without substantially stretching the fabric in the region contacted by the knee.

Prior publications, to which I was referred, disclose many proposals for forming whole stockings, or parts of stockings, of elastic material, india rubber threads, or a yarn with an elastic core of rubber thread, exclusively or as an alternating yarn, for the purpose of avoiding the necessity of a separate garter, for example, a stocking knitted with a broad band in the upper portion of the stocking, at the extreme top or below that, of a desired width, to function as a garter, to hold up the stocking: Garon, United States patent no. 1,373,880, granted April, 1921; Michaelis, British patent no. 2668, granted March, 1894; Werm, United States patent no. 1,213,047, granted January, 1917. Mutchler et al., in their United States patent, no. 1,890,299, dated January, 1917, which related particularly to ladies' silk stockings, proposed knitting one or more tight courses, then automatically modifying the movement of the needles so as to knit one or more courses of loose stitches, then automatically varying the needle control means to again knit the desired number of tight courses and so on through the stocking, or throughout the particular part of the stocking, being knitted in this special manner. The object of this, it was said was to provide greater stretch or give throughout the sheer or leg portion of the stocking, or in the welt, or in the foot portions, or to provide such greater stretch or give only at the knee or upper part of the stocking, where the maximum stretch horizontally or vertically is desirable so that the stocking may readily adapt itself to limbs of varying thickness. Thus, they said, they provided a stocking having the necessary body and cling, and providing the desired stretch or give.

The patents to which I have just referred do not describe a zone, comprising alternate bands of elastic yarns, and inelastic yarns, and this was emphasized by Mr. MacRae. He described the general suggestion of this prior art as "built in garters," and he urged that Snader's "absorbing zone," comprising alternate narrow bands as explained, was structurally different from these prior disclosures, and was adapted to distribute strains over a relatively wide area in comparison with anything disclosed by any of this prior art, for example, Mutchler. Mr. MacRae also urged that the practical significance of Snader would be at once recognized when one considers the substantial stress placed upon the delicate fabric of the sheer modern hose when the wearer bends the knee; and he said that if "runs" were to be avoided the pull exerted by the garter must not be borne by the few warp threads of the fabric directly engaged by the clasp of the garter. It is the distribution of the strain effected through the "absorbing zone" of Snader upon which the claim to invention really rests, if I understand correctly the argument of Mr. MacRae. I am not disposed to place reliance on the citations of prior art just mentioned, as prior publications, in disposing of a proceeding of this kind, though, I think, they narrow the field in the art which Snader purports to invade.

I was referred to the United States patent to Adamson which relates to elastic yarn suitable for use in the manufacture of various textile fabrics and articles. This patent, which seems relevant here, was applied for on June 11, 1931, and was granted on September 8, 1931, which long antedates Snader. And the appellant concedes that it uses the Adamson yarn in manufacturing hosiery according to Snader. Describing his invention Adamson states:

Elastic yarns as heretofore marketed have been relatively large and unsuitable for the manufacture of knit articles They have been made from cores of vulcanized rubber composition wound with one or more yarns and in one or more layers The cores were of relatively large size cut square in cross section. The fibrous covering yarns have been relatively coarse and have substantially augmented the dimensions of the core. Because of these factors and because also of the lack of uniformity in the built-in elongation of the core and of the covering operations, the old elastic yarns were not employed in knitting machines, especially those of fine gauge. Such old elastic yarns were used largely in the manufacture of woven fabrics such as elastic straps for girdles and for stocking supporters and of such articles as garters, bandages, and the like. Furthermore, the old elastic yarns, as heretofore utilized in making articles, generally, if not invariably, imparted a capacity to stretch in one direction only In other words, they were practically only used for making articles which resisted a one-direction pull or which exerted a constrictive force in one direction.

The present invention aims to provide a new and useful type of elastic yarn which has characteristics adapting it to be utilized in knitting machines of fine gauge—as fine or finer than cylindrical knitting machines of a diameter of 3½ inches having 176 needles. With it a large variety of articles having new and improved qualities long desired in the art may be manufactured. The capacity of the elastic yarn for knitting in modern fine gauge knitting machines at high speed enables it to be utilized with existing equipment, without substantially increased labour or handling costs, and without great reduction, if any, in the speed of the machines. It enables articles to be fabricated with a capacity to stretch or yield in any direction rather than merely in one direction whereby the grip of the article on the body or portions of the body is distributed and made comfortable to the wearer without sacrifice of holding or sustaining capacity.

With the elastic yarn of the present invention it is now practical to manufacture hosiery for men, women, and children of fine gauge with an integral garter-like portion for effectively sustaining the hose in a comfortable manner, to manufacture corsets, foundation garments, brassieres, bathing suits, surgical bandages, etc, all with a capacity to enhance the lines of the human figure in a comfortable manner and with a position retaining capacity not heretofore attained, and to manufacture so-called surgical stockings which are comfortable and efficacious to those afflicted with varicose veins, etc. Many other articles with superior qualities, as those skilled in the art will appreciate, may be made of this new elastic yarn. It has already aroused great interest among garment manufacturers, particularly the hosiery and underwear trade, and great activity has followed its disclosure.

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According to my invention, a core of any suitable elastic material uniformly elongated is covered with relatively inelastic fibrous material holding it stretched. In the manufacture of a particular elastic yarn the elongation uniformly given the yarn is so adjusted with respect to the covering yarn that the finished yarn has a predetermined and limited capacity to stretch. During the covering operation whatever tension is applied to the core should be applied uniformly and evenly throughout the covering operation. The capacity to stretch of the finished elastic yarn may be anything desired but preferably, at least for use on fine gauge knitting machines, should be in the neighbourhood of 150%, ie., 1″ of normal elastic yarn should stretch 2½″. To obtain the best speed in the operation of the finest gauges of knitting machines the capacity to stretch is desirably made somewhat less and more in the neighbourhood of 100%. Of course the stretching capacity of the elastic yarn should also be suited to the use to which it is put, and may vary from those percentages which are illustrative.

* * * * * *

From the foregoing the nature of the invention will be apparent to one skilled in the art. The elastic yarn may be employed in knitting machines in the manufacture of all or part of knitted articles, and either as a substitute for the ordinary non-elastic fibrous knitting yarns, or jointly therewith in so-called "plating." The elastic yarn may also be used on sewing machines for stitching purposes. It may also be used as a substitute for the old elastic yarns where it is desired to obtain a finer product. Woven or knitted into bandages the universal elasticity of the fabric enables an end of the bandage to be tucked under a convolution and anchored by its own inherent gripping properties. Incorporated in articles of wearing apparel such as corsets, brassieres, or bathing suits, desirable figure-enhancing effects may be attained. Golf knickers and socks may be improved by its use. Great improvements in many old articles of manufacture and in many new articles are attending its introduction and disclosure. A few courses of elastic yarn incorporated in women's stockings immediately above the knee will minimize runs In such cases, and generally in knitting, it is advisable to relieve the elastic yarn of tension so that when the garment is completed the portion thereof constituted by the elastic yarn, will not contract or narrow in such way as to objectionably detract from its appearance and this may be done by leading the yarn directly from the source of supply to the knitting needles instead of through the usual tensioning devices.

Adamson, it will be seen, relates to an elastic yarn suitable for use in the manufacture of various textile fabrics and articles, and he describes its manufacture, its chief characteristics, and some of the uses to which it may be put. For example, he states that it will stretch or yield in any direction rather than in one direction, according to the degree required, and the use to which it is to be put; it may be used in the manufacture of hosiery with an integral garter-like portion, to sustain the hose in a comfortable position; it may be employed in knitting machines in the manufacture of all or part of knitted articles and as a substitute for the ordinary non-elastic yarns, or jointly therewith, whereas the old elastic yarns were not usually thus employed, but rather in the manufacture of woven fabrics, such as stocking supporters, garters, bandages and the like. He points out that a few courses of his elastic yarns incorporated in women's stockings immediately above the knee will minimize runs, and, showing that this observation was a considered one, he directs that in such a case it was advisable to relieve the elastic yarn of tension so that when the stocking was completed the portion thereof constituted by the elastic yarn would not contract or narrow in such a way as to detract from its appearance, and he suggests that this be done by leading the yarn directly from the source of supply to the knitting needles instead of through the usual tensioning devices. The purpose and value of this will be quite obvious to any one, and it rather indicates to me that he had done experimental work in this direction, and I have no doubt that knitting according to this direction would tend to minimize runs. He does not state that it will absolutely prevent runs, and it was prudent and proper to make the statement in that guarded way; Snader states, in one place in his specification, that his invention will not "incite runs" which I assume would be an accurate statement, while in another place he states that it will "prevent" runs caused by excessive strains at the knee, which statement is probably not absolutely accurate.

As I have already stated, the claim to invention in Snader is the provision of a circumferential zone below the welt, knitted in the manner already described, having greater elasticity than the basic fabric, giving lengthwise as well as circumferential stretch, and functioning as a strain absorber; and particularly it is claimed that this construction will "prevent," or will "not incite," garter runners by reason of the lengthwise stretch at the knee, when the knee is bent. The functioning of Snader's construction is attributable to the employment of an elastic yarn which I do not think Snader can possibly claim to have invented, and I may point out, that Snader's assignee, the appellant, uses the yarn manufactured according to Adamson's specification. One of the advantages claimed by Adamson is that his yarn will stretch horizontally and vertically and in

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all directions, it may be used as a substitute for the ordinary non-elastic yarns, or jointly therewith, and to illustrate the latter use he says that a few courses may be incorporated in women's stockings immediately above the knee, circumferentially of course and which means below the welt, and this he states will minimize runners; this must be because his yarn has a capacity to stretch or flex in all directions, which of course means it will absorb strain. Adamson does not claim invention for this particular application of his yarn in the knitting of a stocking because, I assume, he believed that this would be apparent to any person conversant with the art. It is obvious, I think, that an elastic yarn, which will stretch in all directions, if knitted into a fabric or stocking in a sufficient quantity, will absorb strain. I think it is obvious also that a band of strong elastic yarn knit into a stocking above the knee will tend to minimize runs. Now, it seems to me that Adamson not only invented a new elastic yarn, but he had in mind, as one of the uses to which it might be put, the same idea as Snader had in mind, and there would be little purpose in inventing a yarn unless it had a use or uses. That being so, it seems to me that the difference in the method described by each for employing an elastic yarn, to give stretch in a stocking and thus minimize or prevent runs, is not so great as to warrant a grant of monopoly to Snader. Snader suggests a "zone" comprised of bands, knit alternately with elastic and non-elastic yarns, while Adamson suggests a few courses, which might be called a "zone," of elastic yarns above the knee to prevent runs; it is plain enough that the reason Adamson suggests his courses of elastic yarns above the knee was because he recognized the fact that the knee of a stocking was particularly subject to strain. I do not think any distinction can be drawn between an absorbing zone "below the welt," and one "immediately above the knee." There is nothing before me to indicate that the one position is better than the other. I think that is all a matter of choice, to be determined finally by trial and error, but the idea or principle is the same. In neither case is there any prescribed width for the "zone" or "courses,"—which would be determined by experience and experiment—and the fact that Snader suggests alternating, in his zone, the elastic yarn with the inelastic yarn, is not, I think, a patentable distinction.

It appears to me that what Snader describes is but a slightly varied application of Adamson's idea; the difference did not call for that degree of ingenuity which merits the acknowledgment of invention, and even if it effected some improvement, or showed some skill, it would not necessarily follow that there was invention. A patentee to uphold a patent, must show novelty, not merely newness in the sense of doing a thing which has not been done before, but he must show newness in the shape of novelty by producing a thing which, it may be presumed, required some exertion of mind that could properly be called invention. The theory and reason for Snader's suggested process of manufacture is amply disclosed, I think, in Adamson's described use of his yarn, and Snader's variation of it, or the step from one to the other, is not invention. Snader did not discover any hidden virtue in what Adamson had disclosed. If one wishes to vary either the method of Snader or that of Adamson for supplying flexibility at the knee of a stocking for the purpose of absorbing strain, I have no doubt that might be done in many slightly different ways, but the essence of the method or process of manufacture, and the object and result as well, would all be the same, in the patent sense.

It seems that the British application of Snader for letters patent for the same invention, after being allowed subject to some amendments of the specification, by the Superintending Examiner, was on appeal refused by the Patents Appeal Tribunal. The reasons for refusing the application I have not seen, and accordingly I cannot well draw any inference from that refusal. On the other hand, Snader's application for patent in the United States was allowed.

I am of the opinion therefore that the claims in question here were properly refused by the Commissioner of Patents, and I therefore dismiss the appeal and affirm the action of the Commissioner of Patents. On the settlement of the minutes I shall determine the matter of costs.

Judgment accordingly.

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Dec. 9 & 10
1937
Nov. 10.

QUEBEC ADMIRALTY DISTRICT

BETWEEN:

PORT COLBORNE & ST. LAWRENCE NAVIGATION CO. LTD. AND THE MASTER, OFFICERS, MEMBERS OF THE CREW AND PASSENGERS OF THE SS. *BENMAPLE* .... PLAINTIFFS;

AND

THE SHIP *LAFAYETTE* ....DEFENDANT;

AND

LEONARD LABATTE, JOHN L. DICKEY ET AL .... INTERVENANTS.

Shipping—Collision in dense fog—Article 16 of the International Rules of the Road—Negligence in not proceeding at moderate speed—Failure to stop and ascertain position of the ships.

A collision took place in a dense fog in the St. Lawrence river between the ships *Benmaple* and *Lafayette*. The Court found that the *Benmaple* was chiefly to blame but that the *Lafayette's* speed was not moderate under the circumstances.

Held: That under such a set of facts as existed the *Lafayette* should have stopped her engines until the position of the *Benmaple* had been ascertained with certainty.

ACTION by plaintiffs claiming damages from the defendant alleged due them as a result of a collision of the SS. *Benmaple* with defendant in the St. Lawrence river.

The action was tried before the Honourable Mr. Justice Philippe Demers, D.J.A., Quebec Admiralty District, at Montreal.

R. C. Holden, K.C. for plaintiffs.

L. Beauregard, K.C. and *Georges Laurence* for defendants.

H. H. Harris for intervenants.

The facts and questions of law raised are stated in the the following judgment:

DEMERS, D.J.A., now (November 10, 1937) delivered the following judgment:

Plaintiffs by their amended statement of claim say that the plaintiff, Port Colborne & St. Lawrence Navigation Co. Limited, was the owner of the steamship *Benmaple* at the time of the occurrences herein mentioned, the additional

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plaintiffs were the Master, Officers and members of the crew of the *Benmaple* and four passengers who were on board her. Shortly before 4.55 a.m., daylight saving time, on the 31st August, 1936, the *Benmaple*, a steel screw steamer of 1,729 tons gross and 1,074 tons net register, 250·1 feet in length and 43 feet beam, and carrying a crew of 19 hands all told, was on a voyage from Montreal, in the Province of Quebec, to Sydney and Halifax, in the Province of Nova Scotia, laden with a cargo of flour and feed and some general cargo, and was proceeding down the channel of the river St. Lawrence between Red Island Lightship and Bicquette Island; the wind was S.W., light, and the weather was a thick fog, and the tide was ebb, running with the *Benmaple*. The *Benmaple* was carrying the regulation navigating lights, which were burning brightly, and was proceeding at a slow rate of speed, and was sounding fog signals of one prolonged blast on her whistle at regulation intervals, and a good lookout was being kept on board her. In these circumstances those on the *Benmaple* suddenly heard very close to the *Benmaple* and apparently ahead or a little on her starboard bow a signal of one prolonged blast from a ship which proved to be the motor vessel *Lafayette*, and at the same time the bow of the *Lafayette* loomed up in the fog, bearing down on the *Benmaple* at great speed. The engines of the *Benmaple* were put full speed astern, but it was impossible for her to avoid the collision, and the stem of the *Lafayette* struck the *Benmaple*, cutting through her bows into the cargo hold, and causing such serious damage that shortly afterwards the *Benmaple* sank and was lost with her cargo and everything else on board. The collision and loss were caused solely by the fault and negligence of the *Lafayette* and those on board her, as herein alleged. The *Lafayette* was navigated at an excessive and improper speed through the dense fog; those on the *Lafayette* negligently failed to keep a proper lookout; the *Lafayette* failed to sound proper signals for fog in accordance with the regulations; the *Lafayette* after hearing forward of her beam the fog signal of the *Benmaple*, the position of which was not ascertained, did not navigate with caution until danger of collision was over; the *Lafayette* failed to take in due time, or at all, proper steps to avoid the collision; the

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Demers, D J A.

engines of the *Lafayette* were improperly handled; the *Lafayette* improperly altered her course to starboard; when the *Lafayette* directed her course to starboard she improperly failed to give a signal of one short blast to indicate that she was doing so; the *Lafayette* failed to exercise the precautions required by the ordinary practice of seamen or by the special circumstances of the case; if those on the *Lafayette* had exercised reasonable care and caution and had navigated her in a proper and seamanlike manner and with due regard to the existing circumstances, no collision would have occurred; the *Lafayette* failed to comply with Articles 15, 16, 27, 28 and 29 of the International Rules of the Road. The plaintiffs claim:

(*a*) A declaration that they are entitled to the damage proceeded for.

(*b*) The condemnation of the defendant, the ship *Lafayette*, and her bail in such damage and in costs.

(*c*) A reference to the District Registrar, assisted by merchants, to assess the amount of such damage.

(*d*) Such further and other relief as the nature of the case may require.

By her amended statement of defence, defendant avers that she is ignorant of the allegations contained in paragraphs 1 and 2 of plaintiffs' amended statement of claim; she denies the allegations contained in paragraphs 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16 and 17 of plaintiffs' amended statement of claim except in so far as they are in accordance with this, the defendant's amended statement of defence. Shortly before 5 a.m., daylight saving time, on the 31st August, 1936, the ship defendant, which is a motor steel passenger vessel of a registered tonnage of fourteen thousand, four hundred and thirty tons (14,430), owned by Cie Generale Trans-Atlantique, was proceeding on a voyage from Boston, Mass., to Quebec, properly manned, equipped and carrying a large list of passengers, and was proceeding up the river St. Lawrence between Bicquette Island and Red Island Lightship, in charge of a duly qualified and certificated pilot; there was practically no wind, the tide was ebbing and the current was about two knots against the *Lafayette*, but there was fog, and for that reason there was a double lookout kept on the forecastle head and two on each side of the bridge, and there were besides on the bridge the pilot, the master, the officer on watch, a security officer and the wheelsman. The *Lafayette* was carrying the regulation navigating lights, which were burning brightly, and was sounding fog signals of one prolonged blast on her whistle at regulation intervals. At 4.52 a.m. one of the lookouts forward reported having heard a whistle signal apparently ahead, but a little on the port bow. The engines of the *Lafayette* were immediately stopped and all those on the bridge kept a sharp lookout for further whistle signals. After a few minutes, not having heard any further signals the engines of the *Lafayette* were ordered slow speed ahead, but shortly after those in charge of the *Lafayette,* hearing the fog signal of a vessel which had been overtaken before, and which was approaching astern, and not hearing any other whistle signal ahead, ordered the engines of the *Lafayette* half speed ahead. But shortly afterwards, however, the white masthead light of a vessel, which afterwards proved to be the *Benmaple,* suddenly appeared on the port bow of the *Lafayette* and almost immediately thereafter the green light was also observed.

Immediately upon seeing the white masthead light of the *Benmaple,* the engines of the *Lafayette* were stopped, the helm ordered hard astarboard, the starboard engines full speed astern and then the port engines full speed astern, and, although the *Lafayette* obeyed her helm immediately, the *Benmaple* kept bearing down on the *Lafayette* at great speed and struck the *Lafayette* on her port bow at a short distance from her stem, doing considerable damage, the *Lafayette* having, prior to the impact, been brought to a standstill in the water.

Immediately after the collision, one of the boats of the *Lafayette* was lowered down into the water in charge of a duly competent officer and was dispatched to inquire whether any assistance were needed by the *Benmaple,* or those on board her, and shortly afterwards a motor boat was again lowered and sent in charge of a competent officer to give any assistance which might be required, and at 6.04, the first boat came back with seven persons from the *Benmaple,* and at 7.49, the motor boat came back with the captain and members of the crew of the *Benmaple,* and the master of the *Lafayette* was informed that the *Benmaple* had sunk, and at 8.05 the *Lafayette* proceeded with her voyage.

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No blame in respect of the said collision is attributable to the *Lafayette,* or to any persons on board her, who did all that possibly could be done to avoid or minimize the said collision.

The said collision was solely occasioned by, and solely the consequence of the improper and negligent navigation of the *Benmaple* and those on board her, in the following respects:

(*a*) The *Benmaple* was proceeding in a fog and failed to give at intervals of not more than two minutes a prolonged blast, in violation of Article 15 of the International Rules of the Road.

(*b*) The *Benmaple* was not proceeding at a moderate speed, having careful regard to existing circumstances and conditions, but was navigating at an excessive and improper speed through fog.

(*c*) Those in charge of the *Benmaple* failed to stop her engines and navigate with caution until danger of collision was over after hearing the fog signal of the *Lafayette,* in violation of Article 16 of the International Rules of the Road.

(*d*) There was no pilot on board the *Benmaple* and her master was not on the bridge, although navigating through fog, in violation of all rules and customs of good seamanship.

(*e*) Those in charge of the *Benmaple* negligently failed to keep a proper lookout.

(*f*) The *Benmaple* was not in charge of competent officers and was not sufficiently manned and equipped.

(*g*) The *Benmaple* was improperly steered and neglected to keep clear of the *Lafayette.*

(*h*) The engines of the *Benmaple* were improperly handled and those in charge of her improperly neglected to ease her engines and improperly neglected to stop and reverse in due time.

(*i*) Those on board the *Benmaple* failed to exercise ordinary and reasonable care and prudence and to act in a seamanlike manner.

(*j*) Those in charge of the *Benmaple* failed to take in due time proper steps to try to avoid the collision.

(*k*) The *Benmaple* violated and failed to comply with Rules 15, 16, 18, 19, 22, 23, 27, 28 and 29 of the International Rules of the Road.

And by way of counter claim, the defendant owners of the *Lafayette* say that the collision caused damage to the *Lafayette,* and/or her owners, to the extent of the sum of seventy-five thousand dollars ($75,000), and they claim:

(1) A declaration that plaintiffs are not entitled to the damage proceeded for.

(2) The condemnation of the plaintiffs in the damage caused to the *Lafayette* and her owners, and in the costs of this action.

(3) To have an account taken of such damage with the assistance of merchants.

(4) Such further and other relief as the nature of the case may require

This collision being admittedly not unavoidable, the Court is bound to examine the conduct of both ships.

I must say at first there was no doubt in my mind as to the responsibility of the *Benmaple* and that it was with more difficulty that I arrive at the conclusion that the *Lafayette* was also in fault in a lesser degree.

1. The *Benmaple* had no pilot. She was not bound by law to have one, but in such a case it must be compensated by officers conversant with all the difficulties of navigation. As a result, the *Benmaple* did not follow the usual course of ships going down the river.

2. The *Benmaple* was not sufficiently manned. Captain Johnson, in the opinion of my assessors and in my opinion, failed to meet his responsibilities. He could have retired for a moment, but he should not have taken off his clothes, in order to respond to a call. In this instance, he left Captain Lebrun in charge, and when he retired he had no intention of returning for some indefinite period. Captain Lebrun is a man of sixty-four years and is deaf. He had been on duty for seventeen hours, which is too much for a man of his age.

3. Those on board of the *Benmaple* were not keeping a proper lookout. The *Lafayette* was equipped with an exceptionally strong diaphone whistle which was placed forward of the funnel. The fog signals of the *Lafayette* were given at regular intervals and were always heard by the officer of the *Doghill* which was coming astern.

My assessors say, at this point, that the vagaries of sound in a fog are well-known facts, likewise are silent areas, but in this instance, the latter phenomenon was not present. The signals of the *Benmaple,* though less powerful, were heard by the *Lafayette,* and there is nothing to indicate, in their opinion, that sounds from the *Lafayette,* though far stronger, could not be heard inversely.

This negligence could be explained. The night was cold. On the *Lafayette* all were wearing overcoats. On the *Benmaple* nobody was wearing overcoats. It is explained that they were enclosed in the wheelhouse.

The fact that there was not a proper lookout is also evident. Those on board the *Benmaple* saw the *Lafayette* (the big boat) at a distance of fifty feet. Those on board the *Lafayette* saw the *Benmaple* (the small boat) at a distance of between five hundred and one thousand feet.

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The fact that the people on board the *Benmaple* contend that they did not see the *Lafayette* before, is an admission that their speed was excessive.

4. It is admitted that the *Benmaple* was going half-speed; to this must be added three knots due to the ebb tide.

My assessors have estimated that the half-speed of the *Benmaple* was between five and a half and six knots, adding three knots for the ebb tide. They arrive at the conclusion that the speed of the *Benmaple* was, at least, eight and a half knots.

One must consider also that the *Benmaple* has a single propeller, and that a propeller is not as effective in a following tide as in a tide to be met.

5. I must now come to the question of signals. There is positive evidence by the *Benmaple* that they were regularly given. My assessors are of the opinion that they were not. They base their opinion on the fact that the *Lafayette* was stopped three minutes to listen and that all on board were very attentive and heard nothing; that the *Doghill* was coming astern but heard them, though the diaphone was on the funnel; and also very likely by the poor manner in which the *Benmaple* was conducted.

This, however, being a question of evidence, I consider I am not bound by their opinion and that I must follow the ordinary rules of evidence and that I cannot reject positive evidence on presumption. The doubt in my mind is not sufficient. Plaintiff, therefore, is entitled to the benefit of the doubt.

Now, let us come to the *Lafayette*. Nobody denies that the ship was well manned. Her officers were all on the alert. Her fog whistle was in operation with regularity. There were seven persons on the bridge exercising a vigil and there were two additional lookouts. The master and the staff were all at their posts.

The only serious reproach is that she violated Article 16 of the International Rules of the Road.

Let us say at first that she did not disregard the rule. If she had disregarded the rule and continued at full speed, very likely nothing would have happened.

She started to obey the rule. Hearing a signal, she stopped for three minutes, and nothing being heard, she

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started to slow for two minutes and then she started half speed. She was so going for one or two minutes when she saw the *Benmaple* at a distance of between five hundred and one thousand feet. Her engines were stopped and reversed, and the ships collided.

The question then remains: Was half speed a reasonable speed?

My expert estimates the half speed against the ebb tide to be nine knots.

Considering her special and powerful equipment, that the *Lafayette* was practically stopped, though they admit that she might have some advance, they are inclined to think that, under the circumstances, the speed was moderate; but if we admit—as I consider I am bound to do—that a vessel, in such a fog, should stop and go ahead slowly and stop her engines from time to time (1), and that in such a case the engine should have been stopped until it could be ascertained with certainty what the position of the *Benmaple* was and what she was doing (2) I arrive at the conclusion that the *Lafayette* was wrong in going half speed before ascertaining that there was no danger from the other ship.

It is true that the crew of the *Lafayette* say that the ship was absolutely stopped when the collision occurred. but the logs of the *Lafayette* have been altered and this creates a presumption against the ship. I think she had some advance.

I must add also that, in the opinion of my assessors, if the *Benmaple* had seen the *Lafayette* at the same distance as the *Lafayette* saw the *Benmaple,* though the collision very likely would have occurred, it would also very likely have considerably minimized the damage, that is to say, they approve the last part of what witness Gilbert says:

> Parce que je me reppelle même avoir fait cette reflexion au commandant après l'abordage: "Si le navire que nous avons rencontré avait fait le quart de ce que nous, nous pu faire, nous, nous ne nous serions certainement pas rencontrés"
>
> Du moins les dommages auraient été beaucoup limités.

Considering all these circumstances, judgment should be entered condemning the *Lafayette* and her bail, to one-

(1) *The Campania* (1900) 9 Asp. 151.

(2) *China Navigation Co. Ltd.* v. *Commissioners of Lord High Admiral of the United Kingdom* (1908) A.C. 251.

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fourth of the damages, and the *Benmaple* to three-fourths of the damages; no costs on the action nor on the counter action.

As to the additional plaintiffs, their action against the *Lafayette* and her bail, for one-fourth of their damages; no costs.

As to the intervenants, Mr. and Mrs. Dickey, who are really additional plaintiffs, judgment should be entered against the *Lafayette* and her bail, but any amount coming to Mrs. Dickey should go to the Port Colborne & St. Lawrence Navigation Co. Limited which was subrogated to her rights; no costs.

All the damages on these different claims to be estimated by the Registrar, assisted by merchants.

Judgment accordingly.

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BETWEEN:

PIONEER LAUNDRY & DRY CLEANERS LIMITED .... APPELLANT;

AND

THE MINISTER OF NATIONAL REVENUE .... RESPONDENT.

Revenue—Income tax—Income War Tax Act, s. 5, ss. 1 (a)—Depreciation—Computation of amount deductible for depreciation—Value.

Appellant by agreement in writing purchased, through an intermediary company, the assets of a company bearing the same name as appellant and referred to as the "old" company. Appellant claimed a deduction in its income for depreciation on the assets purchased from the "old" company. The Minister of National Revenue refused to allow such deduction on the ground that the "old" company had already been allowed full depreciation on such assets and that the appellant company had taken over those assets at an appreciated, rather than true, value. Appellant appealed from the Minister's decision.

Held: That depreciation as provided for in s. 5, ss. 1 (*a*) of the Income War Tax Act, is to be computed on the real value of the articles concerning which depreciation is claimed, and not on the cost of such articles to the taxpayer.

APPEAL under the provisions of the Income War Tax Act from the decision of the Minister of National Revenue.

The appeal was heard before the Honourable Mr. Justice Angers, at Vancouver.

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W. Martin Griffin, K.C. and *J. S. Shakespeare* for appellant.

Dugald Donaghy, K.C. for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

ANGERS J., now (November 4, 1937) delivered the following judgment:

This is an appeal under sections 58 and following of the Income War Tax Act (R.S.C., 1927, chap. 97 and amendments) by Pioneer Laundry & Dry Cleaners Limited, a body corporate and politic incorporated under the Companies Act of the Province of British Columbia, from the assessment bearing date the 19th of February, 1935, whereby a tax in the sum of $1,611.66 was levied in respect of income for the taxation period ending March 31, 1933.

In its return of income for the fiscal year ended March 31, 1933, Pioneer Laundry & Dry Cleaners Limited included as depreciation the following items:

Nature of article	Year acquired	Cost	Rate per cent per annum	Depreciation charged off: Total previous charged	Depreciation charged off: Amount this year
Machinery & equipment.	1932	$146,690	10	——	$14,131 15
Automobiles.	1932	14,675	20	——	2,935 08
Horses & wagons. .	1932	1,352	10	——	135 25
Furniture & fixtures.	1932	5,740	10	——	574 07

forming a total of $17,775 55.

In the notice of assessment dated February 19, 1935, sent by the Commissioner of Income Tax to the company, the following amounts were disallowed:

Machinery and equipment..	$14,131 15
Horses and wagons..	135 25
Furniture and fixtures..	574 07

As to the amount of $2,935.08 claimed as depreciation on the automobiles, the Commissioner of Income Tax allowed only $255.08.

On March 9, 1935, Pioneer Laundry & Dry Cleaners Limited served a notice of appeal upon the Minister of National Revenue, in which it is stated (*inter alia*):

that in the return made in respect of the fiscal year ending March 31, 1933, the appellant claimed as a deduction from its income certain sums totalling $17,775.55 repre-

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senting depreciation of its machinery, delivery equipment, furniture and fixtures at the usual rates as follows:

	Horses and wagons	Delivery trucks	Furniture and and fixtures	Machinery
Rate claimed	10%	20%	10%	10%
Amount of depreciation claimed.	$135 25	$2,935 08	$574 07	$14,131 15

that the Commissioner has improperly disallowed to the extent of $2,680 the amount claimed for depreciation of the appellant's delivery trucks ($2,935.08), allowing in respect thereof only the sum of $255.08 and has improperly disallowed the whole of the amounts claimed for depreciation of the appellant's Horses and Wagons, Furniture and Fixtures and Machinery respectively.

On May 30, 1935, the Minister of National Revenue, represented and acting by the Commissioner of Income Tax, affirmed the assessment.

The decision of the Minister reads in part as follows:

Whereas during the year 1932, Pioneer Investment Company Limited who owned and controlled Pioneer Laundry & Dry Cleaners Limited, disposed of its interests to Home Service Company Limited.

And whereas the shareholders of Home Service Company Limited are identical with that of Pioneer Investment Company Limited as at date of liquidation of the latter company.

And whereas Home Service Company Limited incorporated the original assets of Pioneer Laundry & Dry Cleaners Limited into the records of the taxpayer at appreciated values.

The Honourable the Minister of National Revenue, having duly considered the facts as set forth in the Notice of Appeal and matters thereto relating hereby affirms the said assessment on the ground that while the company was incorporated and commenced operations during the year 1932 there was no actual change in ownership of the assets purchased or taken over from Pioneer Investment Company Limited, by Home Service Company Limited (of which the taxpayer is a subsidiary) and set up in the books of the taxpayer at appreciated values; that in the exercise of the statutory discretion, a reasonable amount has been allowed for depreciation and that the assessment is properly levied under the provisions of the Income War Tax Act.

A notice of dissatisfaction dated June 24, 1935, was sent to the Minister; accompanying this notice was a document entitled "Final statement by the Appellant," in which reference is made to section 5 (*a*) of the Income War Tax Act and in which it is stated in substance that:

the deductions claimed by the appellant from its income, save as to the extent of $255.08, have been improperly disallowed;

the decision of the Minister was not an exercise of the discretion conferred upon him by the statute but was a refusal, on grounds not allowed by the statute, of the appellant's right to an allowance for depreciation;

the appellant is not the same company as Pioneer Laundry & Dry Cleaners Limited referred to in the decision of the Minister, the latter company having gone into voluntary liquidation on March 30, 1932;

the appellant was incorporated on March 23, 1932, and on April 1, 1932, it purchased the assets in question herein from Home Service Company Limited, a company incorporated on the 23rd of March, 1932.

The reply of the Minister, dated November 28, 1935, alleges in substance that:

by section 5, subsection 1 (*a*) of the Act, income shall be subject to a deduction of " such reasonable amount as the Minister, in his discretion, may allow for depreciation ";

this discretionary power was exercised in a reasonable and fair manner and a sum of $255.08 was allowed to the taxpayer as a deduction for depreciation;

the discretion so exercised was a discretion in the determination of a question of fact;

the discretion having been properly exercised in accordance with the provisions of section 5, subsection 1 (*a*), there remains no jurisdiction in a court of law to enquire whether or not the deduction for depreciation allowed to the appellant is reasonable;

if the discretion so exercised should be subject to review by the Court, then it is asserted that the allowance made is reasonable in view of the facts and having regard to the total of the amounts allowed in previous years for depreciation in respect of the same assets, even though such assets were previously held by a different legal entity, since it appeared from the facts that the ultimate beneficial ownership of such assets had not changed hands with the change of ownership from one corporate entity to another, but had remained with the same shareholders.

Pleadings were filed.

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Omitting the facts set forth in the notice of appeal and notice of dissatisfaction, which it is useless to repeat, the statement of claim says in substance as follows:

the machinery, delivery equipment, furniture and fixtures in question herein were acquired by the appellant as follows:

(*a*) all the machinery, delivery equipment, furniture and fixtures, save the coupés and the truck body, were acquired from Home Service Company Limited for the sum of $162,032.83; the articles so acquired had formerly been the property of Pioneer Laundry & Dry Cleaners Limited, a company other than the appellant, and had been purchased by Home Service Company Limited;

(*b*) the following items were purchased as follows:

one Willys-Knight coupé on May 17, 1932, from Consolidated Motors Limited for $815; one truck body on July 14, 1932, from Pioneer Carriage Company Limited for $230.75; one Essex coupé on November 22, 1932, from Consolidated Motors Limited for $286.50;

by section 5 of the Income War Tax Act the Minister was empowered to allow such amount or amounts as he should consider reasonable for depreciation in value of such assets of the taxpayer as were used in its business, and the Minister was charged with the duty to allow for depreciation such amount or amounts as were reasonable in view of the diminution in value of such assets during the taxation year; the said section did not confer upon the Minister the right to deprive taxpayers of the right to deduct proper sums of depreciation from their respective incomes;

prior to the incorporation of the appellant the Minister, in compliance with said section 5, did regularly allow taxpayers in the form of annual percentage deductions, on certain of their assets used in their business, certain annual allowances for depreciation as follows:

on machinery, plant, etc.. .. .. 10% of the cost;
on furniture and fixtures.. .. .. 10% of the cost;
on motor cars and trucks subject to heavy wear; in the first year 25% of their cost; in the second, third and fourth years 20% of their cost; in the fifth and subsequent years such further depreciation as might be allowed after reconsideration;
on horses and wagons . . .. 10% of their cost·

on or about July 7, 1933, the appellant filed with the Inspector of Income Tax, a return of its total income earned in the taxation year ending March 31, 1933;

in its return the appellant claimed as deductions from its income certain sums totalling $17,775.55, representing depreciation of its machinery, delivery equipment, furniture and fixtures, at rates not exceeding the rates theretofore fixed by the Minister;

the amounts so claimed by the appellant and the rates applied by it in respect thereto were as follows:

	Rate claimed	Amount of depreciation claimed
horses and wagons	10%	$ 135 25
delivery trucks	20%	2,935 08
furniture and fixtures	10%	574 07
machinery	10%	14,131 15
		$17,775 55

on February 19, 1935, the Commissioner sent to the appellant a notice of assessment in which he improperly disallowed the sum of $17,520.47 of the amounts claimed by the appellant for depreciation, to wit: the sum of $135.25 for depreciation of horses and wagons, the sum of $574.07 for depreciation of furniture and fixtures, the sum of $14,131.15 for depreciation of machinery and the sum of $2,680 of the sum of $2,935.08 for depreciation of delivery trucks, allowing therefor only the sum of $255.08; and the Commissioner improperly asserted that the appellant's taxable income for said fiscal year amounted to $12,893.30, and improperly assessed the appellant with the sum of $1,611.66 as the tax thereon; the allowance of $255.08 being estimated as follows:

25% for 10 months on $815	$186 77
25% for 8 months on $230 75	38 46
25% for 5 months on $286 50	29 85
	$255 08;

on or about March 9, 1935, the appellant appealed from the assessment and on May 30, 1935, the Minister made a decision affirming said assessment on the grounds previously set forth;

the appellant admits that it was incorporated and commenced operations during the year 1932 but, save as aforesaid, denies each and every allegation of fact set out in the said decision; it denies in particular: (*a*) that Pioneer Investment Company Limited disposed of its assets to Home Service Company Limited and that the shareholders

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of these two companies are the same; (*b*) that Home Service Company Limited incorporated the assets of Pioneer Laundry & Dry Cleaners Limited into the records of the appellant at appreciated values or any values at all; (*c*) that the Minister ever considered the facts set forth in the notice of appeal; (*d*) that there was no actual change in the ownership of the assets herein when they were purchased by the appellant; (*e*) that the said assets were set up in the books of the appellant at appreciated values; (*f*) that any reasonable amount has been allowed by the Minister for depreciation;

in the alternative, the appellant says that the Minister, having exercised the power conferred upon him by section 5, had no power to take away or reduce the allowances given to the appellant in respect to depreciation after the appellant had claimed said allowances in its return;

on or about June 24, 1935, the appellant sent to the Minister a notice of dissatisfaction; on November 28, 1935, the Minister issued his reply to the said notice whereby he again affirmed the said assessment;

in so far as the reasons given by the Minister in his reply differ from those given by him in his decision, they are unauthorized by the Act and are invalid;

in further reference to the Minister's reply the appellant admits that section 5 provides that income shall be subject to deduction of such reasonable amount as the Minister in his discretion may allow for depreciation; it admits that the appellant is a legal entity different from any other legal entity as alleged in said reply; save as aforesaid, it denies each and every allegation of fact set forth in said reply and in particular denies that the Minister, in allowing the appellant the sum of $255.08, as depreciation, exercised a discretionary power in a reasonable manner; on the contrary it says that the sum of $255.08 was an allowance for depreciation in respect only of the coupés and truck body; it denies that the discretion exercised by the Minister was exercised solely in the determination of a question of fact and that the Court has no jurisdiction to decide whether the deduction for depreciation allowed by the Minister was or was not reasonable;

the Minister, having exercised the power conferred upon him by section 5, did not, after the appellant had in its income tax return claimed the depreciation allowances allowed by the Minister, have the power to take away or reduce the said allowances.

The statement of defence contains, among others, the following allegations:

the respondent is not charged by section 5, subsection 1 (*a*), with the duty to allow depreciation in any specific manner, but rather is empowered to exercise his discretion in determining what is a reasonable amount to allow in respect of depreciation of the assets of each taxpayer; such statutory provision for depreciation does not confer any right upon the taxpayer to deduct any sum other than that allowed under said section; if there were any customary allowances made in previous years to taxpayers in respect to depreciation of certain types of assets, which is not admitted, such apparent customary practice is the result of the exercise of the Minister's discretion in respect to taxpayers of similar conditions and circumstances;

the respondent admits that the appellant in its return claimed the amounts alleged for depreciation but denies that any rates had previously been fixed in regard to the appellant or to any taxpayer;

in disallowing the sum of $17,520.47, the Commissioner, duly authorized delegate of the Minister, properly exercised the discretion conferred by section 5, subsection 1 (*a*);

in answer to the allegation that the Minister did not consider the facts of the case, the respondent states that by section 75, subsection 2, the Commissioner may be authorized to exercise such of the powers conferred upon the Minister as the latter may determine and that such authorization was duly given to the Commissioner who, in accordance therewith, considered the facts and levied the assessment appealed from and further affirmed such assessment by the decision of the 30th of May, 1935;

the respondent denies that the discretionary power given by section 5, subsection 1 (*a*) was or could have been exercised previous to the assessment of the taxpayer's return and consequently that any rights in respect to depreciation could accrue to the taxpayer previous to such assessment; the respondent further denies that the appellant could in any event acquire any right to a fixed rate of depreciation

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by the fact that a certain rate had usually been allowed in previous years to other taxpayers or to the appellant in respect of similar assets, since income for the purposes of the Act means the annual net profit or gain of a particular taxpayer and such annual income is subject to an annual deduction of such amount for depreciation as is determined in accordance with section 5, subsection 1 (*a*);

the respondent denies the allegation or implication of the appellant that any customary practice of the respondent in allowing for depreciation at uniform rates as between taxpayers of like conditions and in respect of particular types of assets did constitute an anticipatory exercise of the discretionary power aforesaid in respect to any particular taxpayer before his return had been assessed;

the determination of a reasonable allowance for depreciation is a matter left to the discretion of the Minister; such discretion has been properly exercised in regard to the appellant and an allowance of $255.08 was made in respect of the taxation year ending March 31, 1933; such allowance having been made in conformity with the Act, no jurisdiction lies with the Court to decide upon the amount thereof; but, should the Court have such jurisdiction, the amount allowed should be confirmed as reasonable in view of the facts; and the Court should confirm the disallowance of any claim for depreciation upon assets which, for the purpose of the Act, previous to the claim herein, had already fully depreciated.

A memorandum of facts upon which the parties agreed, dated April 4, 1936, was filed. It seems to me convenient to quote this memorandum *in extenso:*

1 Pioneer Investment Co. Limited was incorporated prior to inception of the Income War Tax Act, and went into voluntary liquidation on 7th April, 1932 Immediately prior to liquidation the said Pioneer Investment Co, Limited, owned directly or through nominees all the outstanding share capital of its subsidiary operating companies listed in para 3 herein below, and including the appellant company

2. Pioneer Laundry & Dry Cleaners Limited by special resolution dated 30th March, 1932, went into voluntary liquidation. All its shares were owned by the Pioneer Investment Co., Limited (some of these shares held in the names of nominees).

3 On 23rd March, 1932, a new company was incorporated under the name of Home Service Company Limited. The said last mentioned company on 1st April, 1932, acquired all the physical assets of the following companies, that is to say:

Pioneer Laundry & Dry Cleaners Limited,
Cascade Laundry & Dry Cleaners Limited,

Dominion Laundry & Dry Cleaners Limited,
B C Clean Towel Supply Limited,
Vancouver Towel Service Company Limited,
Family Service Laundry Limited,
Empire Cleaners Limited.

The said Home Service Company Limited also acquired all the assets of Pioneer Investment Company Limited save and except

(a) shares owned by that company, and

(b) amounts owing to that company by its shareholders.

4 On 23rd March, 1932, a new company was incorporated under the name of Pioneer Laundry & Dry Cleaners Limited (the appellant herein) and that company acquired from the Home Service Company Limited certain machinery, furniture and fixtures and delivery equipment which had formerly been owned by the first Pioneer Laundry & Dry Cleaners Limited (but not all the machinery, furniture and fixtures and delivery equipment of the original Pioneer Laundry & Dry Cleaners Limited) and also acquired certain other machinery or delivery equipment owned by one or more of the other companies named in clause 3 hereof.

5. In addition to the assets which the appellant acquired in the manner indicated in paragraph 4, the appellant acquired the following·

1 Willys-Knight coupe bought from Consolidated Motors, Limited..	$815 00
1 truck body from Pioneer Carriage Company Limited . ..	230 75
1 Essex coupe from Consolidated Motors Limited..	286 50

6. That all the machinery, furniture and fixtures and delivery equipment of the original Pioneer Laundry & Dry Cleaners Limited and some but not all of the similar assets of the other laundry companies referred to in paragraph 3 hereof were fully written off by depreciation by those companies and the appellant is claiming an allowance for depreciation in respect to the aforesaid machinery, furniture and fixtures and delivery equipment, which it acquired in the manner aforesaid, all of which assets being among those fully depreciated as aforesaid.

7. That the capitalization of the Home Service Company Limited is $1,000,000 divided into 10,000 shares par value $100 each and that all such shares except forty were issued or sold to the liquidators of the operating subsidiary companies of the Pioneer Investment Company, Limited in consideration for the transfer of the assets of such operating companies to the Home Service Company, Limited; that the said shares on the winding-up of the said operating companies were distributed to the parent company, the Pioneer Investment Company, Limited, and on the winding-up of that company were distributed to its own shareholders; and that the result is that the shareholders of the Home Service Company Limited are the same as were the shareholders of the Pioneer Investment Company, Limited and their respective holdings in the new company are the same or substantially the same as were their respective holdings in the old company. The 40 shares referred to in this clause were allotted to Pioneer Investment Co Limited in part payment of the assets referred to at the end of clause 3 hereof

8. That the sum of $255 08 which was allowed by the Department as depreciation on autos was part of the sum of $2,935 08 claimed by the

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Pioneer Laundry & Dry Cleaners Limited as depreciation on their delivery trucks and was calculated as follows:—

25% for 10 months on $815 being the cost of one Willys-Knight coupe purchased by Pioneer Laundry & Dry Cleaners Limited from Consolidated Motors Ltd., on or about the 17th day of May, 1932..	$186 77
25% for 8 months on $230 75 being the price of one truck body purchased by Pioneer Laundry & Dry Cleaners Limited from Pioneer Carriage Company Ltd. on 14th July, 1932..	38 46
25% for 5 months on $286 50 being the price paid by Pioneer Laundry & Dry Cleaners Limited to Consolidated Motors Ltd on 22nd November, 1932, for one Essex coupe.. ..	29 85
	$255 08

William Henry Cotter, a chartered accountant, of the firm of Riddell, Stead, Hodges and Winter, auditor for the appellant company, was examined as witness on behalf of the appellant. He prepared the income tax return of the company for the fiscal year ending March 31, 1933, filed as exhibit 2; the balance sheet and profit and loss statement annexed to this return were prepared by the company's book-keeper; the witness, however, and his partner Winter checked and approved the balance sheet.

Questioned with regard to the account in the books of the company relating to depreciation, Cotter gave the following information:

Q. Did the appellant company, for that year, for the fiscal year ending the 31st March, 1933, have a special account in the books for depreciation on the machinery, horses, automobiles and furniture?

A Yes.

Q. Are these the correct accounts. You may use this tax return, machinery and equipment $14,131.15?

A. Yes.

Q Being at the rate of 10% of the cost price?

A. Right

Q. Automobiles $2,935 08, being at the rate of 20% of the cost price?

A. Yes.

Q. Horses and wagons $135 25, being at the rate of 10%?

A. Yes.

Q. Furniture and fixtures $574 07, being at the rate of 10%?

A. Yes

Q Making a total of $17 775 55?

A. Yes.

Q. Was this depreciation duly entered in their books in the regular and customary manner of making them up for the year?

A. Yes.

The witness said that he became aware of the percentages which the Department of Income Tax allowed to be deducted for the purpose of fixing taxable income by inter-views he had with the Department on various occasions; in addition there were certain rules and regulations issued in a circular (No. 20) dated August 30, 1918, to which was appended a schedule of depreciation rates and another appendix to the same circular dated May 11, 1927, dealing with depreciation on automobiles; I shall deal with this circular and these appendices in a moment.

Asked if he could produce a list of the machinery and equipment, automobiles, horses and wagons mentioned in the return, Cotter replied that he could, but that it was not available at the moment.

I may note here that the machinery and equipment, horses and wagons and furniture and fixtures, to wit all the articles involved in the present appeal with the exception of the automobiles, were acquired by the appellant, together with other assets, from Home Service Company Limited, a corporation having its office in the City of Vancouver, by means of an agreement entered into between the said Home Service Company Limited and the appellant on April 1, 1932, which was filed as exhibit 1.

By this agreement the appellant acquired from Home Service Company Limited the following assets, alleged to be owned by the vendor by virtue of its having purchased them from the liquidator of Pioneer Laundry & Dry Cleaners Limited, referred to in the deed as the "old company," namely:

the goodwill of the business heretofore carried on in the City of Vancouver and elsewhere in the Province of British Columbia by Pioneer Laundry & Dry Cleaners Limited, now in liquidation;

all the plant, machinery, office furniture, fixtures, trucks automobiles and other goods and chattels owned by the "old company";

all the book debts and other debts and accounts due to the "old company" in connection with the said business;

the full benefit of all pending contracts to which the "old company" might be entitled;

all cash in hand and in bank and all bills and notes in connection with the said business;

all unexpired insurance and all other personal property owned by the "old company."

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The consideration for this sale was: (*a*) the sum of $170,549.70, stipulated payable as to the sum of $10,000 by the allotment to the vendor or its nominees of 100 fully paid shares of the capital stock of the purchaser of the par value of $100 each and as to the balance ($160,549.70) in cash at any time or times when the payment of the same or any part thereof is demanded by the vendor; (*b*) the assumption by the purchaser of all the debts, liabilities and obligations of the "old company" as of the date of the agreement.

The deed provides that the portion of the purchase price payable in cash on demand or any balance thereof at any time remaining unpaid shall carry interest at such rate (not to exceed 8% per annum) and for such periods and payable on such date or dates as the vendor may determine and demand.

The amount of the debts of the "old company" was said to be $10,277.23. The total consideration was accordingly $180,826.93.

Home Service Company Limited had acquired the assets aforesaid from William H. Cotter, liquidator of Pioneer Laundry & Dry Cleaners Limited (hereinabove referred to as the "old company") in virtue of an agreement also dated April 1, 1932, a copy whereof was filed as exhibit G. This agreement included, in addition to these assets, all the right, title and interest of Pioneer Laundry & Dry Cleaners Limited in liquidation in and to the parcels of land and premises, situate in the City of Vancouver, in the Province of British Columbia, known as lots one (1) to four (4) inclusive in Block seventy-five (75) in the subdivision of District lot five hundred and forty-one (541) Group one (1) New Westminster District.

The consideration stipulated in the agreement exhibit G is as follows:

(*a*) the sum of $327,000 payable by the allotment to the vendor of 3,270 fully paid shares in the capital stock of the purchaser of a par value of $100;

(*b*) the assumption by the purchaser of all the debts, liabilities and obligations of Pioneer Laundry & Dry Cleaners Limited in liquidation as of the date of the agreement.

The Willys-Knight coupé was purchased by the appellant from Consolidated Motors Company Limited on May 17, 1932, for $815; the Essex coupé was purchased from Consolidated Motor Company Limited on November 22, 1932, for $285 in cash and a 1927 used Essex coupé; and the truck body was purchased from Pioneer Carriage & Truck Tire Limited in July, 1932, for $275.40.

Cotter said that the Willys-Knight coupé, the Essex coupé and the truck body were purchased new. The other articles were not new; they had been in use some years by other companies.

Asked on what basis the values for the articles other than the Willys-Knight and Essex coupés and the truck body were fixed, Cotter answered that they were fixed by means of an appraisal made on February 12; the year is not mentioned but the witness evidently refers to February, 1932. Cotter added that it is on this appraisal that the purchase price mentioned in the agreement exhibit 1 was fixed.

Speaking of the practice of accountants regarding the depreciation of used articles, Cotter stated that the "principle of depreciation is applied identically the same whether the article is new or second hand."

Cotter was examined in relation to certain statements contained in the decision of the Minister; I believe it is apposite to cite the witness' answers in this connection:

> No, the valuable assets of Pioneer Investments Limited were in the shares of seven subsidiary companies. None of these were held by Home Service Company or disposed of by Pioneer Investment Company in any way.

and further on:

> . . . The Home Service Company Limited have (had) nothing whatever to do with incorporating the assets of Pioneer Laundry & Dry Cleaners into its own records. The Pioneer Laundry & Dry Cleaners itself controlled all entries into its own records in relation to the assets acquired.

The following questions and answers dealing with the assets purchased by the appellant company and the entries relating thereto in the latter's books at alleged appreciated values and the right of ownership therein had better be quoted textually:

> Q. There is a suggestion in the Minister's statement where he speaks of the Pioneer Laundry & Dry Cleaners Limited having had entries made for them at appreciated values. It would appear to be a suggestion that

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the appellant company watered its capital by adding something to the actual cost. Was any such thing done?

A. No, the assets were recorded in their books at the actual and original cost price to them.

Q The Minister says that the assets were taken over by the Home Service Company from the Pioneer Investment Company. Is that true, that is, these assets we are dealing with in this case?

A. No, none of these assets were taken over by Home Service Company Limited.

Q. The Minister makes the statement that there was no actual change in ownership. Is that a correct statement of the transaction between Home Service Company and the appellant?

A No.

Q In other words, so far as you are able to express the view, was there an absolute and complete change of ownership?

A There was

In cross-examination Cotter was asked the following question:

Q Now, is it true that the value shown in the books of the predecessor of this appellant and in its income tax returns were greatly increased when transferred into the books of this appellant and into its balance sheet accompanying its income tax return?

Counsel for the appellant raised an objection on the ground that what any company, which formerly owned the machinery in question, did would not govern the appellant and that there was no contractual relationship between the "old company" and the appellant; I admitted the evidence under reserve of the objection; after considering the matter, I have come to the conclusion that the question is legal; the answer given by the witness was in the affirmative.

Cotter, in cross-examination, admitted that the holding company of the shares of the appellant was Home Service Company Limited and that the shareholders of this company are the same persons as were the shareholders of the previous holding company, namely, Pioneer Investment Company Limited. The witness further admitted that the appellant company is a subsidiary of Home Service Company Limited as the "old company" was a subsidiary of Pioneer Investment Company Limited.

Cotter stated that the predecessor in title of the assets herein concerned was Home Service Company Limited and that the predecessor in title of the latter, as regards the majority of these assets, was the former Pioneer Laundry & Dry Cleaners Limited, now in liquidation.

Before closing his cross-examination of the witness Cotter, counsel for the respondent reverted to the matter of appreciation of the assets acquired by the appellant from Home Service Company Limited under the agreement exhibit 1; I think I ought to quote a few questions and answers on the subject, which, to my mind, are material:

Mr. DONAGHY: Q. And you have already said that those assets are set up on the books of the present appellant at a greatly appreciated value over and above what they were on the books of the old Pioneer Laundry & Dry Cleaners Limited?

A. I must correct you. I don't think I have already said that. I agreed to your former question, that the assets of the present appellant company are at a much greater valuation than those same assets were in the books of the earlier and former Pioneer—the Pioneer Laundry & Dry Cleaners Limited.

Then on page 53:

Q. Let us not split hairs about it.

A. I would prefer to say that they are in the books of the Pioneer Laundry & Dry Cleaners Limited—

Q. Which one?

A The appellant.

Q. Yes.

A. —at a much greater—or at a greater valuation than in the books of the predecessor, or the Pioneer Laundry & Dry Cleaners Limited now in liquidation.

George William Thompson, who qualified himself as income tax specialist, was called as witness by the respondent. He was shown circular No. 20 and the schedule of rates attached thereto (exhibit 3) and was asked if the rules contained therein were adhered to in all cases; counsel for the appellant objected to the question and the objection was maintained. The respondent adduced no other oral evidence.

Two letters were filed by the respondent, one from respondent's solicitor to appellant's solicitor dated September 2, 1936, and the other from appellant's solicitor to respondent's solicitor dated September 3, 1936.

The first one, marked as exhibit B, reads as follows:

Will you please advise me if you will admit for the purposes of the trial of this appeal that during the fiscal year ended March 31, 1933, the shareholders of the appellant, Pioneer Laundry & Dry Cleaners Limited, were as follows, namely:—

Home Service Company Limited..	97 shares
Charles H. Wilson..	1 share
Mary E. Stewart..	1 share
Thomas H. Kirk..	1 share
	100 shares

and that the three persons above named were during such fiscal year shareholders of the Home Service Company Limited.

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The second one, filed as exhibit C, reads thus:

Yours of the second received. We are instructed that the answer to the question you put is "yes."

The proof shows that the Minister delegated his powers to the Commissioner, as authorized by section 75 of the Act: see exhibits 14, 15, D, E and F.

The point in controversy is governed by the first provision of paragraph (*a*) of subsection 1 of section 5 of the Income War Tax Act. The material provisions of subsection 1 read as follows:

"Income" as hereinbefore defined shall for the purposes of this Act be subject to the following exemptions and deductions:

(*a*) such reasonable amount as the Minister, in his discretion, may allow for depreciation, ...

It was submitted on behalf of the appellant that the Minister had exercised his discretion in issuing on August 30, 1918, a circular, numbered 20, reading in part as follows:

Re: Depreciation

In dealing with all Income Tax claims for depreciation, the following general rules should be observed. Any special circumstances which seem to warrant variation from these rules must be submitted to this office for approval.

1. The value and character of the asset on which depreciation is claimed must be stated in each case.

2 The value to be stated must be the cost value to the taxpayer

3 The rates of depreciation on various classes of assets mentioned in the hereto annexed schedule must be strictly adhered to as the maximum rates to be allowed by Inspectors, except on special authority from this office. Where lower rates are claimed by the taxpayer in the returns they, of course, are not to be disturbed.

A copy of this circular was filed as exhibit 3.

An appendix to circular No. 20 was issued by the Commissioner of Income Tax on May 11, 1927; it reads thus:

Depreciation of Automotives

Cases have arisen from time to time in which claims are made for a greater allowance than as presently prescribed, as a deduction from profits for wear and tear of automobiles and motor trucks used exclusively in the businesses of manufacturing, transportation, merchandising and commercial concerns of a general nature The grounds of complaint in most cases are similar and refer generally to various forms of rough usage to which cars are subjected: consequently new cars have to be purchased before the full value of the old car is fully depreciated on the books of the concern.

As a result, it has now been decided to modify the rates heretofore allowed and to institute a more even spread of the useful life of automotives, notwithstanding any ruling to the contrary contained in Circular No. 20, or other instruction issued by this Department relating to depreciation.

The following rates in regard to all cases so far not disposed of are effective:

For the first year a rate may be allowed up to 25% on the cost price, and thereafter a rate of 20% in each year up to 85% of the total cost, when the question of further writing off will be reconsidered . . .

A copy of this appendix was filed as exhibit 4.

On May 15, 1933, an appendix to circular No. 189 (not filed) was issued by the Commissioner, worded as follows:

Depreciation

The maxium depreciation allowable in any period shall be the amount incorporated in the profit and loss, surplus or similar account in the usual books of record of the taxpayer on the statutory date for filing returns, provided the said amount shall not exceed the amount allowable under the regulations issued by the Department.

* * * * * * * * *

This ruling applies to assessments for the fiscal periods ending in 1932 and subsequent thereto and any prior rulings are modified accordingly

A copy of this appendix was filed as exhibit 5.

Another appendix to circular No. 189 was issued by the Commissioner on November 25, 1933, changing the year "1932" to the year "1933" in the last paragraph of the appendix of May 15, 1933.

I may note incidentally that a copy of circular No. 218, dated December 11, 1928, and a copy of an appendix to circular No. 239, dated September 8, 1931, were filed respectively as exhibits 17 and 18; I do not think that they have any relevance to the question at issue.

The right of the taxpayer to the allowance is statutory; the discretion of the Minister exists merely in respect of the amount of the deduction; the rate of the depreciation is to be fixed by the Minister.

The Minister has determined the rates of allowances for depreciation by circular No. 20 and the schedule attached thereto (exhibit 3) and the appendix to said circular (exhibit 4). The Minister was entitled to change these rates whenever he say fit, but he did not do it and the rates fixed by circular No. 20, the schedule thereto and the appendix of May 11, 1927, were still in force and effect during the fiscal year ending March 31, 1933, and were binding upon the Minister.

It was urged on behalf of the respondent that the rules and regulations contained in the circulars, appendices and schedules are merely intra-departmental instructions for the guidance of officials of the department and are not

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destined to the public; counsel for the respondent, on this ground, challenged their admissibility in evidence and objected to their production. I am not inclined to adopt this view. A taxpayer is, as I think, entitled to know the rates of allowances for depreciation so as to be in a position to determine the amount of his net revenue for any taxing period. These circulars, appendices and schedules are not only for the direction of income tax inspectors but are also for the guidance of the public. I do not think that, if a taxpayer acquired from the income tax inspector of his district the rate or percentage of the amount allowed for depreciation, the income tax inspector could rightfully refuse to give him the information asked for.

The Minister, as I have already said, is, under paragraph (*a*) of subsection 1 of section 5, bound to exercise his discretionary powers in determining the rate or percentage to be allowed for depreciation in a reasonable manner. A number of cases were cited dealing with the exercise of discretion by the courts, by Ministers of the Crown, by corporations and by other public bodies which are not *in pari materia* and which offer no particular interest.

Has the Minister, in the present instance, exercised his discretion in a reasonable manner? The objection to the admissibility in evidence of the circular, schedule and appendix aforesaid being overruled, this is the main, not to say the sole, question arising for determination.

Regarding the Willys-Knight coupé, the Essex coupé and the truck body, Cotter admitted that the sum of $255.08 was a fair and reasonable allowance for depreciation. In fact it is somewhat over the rate fixed by the Minister: 25% for 10 months on $815 is $169.79 and not $186.77 as mentioned. The question in dispute concerns the depreciation of the articles acquired from Home Service Company Limited in virtue of the agreement exhibit 1.

It was submitted on behalf of appellant that there is no provision in the statute stipulating that a taxpayer is debarred from a right of depreciation because some other person owning the same article has previously obtained depreciation on that article, even to its full value. Counsel for appellant submitted that every taxpayer is entitled to his depreciation.

In support of his argument counsel relied on sections 9 and 5 of the Act. Section 9 says (*inter alia*):

There shall be assessed, levied and paid upon the income during the preceding year of every person

(*a*) residing or ordinarily resident in Canada during such year;

* * * * * * * * *

a tax at the rates applicable to persons other than corporations and joint stock companies set forth in the First Schedule of this Act upon the amount of income in excess of the exemptions provided in this Act: Provided that the said rates shall not apply to corporations and joint stock companies.

2. Save as herein otherwise provided, corporations and joint stock companies, no matter how created or organized, shall pay a tax upon income at the rate applicable thereto set forth in the First Schedule of this Act.

Section 5, as we have seen, stipulates that

"income" as hereinbefore defined shall for the purposes of this Act be subject to the following deductions: (*a*) Such reasonable amount as the Minister, in his discretion, may allow for depreciation.

From this counsel for appellant concludes that we have the express statement of the legislature that every person is entitled to his proper deduction for depreciation on his income tax and that there is no distinction to be drawn between a person who owns second hand articles and one who owns new articles.

It is indisputable, and it is not in fact disputed, that every person, who is liable to pay a tax on his income, is entitled to the deductions provided for in section 5. The question, however, is to determine whether, under section 5, the appellant has the right to claim a deduction on its income for depreciation of its assets, having regard to the particular conditions and circumstances in which these assets were acquired and appraised by the appellant.

According to appellant's contention, the depreciation is to be computed on the cost to the taxpayer of the articles allegedly depreciated; this statement is, in my judgment, too broad and inexact; the depreciation must be estimated on the real value of the articles. Basing the depreciation on the cost to the taxpayer would mean opening the door to all kinds of fraud. What seems to me difficult to understand is why the respondent did not take the means of having an appraisal made of the articles in question and of adducing evidence to establish their value. However that may be, I have to decide the case on the evidence of record. This evidence, particularly the admissions (exhibits 16 and G) and the testimony of Cotter, establishes

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that, although the appellant is strictly speaking a different legal entity from the old Pioneer Laundry & Dry Cleaners Limited, it is in reality the successor of the "old company": same name, same shareholders, same assets with a few exceptions. A thing which surprises me is that the new company was incorporated on the 23rd of March, 1932, when the "old company" was still in existence; the resolution in virtue of which the "old company" went into voluntary liquidation was only passed on the 30th of March, 1932.

The fact that the transfer from the "old company" to the new company was effected through the intervention of another company, also incorporated on the 23rd of March, 1932, viz., Home Service Company Limited, whose shareholders are the same as those of the appellant, does not regularize the position.

The new company cannot claim more allowance for depreciation than its predecessor could have done, had it not gone into voluntary liquidation and transferred its assets to Home Service Company Limited, which in turn transferred them to the appellant. The "old company" was granted all the allowance for depreciation provided for by the statute and the rules and regulations; I do not think that it could have claimed more.

For these reasons I have reached the conclusion that the appeal must fail.

There will be judgment dismissing the appeal with costs.

Judgment accordingly.

BETWEEN:

1936
Sept. 21.
—
1937
Oct. 1.

WESTERN VINEGARS LIMITED.....APPELLANT;

AND

THE MINISTER OF NATIONAL REVENUE .... } RESPONDENT.

Revenue—Income tax—Consolidated returns—Crown not bound by estoppel—Para. (d), ss. 1, s. 6 and ss. 3, s. 35, and sections 48 and 54 of the Income War Tax Act.

Appellant company on April 1, 1931, acquired all the issued capital stock of Reynolds, Moore & Company Limited, a corporation carrying on the same class of business as the appellant, payment being made partly in cash and partly in preferred stock of appellant company The fiscal year of appellant company terminates on the 30th November, whilst that of Reynolds, Moore & Company Limited ended on the 31st March. In April, 1932, appellant filed with the Commissioner of Income Tax consolidated returns for the taxing period ending 30th November, 1931, for itself and its subsidiary and forwarded to the commissioner a cheque purporting to be in full payment of the income tax due by appellant for that period. In 1934, the Commissioner of Income Tax made an assessment against appellant for the fiscal year ending 30th November, 1931; this assessment was confirmed by the Minister of National Revenue and from that decision the appellant appealed.

Appellant contended that the respondent was estopped from claiming further income tax from appellant for the taxing period ending 30th November, 1931; that appellant had the right to file for such taxation period a return consolidating its profit and the loss incurred by its subsidiary; that appellant was entitled to deduct from its revenue profits charged on the containers, in which it sold its products, returned by its customers, it being a condition of the sale that the containers could be returned and that in the event of such return the amount charged for them would be credited to the customers; that appellant should not be charged with interest on the difference between the amount of tax paid by appellant and that assessed.

Held: That the doctrine of estoppel does not apply against the Crown, neither can laches be imputed to the Crown.

2 That prior to the enactment of ss. 3 of s. 35 of the Income War Tax Act by 23-24 Geo. V, c. 41, s. 13, the Minister had no power to allow the filing of consolidated returns.

3 That the profits on the containers do not constitute a reserve within the meaning of par. (*d*) of ss. 1 of s. 6 of the Income War Tax Act, and that appellant should be allowed a deduction for the containers returned to it.

4 That appellant is liable for interest on the additional tax exigible as provided by sections 48 and 54 of the Income War Tax Act.

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APPEAL under the provisions of the Income War Tax Act from the decision of the Minister of National Revenue.

The appeal was heard before the Honourable Mr. Justice Angers, at Winnipeg.

W. P. Fillmore, K.C. for appellant.

E. D. Honeyman, K.C. and *Wilbur Boyd* for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

ANGERS J., now (October 1, 1937) delivered the following judgment:

This is an appeal from the decision of the Minister of National Revenue affirming an assessment made by the Commissioner of Income Tax for the taxation year 1931, notice of which assessment was given to the taxpayer on September 29, 1934. The appeal is taken under sections 58 and following of the Income War Tax Act.

The appellant, Western Vinegars Limited, is a corporation organized under the laws of the Province of Manitoba in 1928.

On April 1, 1931, the appellant acquired all the issued capital stock of Reynolds, Moore & Company Limited, a corporation carrying on the same class of business as the appellant.

On December 4, 1931, Riddell, Stead, Graham & Hutchison, chartered accountants, auditors of the appellant company, wrote to the inspector of income tax at Winnipeg the following letter:

> On 1st April, 1931, our clients, Western Vinegars Limited, Winnipeg. acquired all the capital stock of Reynolds, Moore & Co Ltd., Winnipeg. It is the intention of Western Vinegars Limited to prepare a consolidated income tax return of the two companies for 1931. The last fiscal period of Reynolds, Moore & Co. Ltd. ended 31st March, 1931, and they will again close their books on 30th November, 1931, so that in future their year-end may coincide with that of Western Vinegars Limited.
>
> Will you please advise us if the Department will permit the changing of the fiscal period as aforementioned?

On December 5, 1931, the inspector of income tax acknowledged receipt of the aforesaid letter, adding:

> I have forwarded a copy of your letter to the Commissioner of Income Tax, at Ottawa, for his consideration and decision, and shall advise you in regard thereto as soon as possible.

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On December 16, 1931, the Commissioner of Income Tax wrote to the inspector at Winnipeg stating (*inter alia*):

It would appear from your letter of the 5th instant and stated enclosure that it will be in order to accept a consolidated return for 1931 covering the operations of Western Vinegars, Ltd. for twelve months ended 30th November, 1931, and of Reynolds, Moore & Co. Ltd., for the eight months ended 30th November, 1931. However, before final decision is given you will please advise how the capital stock of the subsidiaries was paid for.

On December 23, 1931, the inspector wrote to the appellant's auditors:

I submitted a copy of your letter to me of the 4th instant to the Commissioner of Income Tax for his decision. He advises me that he requires information regarding the date of acquirement of the capital stock of Reynolds, Moore & Co. Ltd. by Western Vinegars, Ltd, together with particulars of the manner in which the capital stock was paid for.

Will you kindly let me have this information.

On December 29, 1931, the auditors replied to the inspector as follows:

Further to our letter of the 4th December and in reply to yours of the 23rd December, we have to inform you that the capital stock of Reynolds, Moore & Company Limited was acquired by Western Vinegars Limited, as at 1st April, 1931.

Payment was made partly by cash and partly by issue of preferred stock of the purchasing company.

On or about April 29, 1932, the appellant filed with the Commissioner consolidated returns for the taxing period ending November 30, 1931, for itself and its subsidiary, Reynolds, Moore & Company Limited, and on the same day sent to the Commissioner a cheque for $946.50 to the order of the Receiver General of Canada, purporting to be in full settlement of the income tax due by the appellant for the said taxing period.

This cheque, which was filed as exhibit 9, was deposited to the credit of the Receiver General of Canada and duly paid.

The appellant submits that the payment of $946.50 satisfied all liability for income tax for the period ending November 30, 1931. The appellant contends, in the alternative, that, in view of the acceptance by the respondent of the consolidated returns and of the sum of $946.50, the latter is estopped from claiming further income tax from the appellant for the said taxing period.

It seems to me convenient to dispose of this contention before dealing with the intrinsic validity of the assessment.

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The doctrine of estoppel does not apply against the Crown: Chitty's Prerogatives of the Crown, 381; Robertson, The Law & Practice of Civil Proceedings by and against the Crown, 576; *The King* v. *Tessier* (1); *Humphrey* v. *The Queen* (2).

Laches cannot be imputed to the Crown; it is a privilege of the King not to be bound by the mistakes, omissions or neglects of his officers or servants: Robertson (op. cit.), 577; Chitty's Prerogatives of the Crown, 379; Bacon's Abridgment of the Law, vol. 8, 95; *Giles* v. *Grover* (3); *Liberty & Company Limited* v. *Commissioners of Inland Revenue* (4); *Anderton and Halstead Ltd.* v. *Birrell* (5); *The Queen* v. *Bank of Nova Scotia* (6); *Gunn & Company Ltd.* v. *The King* (7).

In the circumstances disclosed by the evidence I think that the Commissioner had the right to make an assessment in 1934, as he did, for the fiscal year ending November 30, 1931. Let us now consider the merits of this assessment.

There are three points arising for determination:

1. Had the appellant the right to file for the taxation period ending November 30, 1931, a return consolidating its profits and the loss incurred by its subsidiary, Reynolds, Moore & Company Limited?

2. Was the appellant entitled to deduct from its revenue the profit charged on the containers (barrels and kegs), in which it sold its products, returned by its customers, it being a condition of the sale that the containers could be returned to the appellant and that, in the event of such return, the amount charged for the same would be credited?

3. Is interest on the difference between the amount of the tax recoverable and the sum paid by the appellant ($946.50) exigible and, if so, from what date?

In my opinion, the first question must be answered in the negative.

(1) (1921) 21 Ex. C.R. 150 at 158.
(2) (1891) 2 Ex. C.R. 386 at 390; (1892) 20 S C R. 591.
(3) (1832) 9 Bing. 128 at 156
(4) (1924) 12 Tax Cases 630 at 639.
(5) (1931) 16 Tax Cases 200 at 207.
(6) (1885) 11 S.C.R. 1 at 10.
(7) (1906) 10 Ex. C.R. 343 at 346.

Prior to the amendment made to section 35 of the Income War Tax Act by 23-24 Geo. V, chap. 41, s. 13, by the addition thereto of subsection (3), there was no provision in the Act permitting a company to file a return consolidating its profit or loss with that of a subsidiary.

Subsection (3) of section 35, which is the only stipulation in the Act concerning consolidated returns, reads thus:

3. A company which owns or controls all of the capital stock (less directors' qualifying shares) of subsidiary companies which carry on the same general class of business and have fiscal periods substantially coincident with the owning or controlling company may, in respect of all such companies which carry on business in Canada, elect, before the commencement of the earliest fiscal period of any of the constituent companies in respect of which consolidation is desired and in such manner as may be prescribed by regulations hereunder, to file a return in which its profit or loss is consolidated with that of all of its subsidiary companies carrying on business in Canada, in which case the rate of tax provided by paragraph D of the First Schedule of this Act shall apply

By section 18 of chapter 41 of 23-24 Geo. V, section 13 of the same statute is made applicable to income of the 1932 taxation period. The retroactivity of subsection (3) of section 35 does not go beyond 1932.

As a general rule a statute is not retrospective unless the intention of the legislature that it should be is clearly expressed: Halsbury's Laws of England, vol. 27, p. 159; Maxwell on the Interpretation of Statutes, 7th ed., pp. 5 and 186; *McQueen* v. *The Queen* (1); *The Queen* v. *Martin* (2); *Winter et al v. Trans-Canada Insurance Company* (3); *Young* v. *Adams* (4).

Before the amendment in question to section 35, the Minister had no power to allow the filing of consolidated returns; as a matter of fact I do not think that he allowed it in the present instance.

After careful consideration of the facts and of the law, I have arrived at the conclusion that the second question must be answered in the affirmative.

The evidence discloses that the appellant sold its products in barrels and kegs. These containers were charged to the customers in addition to the price of the goods. The charge included the cost price of the containers and an approximate profit of 40%. The customers were at liberty to

(1) (1886) 16 S.C.R. 1 at 114.
(2) (1891) 20 S.C R. 240.
(3) (1934) 1 Ins. Law Rep. 326.
(4) (1898) A.C. 469.

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return the containers, the agreement being that, if they were returned in good condition, the amount charged for them was to be credited.

I may perhaps cite an extract from the deposition of Edwin W. Isard, the manager of Western Vinegars Limited, regarding these containers.

Q. You understand that in submitting your income tax returns for 1928, 1929, 1931 and 1932 you set up estimated liabilities of the following amounts: 1928, $3,000; 1929, $1,000; 1931, $4,000; 1932, $2,000. Now will you tell his lordship what your practice was in those years regarding the containers? First, tell his lordship what goods you deal in and how you ship them.

A. We deal in the manufacture and sale of vinegar and these goods are sold, the largest quantities, in containers, which are returnable at the prices charged. The books of the company and the ledgers shew sales of these containers and shew returns from the customers at the time we receive them back.

Q. What do your containers consist of?

A. Wooden barrels and kegs.

Q. Do you invoice those barrels and kegs at a profit?

A. Yes.

Q. Approximately how much?

A. About 40%.

And further on:

Q. So that the container was sent out at an estimated profit of 40%, and what happened to that profit when the container came back?

A. Of course, it was entirely wiped out. It goes back into stock at inventory prices.

The witness said that the quantity of containers returned was between 75% and 85%.

Asked if it would be possible to keep the books of the company in such a way as to show exactly, at any time, the loss of profit arising from the return of containers, the witness replied:

A. We have tried. We have learned from general practice in our business over a period of years, even prior to the formation of Western Vinegars, that this has been found impossible. We have had different firms of auditors on our books and they have not been able to find a method of shewing exactly what is out in our customers' hands.

Later, dealing with the entries in the books relating to containers, Isard testified as follows:

Q. Have you set up a reserve for containers, actually?

A. No.

Q. You have endeavoured year by year to estimate the profit you have lost when containers come back?

A. That is correct.

Q. In your ledger you have shewn containers at a profit?

A. That is correct.

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Q. And when those containers come back you lose the profit that has been charged up?

A. Yes.

James G. Mundy, resident partner for Winnipeg of the firm of Riddell, Stead, Graham & Hutchison, called as witness on behalf of appellant, speaking of the containers, said:

The Western Vinegars shipped their vinegar to customers in containers and the containers are charged against the customers. The customers have the privilege of returning the containers and when they are returned they are allowed the full amount which is paid for them. This return may take place at any time which they choose. The Western Vinegars claim that from previous experience they know that a certain amount of those containers will be returned, sales of which had been included in the profit and loss account, and, therefore, they set aside as unearned profits an estimated amount, which in the year 1928 is represented by this $3,000.

It was submitted on behalf of respondent that the profits on the containers constitute a reserve and that amounts credited to a reserve cannot be deducted in computing the profits or gains assessable, in virtue of paragraph (*d*) of subsection 1 of section 6 of the Act:

6. In computing the amount of the profits or gains to be assessed, a deduction shall not be allowed in respect of

(*a*) .... (*b*) .... (*c*) ....

(*d*) amounts transferred or credited to a reserve, contingent account or sinking fund, except such an amount for bad debts as the Minister may allow and except as otherwise provided in this Act;

In support of his contention counsel for respondent cited: *Edward Collins & Sons Ltd.* v. *Commissioners of Inland Revenue* (1); *Commissioners of Inland Revenue* v. *The Anglo Brewing Co. Ltd.* (2); *H. Ford & Co. Ltd.* v. *Commissioners of Inland Revenue* (3); *Naval Colliery Co. Ltd.* v. *Commissioners of Inland Revenue* (4).

In my opinion, these decisions have no bearing upon the present case.

The profits on the containers are not, as I conceive, a reserve properly called; and the loss of these profits, on the returns of the containers, is not merely a contingency but a certainty. The only thing uncertain is the quantity of the containers which will be returned and the time at which the returns will be effected. I believe that an allow-

(1) (1924) 12 Tax Cases 773 at 780.

(2) (1925) 12 Tax Cases 803 at 813

(3) (1926) 12 Tax Cases 997 at 1005.

(4) (1928) 12 Tax Cases 1017 at 1046.

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ance should be made for the containers that are returned. If no allowance were made, it would mean that the appellant would have to pay tax on profits which it has not reaped. I do not think that this was the intention of the legislature in enacting the provision contained in paragraph (*d*) of subsection 1 of section 6.

The proof, however, is vague and uncertain and I am not in a position to determine definitely what proportion of the assessment appealed from was for the profits on the containers which were returned. I assume that the parties will be able to come to some understanding in this respect; if not, they will be at liberty to refer the matter to me and to adduce, if possible, further and more positive evidence on the point.

There remains the question of interest. Sections 48 and 54 of the Act apply; at the time material herein they read as follows:

> 48. Every person liable to pay any tax under this Act shall send with the return of the income upon which such tax is payable not less than one-quarter of the amount of such tax, and may pay the balance, if any, of such tax, in not more than three equal bi-monthly instalments thereafter, together with interest at the rate of six per centum per annum upon each instalment from the last day prescribed for making such return to the time payment is made
>
> 54. After examination of the taxpayer's return the Minister shall send a notice of assessment to the taxpayer verifying or altering the amount of the tax as estimated by him in his return.
>
> 2 Any additional tax found due over the estimated amount shall be paid within one month from the date of the mailing of the notice of assessment
>
> 3 If the taxpayer fails to pay such additional tax within one month from the date of the mailing of the notice of assessment aforesaid, he shall pay, in addition to the interest provided for by section forty-eight, interest at the rate of four per centum per annum, upon the said additional tax, from the expiry of the period of one month from the date of the mailing of the said notice to the date of payment.

The appellant was obliged to pay at least one-quarter of the tax owing not later than the 30th of April, 1932, and the balance in three equal bi-monthly payments thereafter, with interest at 6% upon each instalment from April 30, 1932, to the date of payment. The appellant paid $946.50 and in so doing purposed to pay the full amount of the tax it owed. The Minister found the amount insufficient and on September 29, 1934, sent to the appellant the notice of assessment filed as exhibit 6. The appellant had one month from the mailing of the notice of assess-

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ment within which to pay the additional tax; on its failure to pay this additional tax or at least the portion thereof legally exigible, the appellant became subject to pay, in addition to the interest provided for by section 48, interest at the rate of 4% from the expiry of the period of one month from the date of mailing of the notice of assessment, to wit from the 29th of October, 1934. The appellant will accordingly have to pay interest on the additional tax exigible, as provided for by sections 48 and 54 of the Act.

The assessments pertaining to the containers are set aside; the profit on the containers returned ought to be deducted from the appellant's income for taxation purposes.

The appellant will be entitled to its costs against the respondent, which costs are hereby fixed at the sum of $250, disbursements included.

Judgment accordingly.

BETWEEN:

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May 11, 12 & 13

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Jan 11-15, 18-21

Dec. 27.

CLUETT, PEABODY & CO. INC. ......PLAINTIFF;

AND

DOMINION TEXTILE CO. LTD. .....DEFENDANT.

Patents—Infringement action—Invention—Anticipation—Prior publication —Prior user—Patent Act, 25-26 Geo. V, c 32, s 61 (1).

The action is one in which the plaintiff alleges infringement by defendant of three patents owned by plaintiff; the first patent claims an invention relating to "an art or method of shrinking textile fabrics". the second patent claims an invention relating to "the method of shrinking woven and like fabrics and yarns"; the third patent claims an invention relating to an "apparatus for treating woven and like fabrics and yarns."

Plaintiff alleged infringement by the use in factories of defendant of a process for treating textile fabrics, and by the sale in the usual course of business of the fabrics so treated.

The defendant pleaded prior publication and prior user. The Court found that there is invention in plaintiff's patents and that none of the published patents cited by defendant constitute anticipation.

Defendant contended that the patents in suit are void because there was prior user of plaintiff's patented art or process, and apparatus, by a machine known as "Palmer" and some separate users of Palmer, or a modified Palmer, are alleged in defendant's particulars The Court found that the defence of prior user had not been established, and that all three patents owned by plaintiff had been infringed by defendant.

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Held: That in order to set up anticipation by prior publication it is not sufficient that the patent relied on as an anticipation should suggest the idea to the inventor, or some line of inquiry which may lead him to his invention, or that the apparatus described in the earlier specification could be made to produce the same result; it is necessary that the specification relied on should contain a clear and unmistakeable direction so to use the apparatus as to produce the result; nor is it enough that the document relied on as an anticipation should, when read along with other documents, preshadow or indicate the invention. The patentee may select and collate from any sources that are accessible to him, and his invention is not invalid by anticipation by reason merely of the fact that some of, or even all, the elements in his device have been anticipated in prior publications.

2. That when a patented invention has proven a commercial success, evidence of anticipation by prior user must be examined with the greatest care and caution.

3. That a prior user in order to defeat a patent must have been a user as a manufacture and not a mere fortuitous user of the subsequent invention, in which the persons using it gained no knowledge of the advantages of the invention, and which would not have led to its further use.

4. That s. 61, ss. 1, of the Patent Act as enacted by 25-26 Geo. V, c. 32, contemplates the case where the one seeking to void a patent on the ground of prior invention, puts himself forward as the prior inventor, and who alleges he had so disclosed or used the invention that it had become available to the public, or, that he had, before the issue of the patent he seeks to void, applied for a patent in Canada, or in a Convention country.

5. That in cases where a new principle is involved, the question is not whether the substantial part of the process or combination said to be infringed has been taken from the patentee's specification, but is whether what has been done takes from the patentee the substance of his invention as claimed.

ACTION for the infringement of three patents assigned to the plaintiff.

The action was tried before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa.

O. M. Biggar, K.C., and *R. S. Smart, K.C.*, for plaintiff

A. R. Holden, K.C., and *G. Davidson* for defendant.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT, now (December 27, 1937) delivered the following judgment:

This is an action for the infringement of three patents owned by the plaintiff. The first, no. 319,479, was granted to the plaintiff as assignee of Sanford L. Cluett, in February, 1932, and the invention claimed relates to "an art or method of shrinking textile fabrics." The second patent,

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no. 311,000, was granted in March, 1933, to Bradford Dyers Association Ld., assignee of John Herbert Wrigley and Alexander Melville, and the invention claimed relates to "the method of shrinking woven and like fabrics and yarns." The third patent, no. 331,002, was granted in March, 1933, to the said Wrigley and Melville, and Bradford Dyers Association Ld., and the invention claimed relates to an "apparatus for treating woven and like fabrics and yarns." It will be convenient to refer to the first patent as "Cluett," to the second patent as "Wrigley," and to the third patent as "Melville." The defendant pleads the defences usual in an action of this kind, and these will be referred to later. The precise charge of infringement is that the defendant infringed certain claims in each of the three patents in question, by the use in its factories at Magog and Valleyfield, in the Province of Quebec, of a process for treating textile fabrics certain of which fabrics were sold under the name of "Zero Shrunk," and by sale in the usual course of business of the fabrics so treated.

The old and universal problem of eliminating or minimizing the shrinking of finished fabrics, particularly cotton fabrics, before being manufactured into garments, how and when shrinkage occurred, and the methods adopted to avoid it, was variously described to me. In one of the exhibits put in evidence, descriptive really of Cluett, and there referred to as the "Sanforizing" process, I find what sufficiently and concisely describes the problem, the reason for its occurrence, and the methods adopted by the interested trades and industries to minimize the shrinking of finished fabrics, or the methods of pre-shrinking the same, in order to overcome shrinkage in garments made from such fabrics. If I use what there appears it will be more exact and intelligible than if I attempted to do so in my own language. In that exhibit, paper read by Sanford L. Cluett, before the American Society of Mechanical Engineers, in December, 1931, I find the following:—

The Sanforizing process and the mechanism for it were designed primarily to treat a fabric so that its dimensions will remain substantially unchanged when the fabric is subjected to a laundry washing or other cleaning process It is common experience that finished textile fabrics change in length or width when laundered; this change is generally a shrinkage. The principal reasons that shrinkage occurs are as follows: (a) Practically all textiles are woven under tension, generally in both warp and filling For obvious reasons textile machinery is designed to operate

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this way. (*b*) In the bleaching and finishing of textiles, from the moment that the webs are sewed together for putting through the rope or open-bleach processes until they are finally bleached and finished, they are stretched every time they are transported from one station to another. This pulling tends to stretch and straighten out the warps and thus narrow the goods. Narrowness is counteracted at one or more stations during the finishing process by pulling the goods out in width through the use of expanders or tenters, or both. As a rule when the material is pulled out or held out in width the warps are still held under tension; thus the pulling out in width also puts tension on the warps as well as on the filling. The result is that most finished woven fabrics are elongated during the finishing process (*c*) When textiles are manufactured into garments, the material may be subjected to more or less stretching in length or in width. (*d*) As a result, such fabrics are only awaiting a favourable opportunity to change their dimensions This opportunity occurs if the finished fabrics are dampened with or immersed in water The water acts as a lubricant and allows the fibres to readjust themselves. The fibres also swell; and as the yarns are twisted this swelling causes a shortening of the yarns. The combination of swelling and shortening of the yarns, owing to the twist, further causes a shrinkage of the fabric because of a rearrangement of the position of the yarns. The most general cause of garment shrinkage is the laundry wash wheel or other mechanical manipulator of wet garments. During laundry washing a garment is tumbled about in hot soapy water, generally with a heavy charge of goods, and the yarns are not only further allowed to contract, but they are forced and pounded together by the action of the water and of the other garments in the wheel; there is a fulling effect somewhat similar to that which takes place when wool is washed Also caustic and bleaching solutions may be present in the wash wheel and have a further shrinkage effect on the material. It has been observed that woven fabrics shrunk by water alone will, when subsequently subjected to a full laundry wash, shrink an additional amount varying from one-half inch to the yard to as much as two inches to the yard In fabrics in which the yarns are only partially or altogether unbleached, the fibres are generally water repellent These fabrics as a rule not only have a high shrinkage factor on washing, but continue to shrink in subsequent laundry treatments until the waxes and gums are entirely eliminated

Methods of Preshrinking

In order to minimize the laundry shrinkage of fabrics as far as possible, several methods of preshrinking have been in use for many years. Among these may be enumerated: (*a*) Wetting or soaking the fabric and drying it with as little strain as possible on the warp and filling (*b*) Chemical shrinking (*c*) Washing the fabric. These three hold important places in the shrinking art. However, the process to be described has been built on the principle that inasmuch as the causes of the shrinking of fabrics when they are subjected to a full laundry treatment are mostly mechanical, the most effective treatment to prevent shrinking may be found in some process of mechanically rearranging the fibres of the fabric (including changing the count of the warp and filling) to the same extent that the fibres would arrange themselves if subjected to a full washing in a laundry

From this it will appear, and the evidence confirms and elaborates it, the substantial elimination of shrinkage in finished fabrics, and therefore in finished garments, was a continuing problem in the textile and garment trades, and in the laundering trade. And, I think, it may be fairly said, particularly in so far as cotton fabrics or cotton garments are concerned, that no very reliable or satisfactory results were obtained by any method or process known prior to the advent of the methods disclosed by the plaintiff's patentees, or the offending method practised by the defendant. And they claim to have completely, or almost completely, solved the problem by mechanically preshrinking finished fabrics, before being put into finished garments.

Sanford L. Cluett, at the time of his alleged invention, was the directing head of the plaintiff company's research department, and there his work related chiefly to manufacturing problems arising in the operations of that company. The plaintiff company manufactured shirts and collars in a very large way, but they also bleached and finished fabrics, and at some of their plants operated laundries; the satisfactory shrinkage of soft shirts particularly, but not altogether, had been one of their constant problems. While thus concerned with problems of this character, Cluett's attention came, in 1928, to be directed particularly to that of means of avoiding the shrinkage of fabrics longitudinally, and one of the results of his research and experimental work was that described and claimed in the first-mentioned patent in suit. Prior to Cluett coming on the market, certain fabrics, cotton fabrics particularly, were usually submitted to water shrinking, and drying the same without tension being applied, but actual results depended on a variety of inconstant factors, and were not generally satisfactory. In practice, when garments were made from water-shrunk fabrics further shrinkage was regarded as something inevitable, and in many cases garments were cut and manufactured over-size, by some arbitrary rule, to provide for that shrinkage; but neither manufacturer nor customer could estimate accurately what, after washing or laundering, the further shrinkage would be. Many men will recall the shirt sleeve suspenders commonly in use because the sleeves were cut and made with a considerable allowance for shrinkage. Consequently such fabrics and garments were not dealt in on the basis of a specified potential shrinkage, but on the weave, appearance, or feel, of the particular goods.

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The plaintiff's process in question here, and that practised by the defendant, is directed to securing a shrinkage in the longitudinal dimension of fabrics, by mechanical means. In any woven fabric the longitudinal or lengthwise threads are known as the "warp" threads, while those crosswise are known as the "weft" or "filler" threads. What the rival methods here seek to accomplish is to bring more closely together, in a piece of fabric, the weft or filler threads, and if that is accomplished it means that the lengthwise or warp threads must pass under and over more filler threads in any given space, say a square inch, and consequently the length of the warp threads will be shortened, and thus the fabric itself will be shortened or shrunk. That is the principle of the art of shrinking fabrics and which is in question here; and it is accomplished mechanically by the method in use by the plaintiff, and by the defendant, and apparently that method of shrinking fabrics has had a favourable reception from those interested in such a result.

The principle underlying Cluett is that if a piece of fabric, after the application of moisture, is made to adhere to, or lie in frictional contact with a driven sheet or belt, and the surface of the belt is made to extend longitudinally, and is then allowed to contract in the same direction, the fabric will partake of the collapsing or contracting motion of the belt, and will effect a bringing closer together of the weft or filler threads, and this in turn will effect a longitudinal shrinkage of the fabric; the fabric is then acted upon to dry while it is in this contracted or condensed state to fix it in this condition. This perhaps might be made clearer by reference to the evidence of the patentee, Melville. He, referring to his very earliest experimental work, along with Wrigley, stated:—

> We . . . obtained a strip of rubber about one inch thick and about half an inch wide and about eight inches long, and produced a small piece of cloth on the table, and with this rubber in a horse shoe shape, and with pressure on the cloth, straightened the rubber, and by the application of that a few times we obtained a little shortening of the fabric . . . We bent the rubber around in order to stretch the surface, and brought it into its original surface again; and in that way we obtained a shorter surface That is, the bending and pressure and straightening produced the shortening

The same thing was illustrated to me by Mr. Biggar with a straight piece of rubber, exhibit 49. In Cluett, as appears from his specification, we have the application of the principle that if an endless and flexible carrier belt is flexed and subjected to a compressive force, its surface will distend, and when released of this force, its surface will contract, and so will any fabric adhering to the belt.

In exemplification of his idea of shrinkage, Cluett gives several illustrations in his specification and drawings, how, by mechanical devices, shrinking of fabrics may be accomplished. There was introduced in evidence what was called Model 8, which, in physical form falls within the mechanisms described by Cluett for applying his principle of shrinkage. In this model there is first provided a roller driven endless felt belt, one portion of which, the specification states, is flexible and resistent to tensile stress, whereas the other portion is equally or more flexible, is not necessarily resistent to tensile stresses, and is capable of collapse upon itself to occupy shorter or longer length in accordance with a flexed state of the belt as a whole. The belt may be constructed of various materials and in various ways, and this is set forth in the specification. The fabric, under slight tension, is received or fed on the belt, at a predetermined rate, and the effect desired is to shrink the longitudinal threads by causing the contraction of the distance between the filler yarns to, or slightly beyond, the degree which would be attained by repeated laundry washings of the fabric, in order to shrink the fabric longitudinally. The belt and fabric at some stage passes a moistening device but this we need not pause to consider. The belt then passes over the upper peripheral surface of a small roll, called the feed roll, in concave form, and then downwards and between that roll and a larger roll which is heated; when the belt passes between the two rolls its thickness is reduced and lengthwise it is extended by the compressive force of the two rolls. As the belt passes the point where it is no longer in contact with both rolls, and begins to pass around the lower peripheral surface of the larger roll only, it begins to contract or resume its former or normal length; after this the belt and fabric separate from the heated roll and from each other, and we need no longer follow either. I should state that the feed roll is adjustable in its relation to the axis of the larger roll. It is by the contraction of the belt, as I understand it, that

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the filler threads are brought into closer contact with one another, thus shortening the warp threads. When the belt is extended in passing over the surface of the feed roll, and between the surfaces of the two rolls under compression, I understand its speed is somewhat accelerated, and correspondingly the fabric. It is to be mentioned also that when the belt is passing over the feed roll and downwards to the point where the belt enters the nip of the two rollers, the fabric is caused to adhere to the belt by the pressure of what is called a "shoe," to prevent the fabric from slipping or buckling, but such a device may take various forms. One of the purposes of having the larger roll heated, and having the belt and fabric follow around its lower peripheral surface, is to give a finish or set to the fabric in its contracted longitudinal dimension. This will serve to describe the principle of the method of shrinkage described by Wrigley, who came into the field a little later than Cluett, except that in his specification he suggests a rubber belt of the thickness and width desired, mounted upon a canvas supporting belt, approximately inextensible but flexible, and he suggests a mechanism that is somewhat different. The apparatus described and claimed by Melville, which will be referred to later, varies structurally from Cluett's Model 8, but it effects the same result, and, I think, by the same method. The apparatus or mechanism claimed by Melville is the same as that described by Wrigley.

In the infringing mechanism, hereafter to be referred to as "Lyth," a model of which is in evidence, an endless belt, wholly of rubber, is used, and there is what is called a compression roller, and a larger and heated roller which is free to rotate about its axis; these two rollers occupy the same relation to one another as do the feed roll and the large heated roll in the mechanism suggested by Cluett. The compression roller is free to rotate on its axis, which axis may be adjusted in relation to the axis of the large roller by an adjusting device. The fabric is fed upon the belt, or, upon the surface of the large roll as the defendant suggests, but, in any event, just where the belt is passing downwards through the nip between the two rollers, it then just having passed over and down the upper peripheral surface of the compression roller in concave form; the belt

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and fabric then having proceeded through the two rollers, the whole being in contact with both rollers, it follows around the lower peripheral surface of the large roller on a different curvature, at the end of which path the fabric separates from the belt. The surface of each roller moves in opposite directions, but the large roller moves in the same direction as the belt, as in Cluett's Model 8. When the belt and fabric—the belt being of greater thickness than the space between the surfaces of the two rollers—are passing through between the opposing surfaces of the two rollers, and therefore lengthening, the velocity of the belt and fabric is increased, it is said. After passing through the nip between the two rollers, the belt, it is said, slows down and resumes its normal length, and the fabric contracts or shrinks correspondingly. As the rubber belt and the fabric slow down it has the effect, it is claimed, of compacting the weft or filler yarns into closer contact, as in Cluett, Wrigley and Melville, thus shortening the warp threads and effecting shrinkage of the fabric. It is, I think, contended that the passage of the belt over the lower half section of the heated large roller, in a reverse curve, plays no part in the contraction of the rubber belt, or in the compacting of the filler threads of the fabric, that operation being performed, it is claimed, for the purpose of drying the fabric. The velocity to be imparted to the rubber belt in its passage through the nip between the two rollers is regulated, it is claimed, by adjusting the width of the passage in relation to the thickness of the belt. The defendant has described, in writing, Lyth in operation, and I had better quote it lest I may have fallen into some serious error in my description of that operation. It is as follows:

In its performance, the machine brings into practical use a well known physical law governing the flow of fluid substances, namely, that under certain conditions where the cross sectional area of flow is reduced, the velocity or rate of flow is increased. Thus, the rubber belt, which is made up of such a consistency as to act, for practical purposes, like a fluid, in passing through the passage, is reduced in cross sectional area, with the result that the rate of flow of rubber in the belt at that point is increased above the normal rate of movement of the belt as determined by the driving cylinder. The cloth, which has been carried forward on the surface of the large cylinder, encounters the face of the rubber belt at the point where the rubber is acquiring the additional rate of flow through the passage and the cloth itself tends to take on the speed of the rubber surface. Just beyond the passage, where the cross sectional

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area of the belt becomes normal again, the rate of flow of the rubber in the belt slows down so that the cloth, which has taken on additional velocity in going through the passage, is impacted against the cloth immediately beyond the passage, and a packing action occurs which shrinks the cloth. The additional velocity, to be imparted to the rubber at the passage, is regulated by adjusting the width of the passage in relation to the thickness of the rubber belt This finishes the description of the actual shrinking operation.

The cloth is held in contact with the surface of the large cylinder by the rubber belt over a certain distance for preliminary drying purposes, and then the rubber belt goes off to the driving cylinder and the cloth continues on the surface of the large cylinder until it passes off to compensator and guide rolls prior to entering a series of dryer cylinders

The claims of Cluett said to be infringed are 1 to 3 inclusive, 11 to 27 inclusive, 30, 32, 34 and 35. Claims 1, 3, 11, 24, 27, 30 and 35 may be mentioned.

1. Art of treating textile webs comprising causing the said web to adhere to a support while in a moist state, causing said support to decrease in length in one dimension, and fixing in the web the resulting rearrangement of its component strands by drying the web with the aid of heat.

3. Art of treating textile webs comprising causing the web to adhere to a support, moistening the web, collapsing the support, subjecting the web to pressure between the collapsed support and a hot surface to fix the collapsed rearrangement of the component yarns, and separating the web from the support.

11. Art of shrinking textile webs comprising as steps, moistening the web, applying the web to an extended surface of a carrier belt having a surface capable of extension and collapse, subjecting the web on the carrier belt to heat and pressure, and flexing the belt and web to cause collapse of said belt and web during maintenance of said heat and pressure.

24. Art of treating textile webs, characterized by affixing a web at all points to a contractible support, contracting the support and the web with it while maintaining transverse pressure on the web, and fixing the web in its contracted state.

27. Art of treating textile webs, characterized by diminishing the superficial extent of the web by compression exerted on its material in directions parallel with the surfaces of the web, exerting transverse pressure on the web, and setting the web in its diminished superficies.

30. Art of treating textile webs, comprising affixing the web to a contractible support by pressure, then causing the support to contract while the web remains affixed thereto, and setting the web in its altered state.

35 Art of treating textile webs, comprising affixing a moistened web to a contractible support by pressure, then causing the support to contract holding the web affixed to the contracting and contracted support by pressure, and setting the web in its altered state.

It is to be observed that it is an art that is claimed by Cluett, and not an apparatus or machine.

The claims of Wrigley said to be infringed are 9 to 13 inclusive. Those claims, to which claim 4 must be added,

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because that claim is referred to in each of the claims said to be infringed, are as follows:—

4 A method of shrinking woven and the like fabric or yarn which consists in causing the same to assume and follow wholly or partially the superficial conformation or shape of one continuous or discontinuous surface of a band or strip or series of strips of india rubber or the like.

9. A method according to claim 4 wherein the woven and the like fabric or yarn is caused to assume and follow the shape or conformation of the surface of the india rubber or the like band or strip or series of strips by pressure applied to retain the said fabric or yarn in contact with the said surface.

10. The method according to claim 4 wherein the extent of shrinkage is varied by altering the thickness of the band or strip of india rubber or the like

11. A method according to claim 4 wherein the woven and the like fabric or yarn is caused to assume and follow the shape or conformation of the surface of the india rubber or the like band or strip or series of strips by pressure applied to retain the said fabric or yarn in contact with the said surface, the extent of shrinkage of the fabric being determined by variation of the pressure applied.

12. A method according to claim 4 wherein the woven and the like fabric or yarn to be treated is first moistened.

13. A method according to claim 4 wherein the woven and the like fabric or yarn is caused to assume and follow the shape or conformation of the surface of the india rubber or the like band or strip or series of strips by the application of hot pressing means to retain said fabric or yarn in contact with the said surface.

In the third patent in suit, Melville, what is claimed is an "apparatus for treating woven and like fabrics and yarns." The claims said to be infringed are the following:—

5 Apparatus for use in the treatment of woven and the like fabric or yarn, comprising a continuous or discontinuous surface consisting of one side of a band or strip or series of strips of india rubber or the like, said surface being adapted to extend and/or contract, and pressing means for causing the fabric or yarn to assume or follow the superficial conformation or shape of the said surface

8 Apparatus for shrinking yarns or fabric in accordance with claim 7 wherein the means for feeding in the fabric or yarn cause the same to pass firstly over a more curved path.

11. Apparatus in accordance with claim 5 in which the pressing means are hot.

12. Apparatus in accordance with claim 5 in which the fabric or yarn to be treated is moistened.

A great deal of evidence was taken on commission on behalf of the plaintiff, purporting to show the commercial success attending Cluett, the extent of the use into which it had gone since its disclosure, and some of the results flowing from its adoption by the interested industries. As this evidence, in my judgment, has value and weight

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in reference to several points which arise in the case, I propose to review it, even at some length.

Mr. Merriam, for many years chief engineer of the United States Finishing Company, of Providence, R.I., dyers and finishers, now practising as a consulting engineer in connection with textile machinery, described the methods of shrinking followed in the textile trade prior to Cluett. He stated that during his period of service with the United States Finishing Company that company had carried on experimental work with the object of improving such methods, but with unsatisfactory results. The United States Finishing Company was the second licensee of Cluett, and Merriam stated that after the adoption of Cluett they were able to obtain a controlled shrinkage of fabrics; that Cluett made it possible for mills to produce shrunk fabrics; that the demand for such goods from mills, converters and finishers, increased thereafter in a marked degree; and that the United States Finishing Company dealt in about twenty million yards of fabrics a month. Mr. Hess, a consulting technical expert and engineer in connection with textile treating and finishing, and with a very considerable experience, explained the earlier methods of shrinking with which he had experience, which, he said, were not uniform or complete. He stated that while he was in the employ of the United States Finishing Company, between 1923 and 1934, he worked with the "engineering and mechanical department for a period of over two years endeavouring to work out a method which would not be prohibitive as to expense, and which would give a positive shrinkage," but without success, but he realized that "if a shrunk fabric could be turned out by a finishing plant there would be a real place for it in the market." On learning, from inspection, that Cluett had accomplished a method of mechanically shrinking cloth, he discontinued further experimental work. He stated that on seeing Cluett's shrinking method practically applied he realized that Cluett "had gotten something that is absolutely correct, something that my engineering crew had not discovered"; that the Cluett mechanical process gave "a very nearly positive shrinking result," and made it "one of the biggest developments in the textile industry in the last fifty years." By that process, he said, a fabric might

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be shrunk "so that after it is manufactured into a garment and laundered it will neither stretch nor shrink to any appreciable amount, not enough to make the garment not fit," and this result might be guaranteed. He also stated that since the introduction of the Cluett process the demand for shrunken fabrics had increased very greatly. Another witness was Mr. Borden, president of the Fall River Bleachery Company, of Fall River, Mass., a large business concern, established by his father in 1872, and in which the witness has been interested since 1894. He stated that "mercerizing" was one of the important early developments in the industry in his time, and, I understand him to have said in his evidence, that the mechanical shrinking process of Cluett was the next important in point of time. The introduction of Cluett, he stated, had increased tremendously the demand for shrunken fabrics, and that probably one-fifth of his company's output, chiefly cotton fabrics, was treated by that process, whereas prior to that time shrinking by any other process was infinitesimal. Mr. Arnzen, vice-president and manager of the Fall River Bleachery Company, with which he had been associated since 1910, stated that when he first went into the textile business, shrinking was little thought of, and there was very little call for shrunken fabrics. In purchasing cotton garments an allowance would, he said, be made for shrinkage, for example, a shirt would be purchased half a size or a size larger than was needed, realizing that after being washed once or twice it would probably fit. His concern was the first licensee of Cluett, in 1930, since which time the demand for mechanically shrunk goods has gone ahead by leaps and bounds. Prior to Cluett, he said, there would be only a partial shrinkage by any of the methods in vogue, but none of such methods were satisfactory.

Mr. Starke, in charge of the converting branch of the business of Hesslein & Co., of New York, dealers in cotton fabrics for over seventy years in a large way, stated that prior to Cluett they would not guarantee to their customers any definite shrinkage in fabrics in which they dealt, because the producers of such fabrics would not give any guarantee, but since Cluett they are guaranteed by manufacturers a shrinkage of not more than three-quarters of

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one per cent of goods, and they in turn give that guarantee to their customers; since then, he said, there has been a greater interest in shrunken goods, and now thirty per cent of their sales of fabrics are preshrunk. He stated as his opinion that "the vast majority of all goods in the very near future would probably be Sanforized-shrunk," meaning shrunk according to the Cluett process, and that that process has extended the use of cotton goods in articles of apparel. Mr. Anderson, of the Martin Dyeing & Finishing Company, of New York, stated that his concern had made use of the Cluett process; that it was found that it had increased their business; that it had extended the range of use of cotton fabrics; and that the result of the process might be pre-determined, which could not be said of any other process known to him. As indicating the fact that Cluett had extended the range of use of cotton fabrics he stated that his company had Sanforized summer suitings, linen table cloths, drapery linens and chair covers, for certain named customers in New York. The United States Navy authorities, he said, now specified that any cloth purchased from them be preshrunk, and Anderson stated that he knew of no way of complying with the navy specifications except by treating the cloth according to the Cluett process. Mr. Bonsal, a partner in the firm of J. L. Baily & Co., of New York, which has carried on business for over one hundred years as selling agent for cotton mills, particularly in denims and fabrics for work clothes, and who handle over one hundred million yards annually, gave evidence. Prior to 1930, little regard, he said, was paid to shrinkage, and it was generally recognized that fabrics were not shrunk, and that garments had in consequence to be made full and large to allow for shrinkage; and as the representative of cotton mills they were not offering any goods as preshrunk. Since the introduction of the Cluett process they have been able to represent that the goods they sell are preshrunk to a limit of less than one per cent under severe laundry tests, and he stated that the demand upon them for materials so processed has shown a marked increase, and has enlarged the type of garments or finished products made from such goods. The Baily Company has installed eight machines in its plant for shrinking goods according to the Cluett method. Mr. Conover, president of the Pilgrim Laundry Company,

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Philadelphia, stated that prior to 1930 their most serious problem was that of shrinkage in customers' articles, principally in sleeve lengths, and the collars and neckbands of shirts, for which often the laundry was not responsible. That difficulty, he said, has been almost completely overcome by the Cluett process of shrinking, and he knew of no other satisfactory process for preventing shrinkage.

Mr. Reilly, of the William L. Barrell Company, of New York, a commission house dealing largely in cotton materials for men's clothing, and converters, testified that their sales of material for the clothing trade alone was about forty million yards per year, and their total sales over one hundred millions yards per year. Prior to 1930, they had sought but had not found any satisfactory method of shrinking fabrics, and though a portion of their goods were sold as preshrunken goods they declined to give to their customers any guarantee as to shrinkage, because they were not thoroughly shrunk. He stated that since the Cluett process came into use eighty per cent of their production was so treated; they are now able to guarantee that their goods will not shrink beyond one per cent, either in the warp or filling; it has increased the sale of their cotton goods, and has widened the range of their uses; and that the specification for the requirements of the United States Army and Navy cannot be satisfied unless mechanically shrunk according to the Cluett process. Mr. Gallon, vice-president of J. P. Stevens & Company, of New York, converters and sales agents for cotton mills, stated that the Cluett process had revolutionized "the entire cotton field where cotton comes in as wearing apparel," it had "eliminated the shrinkage from cotton goods," and had created a demand for the use of cotton goods for wearing apparel, for both men and women, "in a way that was never permitted before." Prior to 1930, Gallon said, his company were doing practically no shrinking at all, while in 1935 they shrank about 25,000,000 yards according to the Cluett process, which he called "a controlled shrinkage," while other methods, he said are "a sort of hit-or-miss process, which a lot of people have resorted to in order to get by using the Sanforizing process." Dr. Ashbrook, a consulting technical expert, particularly in connection with textile fabric manufacture, stated that shrinkage by cold water, or hot water, or by

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hot water and soap, and subsequent treatment to give the least possible stretch to the cloth, were not satisfactory because the residual shrinkage left in the goods was too great, and there was no means of controlling the shrinkage. He used the Cluett and the Melville machines, in experimental tests I understand, and obtained a much higher degree of shrinkage therefrom than was obtainable from the old methods, and by the former he was able to control the shrinkage. The witness Fox, of New York City, a buyer of work clothing for some fifteen hundred retail stores, explained the difficulties he had encountered in his early experience on account of the shrinking of the materials from which garments were made, and what means were resorted to to counteract that state of affairs. He explained that in the manufacture of the garments which he purchases, he sets the specifications, and furnishes all patterns and materials. For the past three or four years he has been shrinking his materials by what he calls the Sanforizing process, with excellent results. Whether Fox does this himself, or has others do it for him, is not clear from the evidence. Mr. Dobbs, president of Monarch Laundries Inc. of New Haven, Conn., for over thirty-six years engaged in the laundry business, stated that since the advent of Cluett's mechanical shrinking, the troubles of laundries with their customers over shrinkage have almost vanished, and laundries now circularize customers to purchase Sanforized garments. Mr. Whitehead, of the Franklin Manufacturing Company, New York City, said that "Sanforizing has been the greatest invention, in my opinion, of any thing in the textile industry ever since I can remember—ever since I have been in it. There is nothing that has assisted and helped it, not only from our standpoint, but from the consumers' as well," and he gives reasons supporting that statement. Then there was evidence from Mr. Bruck, president of Bruck's Nurses Outfitting Company, of New York City, and from Mr. Elliott, superintendent of the plant of the Delta Finishing Company, of Philadelphia, which corroborates and amplifies the evidence already reviewed, and we may dispense with any extended reference to that evidence.

Mr. Ewing, with over forty years' experience in the textile industry, a director and member of the Bradford

Dyers Association Ld. of Bradford, England, dyers and finishers of cotton, wool and raw silk goods, with twenty-nine plants in England and one in the United States, stated that in the past there had always been difficulty in dealing with the matter of the shrinkage of cotton goods, particularly when intended to be used for work clothing, nurses' uniforms, shirts, etc. In England, cotton goods were not offered on the market to customers as being shrunk, but water-shrinkage, called "London shrinking," was known, but more applied to woollens, it being too slow and expensive to apply to cottons. Prior to Cluett, he never knew of any method of mechanically shrinking cottons, and this method his concern have used, since July, 1931, extensively and with success. He stated also that specifications prepared by the plaintiff were printed and published in England by the Bradford Dyers Association Ld. under its own name, for shrinking cloth by the Cluett process, and such specifications have been adopted by the Army and Navy authorities in England, and also by the Laundry Board—whatever that means. Mr. Anderson, chief engineer of the Bradford Dyers Association, concurred in the evidence of Mr. Ewing.

Some fifty-nine textile concerns have been licensed in the United States by the plaintiff, to use the patents in question, and there are licensees in Canada, Great Britain, Germany, Holland, Sweden, and Switzerland. In 1932, in the United States, the first full year of the use of Cluett by licensees, 55 million yards of textile fabrics were treated by that process, and in 1936 the volume was 322 million yards; in other countries the yardage so treated, to the end of 1936, was about 43 million yards. The royalties paid in the United States, to the end of 1936, amounted to over two million dollars, and in foreign countries over one hundred thousand dollars.

This evidence would indicate that the old methods of shrinking fabrics, cotton fabrics particularly, were time-consuming, expensive, unsatisfactory, and uncertain in results; that producers of cotton goods, and the manufacturers of cotton garments, refrained from making any representations or giving any guarantee to customers as to the potential shrinkage of their products; that fabrics and garments would shrink was regarded as something inevit-

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able and uncontrollable, and this in practice had to be met by resort to expedients of one kind or another. More definite and effective methods of shrinking fabrics had been sought by persons competent in the art, but without success. Cluett seems to have met with signal success as soon as it was made available to the public, and it seems to have satisfied a long standing need, with satisfaction to producers and to consumers. That art or process has been adopted by an experienced and discriminating class of people, in business in a large way, in many countries, who were prepared to make the capital expenditure necessary and incident to its adoption, and to pay royalties for its use; and they were a class of people who would likely have in their employ technical assistants, or who could and would secure technical advice, and they would not likely be easily induced into experimenting with industrial processes or mechanisms that were not needed, or that were likely soon to be discarded, or that were liable to prove valueless and unsuccessful. The kind of commercial success we find here is always of weight, and is easily distinguishable from that kind of success of which we frequently hear much in patent cases, where mere novelty, low cost price, or some other attractive quality, of patented articles by intensive salesmanship or other causes meets with a favourable though transient reception from the buying public.

In the face of the very formidable evidence to which I have just referred, there must be very substantial grounds for refusing to sustain Cluett, or Wrigley and Melville. Before proceeding to examine the defendant's attacks of prior publication, and prior user, it might be well to observe that upon the evidence so far, there is cast upon the defendant the duty or burden of making out these defences in the clearest way possible. I might observe also that when relying on the defence of prior publication, it is not open to a defendant to take a number of prior publications, and, as if it were like the putting of a puzzle together, produce a disclosure assembled from the various elements contained in the prior documents, and which when so put together appear to resemble the patent attacked. And it is a waste of effort, in the defence of prior user, merely to show that this or that element in a combination patent which is under attack, has been in use before, or was well known. A new combination of well-known devices, and the application thereof to a new and useful purpose, may require invention to produce it, and may be a good subject-matter for a patent. But those grounds of defence, as contended here, will be more carefully examined shortly.

The defendant, in its particulars, cited some thirteen prior patents, but it will be sufficient to refer to two of them. Neither of them in my judgment, is relevant. The first publication to be mentioned is Vincent, a United States patent, granted in 1886. Vincent, a citizen of France, was also earlier granted a patent for the same invention in France, England, Belgium, Germany, Italy and Austria-Hungary. So, if Vincent anticipated Cluett, and the plaintiff's other patentees, that was over forty-five years ago, and it would appear strange if that could be so, having in mind the evidence in this case, and which I have just reviewed. It would be strange that if Vincent disclosed Cluett, that in all these years, it did not become known for shrinking purposes in all those industrial countries in which it was patented, when and where the problem of shrinkage of fabrics must have been an active one, as it was before and after. If one considers the evidence concerning the adoption and reception of Cluett, that alone, it seems to me, would be an answer to Vincent. Vincent states that the object of his invention is to provide an improved machine "for dressing and finishing woven fabrics." He states that the fabric after being moistened is carried around a heated cylinder, being held against the same by an endless apron of absorbent material on rollers, and that the fabric "is in this way dried and smoothed, and the desired finish is imparted to it." The effect of the operation of his mechanism is to squeeze together the hot, dry apron and the moist fabric, "which not only accelerates the drying of the latter, but compacts and smooths it." Whatever be the mechanism described by Vincent, for well settled principles of patent law, and to which I shall soon refer, it cannot be treated as an anticipation of Cluett, or the other patentees of the plaintiff. There is no mention of effecting practical shrinkage in the specification, and one is not directed so to use Vincent.

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I shall have occasion to make reference to the word "compact" elsewhere. The next publication is the British patent to Ratignier, granted in 1911. The object of this invention "is to give the right side or face of plain or figured fabric an undulated or loosened surface so as to procure a fluffy appearance." This effect, "is produced by slightly loosening or distending the loops constituted by the warp threads of the fabric, without apparent deformation of the back of the fabric." This result, the patent states, "is obtained by causing the fabric to adhere to the surface of a sheet of rubber or other elastic material in a stretched condition; by the return of this sheet to its normal state it draws the fabric in its contraction and produces the effect sought for." Everything I have said regarding Vincent is applicable to this patent. Ratignier evidently had in mind the production of something in the nature of an artificial crêpe, a wrinkled kind of fabric, and, I think, something not intended to be washed, because an adhesive substance has been spread upon and applied to the back of the fabric, and it does not appear that it was intended that this adhesive should in any way be removed. There is no direction to use Ratignier for the purpose of accomplishing what Cluett describes may be obtained by his art. I do not think that Ratignier can be seriously considered as an anticipation of Cluett.

The law as to prior publication has been frequently stated. That law was very concisely stated in the Scotch case of *The Rheostatic Company Ltd.* v. *Robert McLaren and Company Ltd.* (1), and I cannot do better than quote the words of the Lord Justice Clerk in that case. He said:

The first ground of challenge by the defenders is that *Satchwell's* patent was anticipated by the publication of prior patents and in particular by *Baker* No. 173,905 of 1920 and by *Whitney and Wedmore* No 242,318 of 1924 These were the only two ultimately relied on. The law as to anticipation is now quite clearly settled by the House of Lords in the two cases of *The British Thomson-Houston Co. Ld.* v. *Metropolitan Vickers Electric Co* (1928. 45 R.P.C 1) and *Pope Appliance Corporation* v. *Spanish River Pulp and Paper Mills* (L.R. (1929) A.C. 269). It is not enough to set up anticipation by prior publication that the patent relied on as an anticipation should suggest the idea to the inventor, or some line of inquiry which may lead him to his invention or that the apparatus described in the earlier specification could be made to produce the same result; it is necessary that the specification relied on should contain a clear and unmistakeable direction so to use the apparatus as to

(1) (1936) 53 R.P.C. 109 at 115.

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produce the result. The test was put by Lord Dunedin in *Pope's* case thus at p. 276: "Would a man who was grappling with the problem solved by the patent attacked, and having no knowledge of that patent, if he had had the alleged anticipation in his hand, have said, this gives me what I wish." Again it is not enough that the document founded on as an anticipation should, when read along with other documents, foreshadow or indicate the invention. A mosaic of extracts culled from prior documents is not an anticipation, as was pointed out by James L.J. in *Von Heyden* v. *Neustadt*, (50 L.J. Ch. 126). The patentee may select and collate from any sources that are accessible to him, and his invention is not invalid by anticipation by reason merely of the fact that some of, or even all, the elements in his device have been anticipated in prior publications.

The test of anticipation by publication there set forth appears very reasonable and sensible, and applying it in this case, as I do, I must hold that none of the published patents cited by the defendant constitute anticipation.

Another defence advanced is that the patents in suit are void because there was prior user of the plaintiff's patented art or process, and apparatus, by a machine known as "Palmer," and some six or seven separate users of Palmer, or a modified Palmer, are alleged in the defendant's particulars. It is claimed that Palmer performs the same process, by substantially the same means, as that described by the plaintiff's patentees. The evidence shows that Palmer was known and was in use, as far back at least as 1886, in France; and for many years it was known and in use in Great Britain, in the United States and Germany, and I have no doubt in many other countries. Cluett was acquainted with it, and in his first experimental machine he utilized the important elements, if not all, of a discarded Palmer, and he referred to Palmer in his paper read before the American Society of Mechanical Engineers, in November, 1931. Cluett stated that in Europe the Palmer machine was called a "felt calender," which would not at all surprise me. Palmer is well known as a machine in which a fabric is carried on a belt around a smooth hot cylinder, and associated therewith as an intake roll, and by this means the fabric is dried, and a finish or polish given to it. Cluett never knew of a Palmer being used for any other purpose. "Finishing," as I understand it, may, in the textile trade, include bleaching, mercerizing, printing, dyeing, calendering, starching, ironing or polishing, or any of these. Melville, one of the plaintiff's patentees, came to know Palmer while with the Bradford Dyers Association, in England, and he knew it to be used only for the

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purpose of giving a finish to fabrics; Melville, after first learning of Cluett, endeavoured to effect shrinkage of fabrics on a Palmer, by moving the intake roll tight against the cylinder, but he could only obtain a one per cent shrinkage, which, he states, was not equivalent to the shrinkage derived from ordinary washing, and such a result he said would not be commercially useful. I think there is no doubt but that some slight shrinkage is obtained in the use of Palmer; the drying alone would account for some shrinkage. From the evidence, it appears Palmer was used usually in finishing silk fabrics, or a mixed cotton and silk fabric. In silk fabrics, the maximum shrinkage is obtained from the dyeing and "boiling-off" operation, amounting to anywhere from eight to fifteen or twenty per cent, and a further shrinkage occurs in drying, but that of itself, it would appear would not be of commercial importance, and particularly in connection with cotton fabrics. There is practically no evidence of cotton fabrics being shrunk, in the commercial sense, with a Palmer, and there is a great deal of evidence that, in the United States and England at least, and I have no doubt elsewhere, Palmer was used, and is being used, by textile concerns only for drying and finishing, and then generally for silk fabrics. I would readily dismiss from consideration the defence of prior user, by Palmer, were it not for the fact that a great deal of evidence was tendered on this point, and with such care, that I feel in fairness to counsel I must review it, though briefly as possible.

Payet, the chief witness for the defendant on this point, from 1886 to 1895, as a young man, worked in a textile plant at Lyon, France, in one capacity or another. There a Palmer was in use, and sometime during this period he operated a Palmer, which, he states, was used for finishing, but, he states that he was once instructed how to use Palmer in order to make fabrics more "compact." This evidence is neither clear nor satisfactory, and in any event it adds nothing to what he later stated, and so I pass it over without comment. I might however mention that Melville stated that the word "compact" is used in the textile trade in England to describe the effect produced by "calendering," and that there the word "compact" is never associated with "shrinking." Melville stated that if a fabric is passed through a calender, or some such device, for finishing purposes, and if held up to the light, the weave would appear to be closed more than it was before the calendering. I have no doubt that the application of a certain amount of pressure and heat would produce that effect, as would any calender, and that would be well known. In one sense a "compacting," or drawing together, of the filler threads is effected by Cluett *et al.*, but that is not, I think, the kind of "compacting" which Payet observed in the textile plant at Lyon, France. In 1911. Payet, then resident in the United States, found himself for a few months in the employ of the Peerless Finishing Company, at Nyack, in the State of New York. On one occasion, having some silk fabric to finish he thought it best to do so with a Palmer which was in the plant, and having made it ready he thought he discovered what he called a "defect" in Palmer, and so he had one, Lane, reduce the size of the intake roller from four to about two inches in diameter, and to draw back the roller against the cylinder; Lane, on behalf of the Van Vlanderin Machine Company, happened then to be in the plant, installing some machinery. As a result of this change Payet states that he got "good finishing," "compacting" and "a little shrinking," one per cent, I understand. It would seem that this Palmer was continued in use, for finishing only, after Payet left this concern. Payet never informed the manager or any officer of this company of any change in the intake roll, or that any unusual shrinkage had in any way been obtained from Palmer. The manager of this company stated that he never heard of this Palmer effecting any unusual shrinkage, and that it was used as a finishing machine for silks. Payet, in 1927, as a finisher, was in the employ of the Lackawanna Silk Dyeing Company, at Scranton, Pennsylvania, which company was engaged only in the dyeing of flat silks. On one occasion, a customer required a longitudinal shrinkage of eight per cent in a quantity of this kind of fabric, and Payet states he got a shrinkage of from four to six per cent in the "boiling-off," and with a Palmer he got an additional one or two per cent, apparently, without any departure from the usual mode of operating the Palmer. The plaintiff's witness Hill, who was in charge of this com-

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pany's mill, stated that the company was not at that time interested in the development of any new methods of shrinking, because any requirements of that nature were obtained by the boiling-off, dyeing, and subsequent treatments of the fabrics; that he never had any conversation with Payet concerning any special method of shrinking fabrics; and that Palmer was used for developing a certain finish and lustre on certain types of silk. Hill's evidence was confirmed by Spalding, also in the service of the same company. In 1921 and 1922 Payet was in the employ of the Glen Lyon Print Works, at Phillipsdale, R.I., as superintendent of dyeing and finishing silk, rayon, and cotton and silk mixtures. This company, at the instance of Payet, purchased a second-hand Palmer from the Mt. Hope Finishing Company, of North Dighton, Mass. In the finishing of some cotton warp and silk weft shirting, Payet states that he obtained on this Palmer "compactness, fullness and softness." The witness Pregent was in the employ of the Glen Lyon Print Works during the period Payet was there employed, and it was a part of his duty to keep a record of every machine that had become obsolete, or any material that was used. There was, he stated, a Palmer in this plant in 1921 and 1922, but most of the time it was on the obsolete list, and his records contained no reference to the use of a Palmer by Payet.

In 1914 and 1915, Lane, master mechanic at the plant of the Royal Piece Dye Works Company, located at Paterson, New Jersey, stated that he altered a Palmer machine by replacing a four-inch intake roll for one two and a half inches in diameter, and which was adjustable against the large cylinder, and this, he said, gave greater flexing of the belt or blanket and more compacting of the fabric, which was silk shirting. Wirbelauer, the president of this company, stated that he knew of no such alteration being made on the Palmer, and that such an occurrence could not take place without his knowledge and instruction; that most of the material finished at this mill was made of waste silk material, which had no tendency to shrink, and that there was no demand at that time for any shrinkage of this sort of fabric, or any other, and there would therefore be no occasion for any alteration or adjustment in the feed roll of the Palmer; and that in any event the feed roll was about two inches in diameter, and was non-adjustable. Vanderheld, in charge of moire silk finishing and dyeing, at the Royal Piece Dye Works Company, during the employment of Lane, stated that Palmer was used to give finish and lustre to the fabrics, and that no change such as alleged by Lane was made; and that he never saw a Palmer feed roll of greater diameter than two and a half inches. The plaintiff's witness Antignat, with an experience of twenty-five years in the finishing of fabrics, testified that he had worked with Payet at the National Silk Dyeing Company, at Dundee Lake, N.J., and also with the Peerless Finishing Company to which reference has already been made, and he could not recall that Payet ever mentioned to him the matter of securing shrinkage on a Palmer machine. His first experience with a Palmer was in 1910, and down to the present time he never knew of a Palmer machine to be used for anything else than to produce a "certain finish or effect which is a smooth hand, what you call sleekness of hand and density of merchandise." The United Piece Dye Works, with which he has been employed during the past fifteen years, have in use seven Palmers. I should point out Antignat's experience has been mostly with whole silk fabrics, a few mixtures of silk and cotton, and silk and rayon. Antignat stated that he never observed any shrinkage on any Palmer, but he has seen a gain in length. This witness described shrinkage tests made on Palmers at the plant of the United Piece Dye Works in 1933, in company with Cluett, with the result that no shrinkage was obtained, but, I think, the fabrics tested were silk, or partly silk. The plaintiff's witness Schriener visited the Braendley Dye Works, at Beacon, in the State of New York, where he found a Palmer and through it he ran a certain number of yards of cotton fabric, the machine being set up in the usual way. On the first fifty yards he obtained a shrinkage of three-tenths of an inch, or slightly over. He then readjusted the machine so as "to make the feed roll nip against the cylinder," and on running through the machine some more cotton fabrics he found that it began to show "pleats on the selvedges, and some in the middle"; then by placing more tension on the fabric, in order to eliminate the pleats, he obtained a very slight shrinkage. The witness Doyle,

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a mechanical draftsman, gave evidence respecting three Palmer machines which he examined at three different textile plants, and this is contradictory of certain evidence given by Payet and Lane, but I do not think I need delay to state in detail the effect of this evidence.

Before proceeding to express any opinion regarding this evidence it may be desirable first to turn to some of the principles that have been laid down from time to time relative to the defence of prior user in infringement actions, and the character of the evidence necessary to sustain such a defence. Evidence of prior user, as is obvious, must receive careful scrutiny, and this I had occasion to discuss in the case of *W. H. Cords et al.* v. *Steelcraft Co.* (1). In *Robertson* v. *Purdey* (2) it was said by Parker J. that "When a patented invention such as the plaintiff's has immediately proved a commercial success, evidence of anticipation by prior user must be examined with the greatest care and caution." I might refer to the remarks of Lord Moulton in *British Westinghouse Electric and Manufacturing Co. Ld.* v. *Braulik* (3), which is so often cited in patent cases. He said:—

> I confess that I view with suspicion arguments to the effect that a new combination bringing with it new and important consequences in the shape of practical machines, is not an invention, because, when it has once been established, it is easy to show how it might be arrived at by starting from something known, and taking a series of apparently easy steps. This *ex post facto* analysis of invention is unfair to the inventors, and in my opinion it is not countenanced by English Patent Law.

In Fletcher Moulton on Patents at page 68 occurs this passage:—

> It has been suggested and would seem to be good law that a prior user in order to defeat a patent must have been a user as a manufacture and not a mere fortuitous user of the subsequent invention, in which the persons using it gained no knowledge of the advantages of the invention, and which would not have led to its further use.

The passage just quoted rests substantially upon the judgment of Blackburn J. in *Harwood* v. *The Great Northern*

(1) (1935) Ex. C.R. 38 at 49. (2) (1906) 24 R.P.C. 273 at 299.
(3) (1910) 27 R.P.C. 209 at 230.

Railway Co. (1). This judgment was set aside in the Exchequer Chamber (2), and in the House of Lords (3), but upon other grounds, and the finding on this point was not disturbed. It may be useful to refer to the judgment of Astbury J. in the case of *Boyce* v. *Morris Motors Ld.* (4). He said:—

It is a question of fact in each case whether a prior user alleged has been proved to have been complete. An incomplete experimental user which led only to partial success, even in the subsequent patentee's field, would not amount to a disclosure of the subsequent perfected invention; but the alleged prior users in this case were not even in the patentee's field at all; they were not concerned with this problem; they effected nothing in the way of its solution, and the use made of the lag between the air space and the water to mark the passing from safety to danger was not remotely thought of or considered or known. In fact, neither of these two experimental sets of tests made use of or published the plaintiff's combination and were not concerned at all with apparatus for use in the normal running of the motor-car. It seems to me to be difficult to establish a prior user unless the subsequent invention idea is made use of, at all events to some extent, for which purpose the cases of *Moser* v. *Marsden* (1896) 13 R.P.C. 24, and *Lyon* v. *Goddard* (1894) 11 R.P.C 354, may be usefully referred to. It is true that *Moser* v. *Marsden* dealt with a prior publication, but the effect of it equally applies to the case of a prior user. When a patent, especially one of a simple character, has proved a commercial success, evidence of alleged prior user requires and ought to receive very careful scrutiny, and evidence of something that was nearly, but not quite, a prior user is not relevant as such to an allegation of want of subject-matter in a subsequent patent. A plea of prior user must either succeed or fail altogether. In my opinion, no prior user of the plaintiff's invention has been proved in this case.

It was contended that Palmer would effect shrinkage in a useful and commercial way. Palmer being such an old machine, and used in so many of the principal industrial countries of the world, this contention virtually amounts to saying that fabric shrinking by Palmer was part of public or common knowledge. As prior user is another medium of publication, the following remarks by Luxmore J. in *British Acoustic Films Ld. et al.* v. *Nettlefold Productions* (5) might be referred to. He said:—

In my judgment it is not sufficient to prove common general knowledge that a particular disclosure is made in an article, or series of articles, in a scientific journal, no matter how wide the circulation of that journal may be, in the absence of any evidence that the disclosure is accepted generally by those who are engaged in the art to which the disclosure relates. A piece of particular knowledge as disclosed in a scientific paper does not become common general knowledge merely because it is widely

(1) (1860) 29 L J Q B 193, at 202
(2) (1862) 31 L J Q B. 198.
(3) (1864) 11 H.L.C. 654
(4) (1927) 44 R P C 105 at 135
(5) (1936) 53 R P C. 221, at 250.

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read, and still less because it is widely circulated. Such a piece of knowledge only becomes general knowledge when it is generally known and accepted without question by the bulk of those who are engaged in the particular art, in other words, when it becomes part of their common stock of knowledge relating to the art. Whatever else common general knowledge may be, it has never in my judgment included public knowledge of particular documents, reports or scientific papers and the like. The knowledge of a number of individuals that a particular suggestion or particular suggestions has or have been made for the use of biasing in a particular apparatus, or a number of particular apparatus, cannot be held to be common general knowledge. It is certainly difficult to appreciate how the use of something which has in fact never been used in a particular art can ever be held to be common general knowledge in the art.

Now that leaves me to deal with the evidence respecting the alleged prior user. The evidence shows that the use to which Palmer was put was not that which the patentees here had in mind, and users of Palmer were not concerned with the problem such patentees were attempting to solve. It is not enough to look at Palmer, and then to look at Cluett *et al.*, and say they look very much alike, or that the former might have been used for the same purpose as the latter, or that if a description of each was put in writing they would perforce show a similarity of language, and that therefore there must be anticipation. Taking the evidence of Payet and Lane at its face value there is nothing to show that Palmer, in a real and practical sense, was ever used to effect a definite and controlled shrinkage of fabrics. At most, the shrinkage which they say was obtained by Palmer would seem of no special consequence here, and the use which they say they made of Palmer was, I think, more in the nature of inconclusive or incomplete experiments, the results of which were never communicated to the owners and operators of Palmer, or to any others who might be interested in an improved method of shrinkage; or, it may be looked upon as merely an accidental user, to which no particular importance was then attached, and the accident of this litigation alone recalled it; in any event it did not lead to the disclosure of the process or principle which the plaintiff's patentees claim to have invented, to the interested section of the public, even if the user and results alleged by Payet and Lane ever actually occurred or were obtained. That is not sufficient to void the plaintiff's patents.

If Palmer, so long known and in use in the textile trade in so many important countries, were capable of shrinking fabrics in the sense of Cluett *et al.*, it is more than strange that this did not become generally known to and adopted by fabric manufacturers and finishers, and garment makers, in such countries. It would be equally strange if Payet and Lane, by modifying Palmer, had accidentally or otherwise succeeded in putting into use the method of Cluett *et al.*, that nothing was heard of it. If Palmer, in its ordinary or alleged improved mode of operation, were capable of shrinking fabrics in the degree commercially required, it is hardly possible to believe that Payet and Lane would not have widely proclaimed the fact, revealed it to their employers, and recommended its adoption by the textile trade. Payet was not entirely an unsophisticated person as to the value of any important improvement in methods of shrinking fabrics; he had in fact patented at least one invention of his own, closely related to the art in question here. In this respect I would not suspect Lane to be less alert than Payet. And it is to be added that Payet came to know of Cluett's invention shortly after its complete development; in fact it was disclosed and explained to him by Cluett, in 1933, and there is considerable evidence concerning conversations between Payet and Cluett and some of his associates, touching the invention of Cluett, and correspondence passed between Payet and Cluett concerning it. I do not intend reviewing that evidence and will only observe that the conduct of Payet there disclosed seems entirely inconsistent with the idea that he had earlier known and practised the process of shrinkage, which Cluett was then engaged in bringing to the attention of potential users.

On the other hand, the accuracy of the evidence of Payet and Lane has been seriously attacked, and, in many important aspects denied; and this has been done with such force that, in my opinion, no weight can be attached to that evidence. Whether the evidence of Payet and Lane be regarded as a frank recollection of past events or impressions, or the consequence of an *ex post facto* analysis of Cluett *et al.*, or the invention of exuberant imaginations, or whether it had its origin in the fact that they were only too willing to be convinced that they saw years ago in Palmer, or in a modified Palmer, all the values which were desirable to be seen for the purpose of this case, all

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matters little. In any event, the evidence is of such a character that, in my opinion, it is not entitled to weight, or acceptance, and I propose disregarding it altogether. I therefore hold that the defence of prior user has not been established.

Counsel for the plaintiff have advanced another important and interesting point, in answer to the alleged prior user pleaded by the defendant, and that involves s. 61 (1) of the Patent Act, enacted in 1935. The contention of Mr. Biggar was that if the alleged prior user were in fact established, then Payet and Lane should each be treated as an "inventor," within the meaning of that section, which would have the effect of eliminating the defence of prior user. The section is as follows:—

61. (1) No patent or claim in a patent shall be declared invalid or void on the ground that, before the invention therein defined was made by the inventor by whom the patent was applied for it had already been known or used by some other inventor, unless it is established either that,

(*a*) before the date of the application for the patent such other inventor had disclosed or used the invention in such manner that it had become available to the public; or that

(*b*) such other inventor had, before the issue of the patent, made an application for patent in Canada upon which conflict proceedings should have been directed; or that

(*c*) such other inventor had at any time made an application in Canada which by virtue of section twenty-seven of this Act had the same force and effect as if it had been filed in Canada before the issue of the patent and upon which conflict proceedings should properly have been directed had it been so filed.

While it is not necessary to a decision in this case that I should pronounce any opinion upon the point, yet, it was seriously advanced by Mr. Biggar, and as the case is likely to go further I feel that I should not refrain from expressing my view concerning it. The section of the Patent Act mentioned is an important one, and, I believe, a very wise and just one, whatever be the true limits of the enactment.

I think it is at least clear that the section was intended to protect a patent against one who comes in and claims to have made the same invention earlier, but who has not made it available to the public, and has not applied within the time mentioned for a patent in Canada, or in a Convention country. The object of the enactment is, I think, obvious. A patent represents a *quid pro quo,* as Lord Dunedin said in a patent case. The *quid* to the patentee is the monopoly; the *quo* is that the patentee gives the public the knowledge which it did not have before. So far the section seems clear, but the question is whether it applies in the case where prior user only is alleged, and where the prior user was by one who does not in terms claim prior invention, and who is not a party to the action.

On turning to the defendant's particulars we find it pleaded that there was "previous user thereof in and by Palmer," and the places and times of user are specified. Then Payet testified that he obtained shrinkage by the use of a Palmer, and by a Palmer modified by Lane; and Lane stated that he observed shrinkage effected by a Palmer machine, modified by himself, in a textile mill at Paterson, N.J.; and there is other evidence much to the same effect. The particulars do not assert prior invention by anybody, excepting of course the cited published patents, and I can hardly say that Payet and Lane in giving their testimony put themselves forward as inventors; they certainly did not claim of the Palmer machine. I am not accepting the evidence of either Payet or Lane and that alone would preclude me from treating them as inventors. I am discussing the point on the assumption that Payet and Lane so used Palmer, or so modified Palmer, that they obtained shrinkage in the sense claimed by the plaintiff's patentees. I understood Mr. Biggar to argue that if the alleged prior user were in fact established, it had the effect of voiding the plaintiff's inventions, and that because the plaintiff's patentees were "inventors," and because Payet and Lane had earlier known or used the same invention, the latter were therefore "inventors." If that process of reasoning is correct then the implications are serious, and there would seem to be some practical difficulties in the way of applying the section, and in determining when a prior user is also an "inventor."

The words "other inventor," in s. 61 (1) (*a*) indicate the same person referred to in s. 61 (1) as having "known or used" the invention defined in the issued patent, and he is there also referred to as an "other inventor." Is the Court to say that Payet and Lane are "inventors" when they do not put themselves forward as such, when they never applied for a patent, when they are not parties to the action seeking to void the plaintiff's patents, and when they are called merely as witnesses to establish prior user

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by themselves, of a Palmer machine. No one is put forward here, except Payet or Lane, as having earlier used Cluett *et al.*, and, it may with some force be argued that if Cluett *et al.* are inventors, and if Payet and Lane discovered in Palmer, or in a modified Palmer, the capacity to shrink fabrics, and that they successfully used Palmer for that purpose, they are therefore to be regarded as prior "inventors," under s. 61 (1) of the Patent Act. In that state of facts does s. 61 empower one to say that they are inventors?

I cannot think that sec. 61 was intended to apply to the state of facts here. I think it contemplates the case where the one seeking to void a patent on the ground of prior invention, puts himself forward as the prior inventor, and who alleges he had so disclosed or used the invention that it had become available to the public, or, that he had, before the issue of the patent he seeks to void, applied for a patent in Canada, or in a Convention country. Generally speaking, who else would be likely to bring an action to expunge a patent, or to defend an action for infringement, on such a ground? I rather fear that if Mr. Biggar's contention be correct, the tendency in cases of this kind would be to put forward the contention that any prior user pleaded was invention, which would imply some "other inventor," so that if the prior user were established, it would be rendered nugatory by the application of s. 61. Upon the facts before me, in this case at least, I do not think the point raised by Mr. Biggar can prevail. It is conceivable that in a certain state of facts Mr. Biggar's construction of s. 61 (1) should be supposed. Even if I am correct in my view of the point under discussion, still, I think the section should in some way be clarified, in order to avoid confusion among practitioners and litigants.

I have no difficulty in coming to the conclusion that there is invention in Cluett and Wrigley. They seem to meet all the tests usually applied in determining affirmatively the question of invention. It is clear, I think, they disclose an altogether new principle in the art of shrinking fabrics, which had not been known or used before, and which in the opinion of those most competent to judge met an unsatisfied demand, and provided one solution of a problem of long standing. Briefly, in each case, shrinkage is obtained by causing the fabric to assume and follow the conformation of a belt which is adapted to extend or contract, and it is when the belt contracts that shrinkage is effected. That is the underlying principle in the art described and claimed by Cluett and Wrigley. That being so, and if we read and examine the claims of those two patents which are in suit, it is impossible to reach any other conclusion than that they are infringed by Lyth; and it is to be emphasized that it is the art or method that is claimed in those patents, not a machine or mechanism. The claims are broadly stated, and the patentees were entitled to do so, after describing some means of applying what was a new principle. It was not contended that the inventions were too broadly claimed.

It has been well and concisely stated in the text book, Terrell on Patents, that inventions may be divided roughly into two classes in respect to subject-matter. First, there is that kind of invention which consists in the discovery of a method of application of a new principle—here what has been invented is in effect the new principle, and, generally speaking, the Court will regard jealously any other method embodying that principle, for the patentee was not bound to describe every method by which his invention could be carried into effect. Second, there is that kind of invention which consists in some particular new method of applying a well known principle, and in this case the use of other methods is not contemplated by the patentee, and should not be included within the ambit of his claim. That describes an accepted doctrine in patent law. It is to the first class that Cluett and Wrigley belong; it is a new principle which those two patentees claim to have invented; they each have shown means for carrying the same into effect, and they were not bound to describe every method by which this could be carried out. In cases of this kind, where a new principle is involved, the question always is not whether the substantial part of the process or combination said to be infringed has been taken from the patentees' specification, but the very different one, whether what has been done takes from the patentee the substance of his invention as claimed. A patent for carrying a principle which is new into effect, protects the grantee against all other modes of carrying that principle into

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effect. Little reflection is required to recognize the soundness and justice of that principle.

If the principle of Cluett and Wrigley, and Lyth, are the same, and the methods of application alone differ that will not relieve the defendant of infringement. The principle disclosed in Lyth is, in my opinion, the same as that disclosed in the plaintiff's patents. The defendant's means of application would not be expected to be precisely that described in the plaintiff's patents. That would not be expected. The defendant had an opportunity of examining the plaintiff's patents before developing Lyth, and must, I think, have had a very accurate idea of how the principle disclosed in one or the other was in practice applied. The case is a good illustration of how readily the competent mechanical engineer, once understanding the principle of an invention, may produce other means of carrying the same idea or principle into effect. The defendant pleaded, in its particulars, that "the methods used by the defendant in its 'Zero Shrunk' machine are different from the methods indicated in the claims invoked by the plaintiff," because, "the shrinking in the defendant's machine depends upon restricting at one point the aperture through which the belt has to pass, so that the aperture is narrower than the normal thickness of the belt, which accelerates the speed of the belt at that point, then the belt, after passing that point, resumes its normal thickness and its slower speed." That statement, even if strictly accurate, so far as I can see and gather from the evidence, shows no distinction in principle, and what really happens in one case occurs in the other, and that, by operation of the same principle. The differences in the means of applying the principle are not substantial, or, in this case of consequence, and it is in the means only that any distinction is to be found. In respect of those two patents the plaintiff must therefore succeed.

I have yet to say a word in connection with the third patent in suit, which I have referred to as "Melville," even though what I have already said would sufficiently dispose of this patent. In the second and third patents sued upon, Wrigley and Melville are joint inventors, and it was only for the sake of convenience that I referred to the second patent as "Wrigley," and to the third patent as "Melville."

The third patent, Melville, is the result of a divided application, and Melville refers to the fact that his method or process is described in the second patent, which I have throughout referred to as "Wrigley." The necessity or desirability of dividing the application, in a case of precisely this kind, I have never been able to appreciate. However, Melville is one of the patents in suit, and what is there claimed is different from that claimed in either Cluett or Wrigley. Here it is only an apparatus that is claimed. Though the apparatus described by Melville is different from that described and shown by the defendant, yet in principle they are the same, and there is little to add to what I have already stated. In both cases the same effect would seem to result from precisely the same cause. As I have already said it is not necessary that the means as well as the principle should be new in order that a patent may secure the principle to the patentee; it is only necessary that the principle itself be new, and the patentee describe a means of applying it. If, however, not only the principle but the means is new, then the means may form the subject of a distinct claim, or a separate patent, and it was open to Wrigley and Melville to claim invention in the apparatus described; and this was not contested by the defendant except upon the ground of prior user, and anticipation by the cited published patents, both of which points I have already disposed of. In principle, I see no distinction between the means of Melville and that of Lyth. The distinction seems to me but evidence of a purpose and intention of making them appear different, so as to avoid infringement. The belt is practically the same, they travel almost identically the same path as is shown by Model 9 and exhibit B, pressure—which is adjustable—and heat is applied by different means but for the same purpose and to obtain the same effect, a shoe in one case and a roller in the other. The fact that the fabric is fed upon the belt at different points would not distinguish the two machines. Melville is not claimed as a particular or specific method of applying an old principle, and cannot, I think, be so construed. Reading the claims in suit in this patent, together with the descriptive portion of the specification, it follows I think that Melville has

1937 been infringed by the defendant. The plaintiff therefore succeeds and costs will follow the event.

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Judgment accordingly.

BETWEEN:

THE QUEBEC CENTRAL RAILWAY COMPANY .... SUPPLIANT;

AND

1936 Jan. 21 & 22.

HIS MAJESTY THE KING......... RESPONDENT.

1937 Nov. 3.

1938 Jan. 12.

Crown—The Railway Subsidies Act, 2 Geo V, c. 48—Time of the essence of the agreement—Claim for services rendered pursuant to statute.

Suppliant was incorporated by an Act of the Legislature of the Province of Quebec with powers to construct a railway in that province. Some time prior to 1912 suppliant had begun the construction of a branch line from a point on its main line of railway and which it was proposed to extend for a distance of 150 miles. Aided by subsidies paid it by the Government of Canada suppliant constructed three continuous extensions of this branch line for a distance of 40·34 miles in length. By the Railway Subsidies Act (1912), 2 Geo V, c. 48, the Governor in Council was authorized to grant a subsidy to suppliant for an extension of this branch line "not exceeding 50 miles" in length.

Suppliant and the Minister of Railways for Canada entered into certain agreements in writing which provided for the construction of the railway extension, for payment of the subsidy in the manner and time therein set forth and in accordance with s. 11 of the Railway Subsidies Act, for the completion of the whole extension by August 1, 1916, declaring time "to be essential and of the essence of the agreement," and providing that "in default of completion thereof within such time the company shall forfeit absolutely all right and title, claims and demands, to any and every part of the subsidy or subsidies payable under this agreement, whether for instalments thereof at the time of such default earned and payable by reason of the completion of a portion of the line, or otherwise howsoever."

Suppliant received payment on account of subsidy for the completion of ten miles of the road. On August 1, 1916, 24·17 miles only of the line had been built, no further mileage ever having been constructed.

Suppliant claims payment of the subsidy upon the line of railway so far completed and also payment for services rendered in accordance with s 8 of the Railway Subsidies Act which provides that every company operating a railway, or portion of a railway, subsidized under the Act "shall each year furnish to the Government of Canada transportation for . . . mails . . . over the portion of the lines in respect of which it has received such subsidy and, whenever required, shall furnish mail cars properly equipped for

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such mail service," and that in or towards payment for such charges the Government of Canada "shall be credited by the company with a sum equal to three per cent per annum on the amount of the subsidy received by the company under this Act."

Held. That since time was material and of the essence of the agreement, suppliant, having failed to complete the railway extension by the date fixed in the agreement, is not entitled to recover any subsidy whatever

2. That with regard to the payment for services rendered in accordance with s. 8 of the Act, the continuous extensions of the suppliant's branch line, upon which subsidies have been paid, must be treated as a single line of railway and as if constructed under one subsidy contract.

3 That the annual credits of interest upon subsidy as provided for in the Act are not cumulative.

PETITION OF RIGHT by the suppliant claiming payment of a subsidy alleged due it from the Crown and for the rendering of certain services in accordance with the provisions of the Railway Subsidies Act, 2 Geo. V, c. 48.

The action was tried before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa.

W. N. Tilley, K.C.; E. P. Flintoft, K.C., and *D. I. McNeill* for suppliant.

F. P. Varcoe, K.C., for respondent.

The questions of law raised are stated in the reasons for judgment.

THE PRESIDENT, now (January 12, 1938) delivered the following judgment:

The suppliant is a corporation duly incorporated by an Act of the Legislature of the Province of Quebec, with authority to construct and operate a railway in that province, including the line or lines hereinafter to be mentioned. Prior to the time material here the suppliant had commenced the construction of a branch line, known as the Chaudiere Valley Extension, from a point on its main line of railway, and it was proposed eventually to extend this branch line eastwardly, a distance of over 150 miles, to a point known as Cabana, on the Temiscouata Railway.

In 1907, the suppliant constructed an extension of this branch line, 9 miles in length, from St. Francis to St. George; later, another extension, 30 miles in length, was constructed from St. George to Ste. Justine; and later still a further extension was constructed, 1·34 miles in length,

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from Ste. Justine to an unnamed point which we shall designate as Ste. Sabine. In the case of each of these three continuous extensions of this branch line of railway, the Government of Canada agreed to pay, and did pay, the suppliant a certain subsidy in aid of the construction thereof, under authority of certain Railway Subsidies Acts.

The Railway Subsidies Act of 1912, hereafter to be referred to as "the Subsidy Act," authorized the Governor in Council to grant a subsidy to the suppliant in aid of the construction of a further extension of the line, from Ste. Sabine to an unnamed point in the Township of Dionne, in the County of L'Islet, "not exceeding 50 miles," and it is this proposed extension with which we are immediately concerned. Under authority of that Subsidy Act, in June, 1914, a contract in writing was entered into between the Minister of Railways and the suppliant, by the terms of which the Crown was to pay the suppliant a certain subsidy, and the suppliant was to construct the railway extension in question, and to perform other conditions. Sec. 6 of the Subsidy Act required that construction of any railway therein subsidized be commenced within two years from the first day of August, 1912, and that the same be completed within a reasonable time, not to exceed four years from the said first day of August, 1912, to be fixed by the Governor in Council. The contract provided that the railway extension was to be completed on or before the ninth day of March, 1916. No explanation was given as to how this date came to be fixed, and, I think, it must have been an error because the Order in Council authorizing the contract named August 1, 1916, as the date for completion. However, it was agreed by Mr. Varcoe that the date for completion of the contract might be assumed to be August 1, 1916. By clause 5 of the contract, time was declared "to be material and of the essence of the agreement," and it provided that "in default of completion thereof within such time the company shall forfeit absolutely all right and title, claims and demands, to any and every part of the subsidy or subsidies payable under this agreement, whether for instalments thereof at the time of such default earned and payable by reason of the completion of a portion of the line, or otherwise howsoever." Construction of the railway extension was commenced in the latter part of 1914 and carried on continuously as far as Lake Frontier, a distance of 24·17 miles, and it was completed to that point before August 1, 1916, and it is upon that total length of constructed line that the suppliant now claims payment of subsidy; construction of the balance of the subsidized extension was never commenced, and apparently any idea of doing so was for the time abandoned.

The subsidy to be paid the suppliant under the contract, as authorized by s. 2 of the Subsidy Act, was $3,200 per mile, not exceeding fifty miles, if the cost of construction on the average did not exceed more than $15,000 per mile, and "a further subsidy beyond the sum of $3,200 per mile of fifty per cent on so much of the average cost of the mileage subsidized as is in excess of $15,000 per mile, such subsidy not exceeding on the whole the sum of $6,400 per mile." Section 5 of the Subsidy Act prescribed how and when the subsidy should be paid, and it reads as follows:—

5. The subsidies hereby authorized towards the construction of any railway or bridge shall be payable out of the Consolidated Revenue Fund of Canada, and may, unless otherwise expressly provided in this Act, at the option of the Governor in Council, on the report of the Minister of Railways and Canals, be paid as follows:—

(*a*) Upon the completion of the work subsidized; or,

(*b*) By instalments, on the completion of each ten-mile section of the railway, in the proportion which the cost of such completed section bears to that of the whole work undertaken; or,

(*c*) Upon the progress estimates on the certificate of the chief engineer of the Department of Railways and Canals that in his opinion, having regard to the whole work undertaken and the aid granted, the progress made justifies the payment of a sum not less than thirty thousand dollars; or

(*d*) With respect to (*b*) and (*c*), part one way, part the other.

Section 11 of the Subsidy Act is the basis of the claim advanced by Mr. Tilley on behalf of the suppliant, and it is as follows:—

11. Whenever a contract has been duly entered into with a company for the construction of any line of railway hereby subsidized, the Minister of Railways and Canals, at the request of the company, and upon the report of the chief engineer of the Department of Railways and Canals and his certificate that he has made careful examination of the surveys, plans and profile of the whole line so contracted for, and has duly considered the physical characteristics of the country to be traversed and the means of transport available for construction, naming the reasonable and probable cost of such construction, may, with the authorization of the Governor in Council, enter into a supplementary agreement, fixing definitely the maximum amount of the subsidy to be

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paid, based upon the said certificate of the chief engineer and providing that the company shall be entitled to be paid, as the minimum, the ordinary subsidy of $3,200 per mile, together with sixty per cent of the difference between the amount so fixed and the said $3,200 per mile, if any, and the balance, forty per cent, shall be paid only on completion of the whole work subsidized, and in so far as the actual cost, as finally determined by the Governor in Council upon the recommendation of the Minister of Railways and Canals, and upon the report and certificate of the said chief engineer entitles the company thereto· Provided always:

(*a*) that the estimated cost, as certified, is not less on the average than $18.000 per mile for the whole mileage subsidized,

(*b*) that no payment shall be made except upon a certificate of the chief engineer that the work done is up to the standard specified in the company's contract;

(*c*) that in no case shall the subsidy exceed the sum of $6,400 per mile.

In pursuance of s. 11, and the authority of a certain Order in Council, a supplementary contract was entered into between the parties herein, in January, 1915, and therein it was agreed: "(1) That the maximum amount of subsidy to which the company shall be entitled under the said Subsidy Contract is hereby fixed at $6,400 per mile for 50 miles. (2) That the minimum amount of subsidy to which the company shall be entitled under the said Subsidy Contract shall be $3,200 per mile for the said 50 miles, together with sixty per cent of the difference between $6,400 per mile so fixed and the said $3,200 per mile. (3) That the balance, forty per cent, shall be paid only on completion of the whole work for the said 50 miles, and in so far as the actual cost, as finally determined by the Governor in Council, entitled the company thereto." The effect of the supplementary contract was that the minimum subsidy payable to the suppliant was to be $5,120 per mile, the chief engineer having certified that the probable and reasonable cost of the construction per mile would be $26,000. The supplementary contract also provided:—

(*a*) That no payment shall be made to the company under these presents and the company shall not be entitled to any payment hereunder except in compliance with the provisions of the statutes in each case made and provided and upon the certificate of the Chief Engineer that the work done is up to the standard specified in the company's contract no. 20825.

(*b*) That these presents shall be read with and taken to form part of the said subsidy contract no. 20825, and the line of railway therein mentioned shall be constructed, completed and operated by the company and the subsidies authorized shall be paid by His Majesty subject to and in accordance with all the provisoes, covenants, agreements and conditions in such subsidy contract contained, except in so far as the said provisoes, covenants, agreements and conditions may be inconsistent with or varied by these presents.

On the authority of an Order in Council, dated May 4, 1915, based upon a report of the Chief Engineer of the Department of Railways that the first ten-mile section of the line had been completed up to the standard specified in the contract and was ready for operation, and that the estimated cost of the line when completed was $26,000 per mile, a payment on account of subsidy was made to the suppliant in the sum of $43,161.60 in respect of the first ten-mile section. In this connection the chief engineer certified as follows: "As required by the provisions of the said Act, I certify that in my opinion, having regard to the whole work undertaken and the aid granted, and that the work done is up to the standard specified in the company's contract, the progress made justifies the payment of 16·86 per cent of $256,000 (the total amount of subsidy available prior to completion, being a total of $3,200 per mile ordinary subsidy plus 60 per cent of $3,200 per mile further subsidy or $5,120 per mile for 50 miles) or $43,161.60, from which should be deducted all previous payments on account of this subsidy." It would appear therefore that the amount of subsidy available to the suppliant was computed pursuant to the terms of s. 11 of the Subsidy Act, and the corresponding provision of the supplementary contract; and it seems that both parties were agreed, or it was so decided by the Governor in Council, that the subsidy should be paid by instalments, on the completion of each ten-mile section of the railway, in the proportion which the cost of the completed section bore to that of the whole work undertaken, as provided by s. 5 (*b*).

Considerable documentary evidence was adduced pertaining to the matter in controversy, to which perhaps I should make a brief reference, even though in my view of the case the same may not be of importance. On June 9, 1916, Mr. Ferguson, Inspecting Engineer, reported to the Chief Engineer of the Department of Railways that the extension to mileage 17·5 was completed, and that from mileage 17·5 to mileage 23·8 only some ballasting was required to finish the work; Mr. Ferguson also called attention to the fact that the whole line subsidized could not be completed within the time fixed by the Subsidy Act.

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On June 28, 1917, the Assistant Engineer, Mr. Henry, reported to the Chief Engineer that the total length of line then completed was 24·17 miles, but he does not state the date of completion; that the same had been completed up to the standard specified in the subsidy agreement; that the reasonable cost of the same was "sufficient to entitle the company to the full subsidy of $6,400 per mile provided the necessary authority is obtained for the payment of a subsidy upon the portion of the line completed"; and he pointed out that the time fixed by the Subsidy Act for the completion of the whole 50 miles was August 1, 1916. On August 14, 1917, the Chief Engineer, Mr. Bowden, submitted a memorandum to the Minister, wherein he certified that a total length of line of 24·17 miles had been completed, up to the standard specified in the subsidy contract, by August 1, 1916, and that the cost per mile was sufficient to entitle the company to the full subsidy of $6,400 per mile "provided the governing condition of the statute as to time of completion for the full mileage subsidized had been complied with." He stated that he was unable to certify that any further payments on account of subsidy were due the suppliant as the terms of the Subsidy Act were not complied with, in respect of the completion of the whole work. It may therefore be assumed that 24·17 miles of the line had been completed on or before August 1, 1916.

Subsequent to August, 1916, the suppliant kept pressing for payment of any subsidy due it, upon the line of railway so far completed, and it never abandoned its alleged right or claim to payment of the subsidy in question. Further payment of subsidy was refused upon the ground that by reason of the failure to complete the whole work on or before August 1, 1916, there was no authority to pay the same without a revote of the subsidy by Parliament, which was never done; and that for the same reason any right or claim to payment of any subsidy earned, in respect of the portion of the line completed, had been forfeited under the terms of the contract. It was also represented to the suppliant that owing to the demands upon the treasury during the war, payment of the subsidy claimed could not be considered. Ultimately the position was taken definitely by the Crown that the suppliant was not legally entitled to the payment of any further subsidy, owing to its failure to complete the whole work, on or before the time stipulated in the contract.

At the trial, Mr. Walsh, the manager of the suppliant company, gave evidence, and he mentioned several reasons why construction work was discontinued. In answer to a question put by Mr. Varcoe as to whether there were any understanding that the suppliant was to be relieved of its obligations under the contract, Mr. Walsh stated: "Not in the sense you represent but there was certainly a desire on the part of the Government not to spend any more money during the war years, to discontinue that development, and we were so advised and we stopped there." And he further stated that the Government never requested the suppliant to continue the work, which, I may say, has been amply established; and that about the time construction ceased it was impossible to secure sufficient labour to complete the work. It would require but little evidence to convince one that, sometime in 1916, or earlier, an informal understanding had in some way been reached, between the Minister of Railways and the suppliant, that the work was to be temporarily discontinued. It certainly would not astonish any one, in view of all the circumstances of the time, if such an understanding had been reached, in the interest of all concerned. The provision of the contract, as to the time for the completion of the whole work, would not likely be regarded as a serious obstacle in reaching such an understanding. What might be the legal effect of such an actual understanding or agreement between the Minister of Railways and the suppliant, but not formally concurred in by the Governor in Council, I do not propose discussing. That issue was not raised and the case was not put to me on that footing. It was not contended by the suppliant that by reason of the war the contract became impossible of performance.

Having stated what appears to be the salient facts disclosed by the evidence, and having mentioned the important provisions of the Subsidy Act, and the principal and supplementary contracts, I turn now to a consideration of the major point for determination, that is, whether the suppliant is entitled to any payment on account of subsidy, for the 14·17 miles of railway completed on or before

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August 1, 1916, and in respect of which no subsidy has been paid. The contention of Mr. Tilley was, that upon a true construction of sec. 11 of the Act, and the supplementary contract made thereunder, the suppliant was entitled to be paid the subsidy of $5,120 for each mile of railway completed according to the standard specified in the contract, that is, to the ordinary subsidy of $3,200 per mile, and sixty per cent of the difference between the amount fixed as the maximum subsidy, which was $6,400 per mile, and the said $3,200 per mile, and that the only penalty for non-completion of any balance of the whole work under the contract, was the loss of any claim to the forty per cent of the maximum subsidy which was retained until completion of the whole work. The chief contention of the Crown is that, by the express terms of the subsidy contract, it was agreed that in default of completion of the whole work by August 1, 1916, the suppliant forfeited absolutely any claim or demand to any instalments of subsidy then earned and payable by reason of the completion of any portion of the line.

The conclusion I have reached is that the clause of the contract making time material and of the essence of the contract is fatal to the suppliant's claim. I think it is clear that the chief purpose in enacting s. 11 of the Subsidy Act was to make subsidy contracts more responsive in financing railway undertakings, and to eliminate or reduce the uncertainty of the initial and ultimate subsidy payments under such contracts, by definitely fixing in advance the minimum subsidy payable, and also the maximum subsidy; it, I think, provided for the payment of a greater initial payment of subsidy on completed sections of a railway undertaking, pending the completion of the whole work, and the receipt of the full subsidy earned. This would tend to facilitate the initial and permanent borrowing operations of a company, with the best possible results, in order to provide a portion of the immediate capital required for the undertaking. This section of the Subsidy Act required the Chief Engineer to examine carefully the surveys, plans and profile of the whole line contracted for, to study the physical characteristics of the country to be traversed and the means of transport available for construction, and to name and certify the reasonable and probable cost of construction; and this was something not required to be done under s. 2 of the Act. In this particular case, while it was known that the total subsidy payable could not exceed $6,400 per mile, it was not known definitely whether it was likely to reach that amount, but the considered and certified estimate of the cost of construction, made by the Chief Engineer, rendered practically certain the fact that the maximum subsidy of $6,400 per mile would be earned and paid, on the completion of the whole work.

This would be, at the start, or pending the completion of the whole work, of more practical value and assistance to a company, in its financial operations, than if the contract were subject to the terms of s. 2 of the Subsidy Act, and the initial subsidy payments on constructed sections, or on progress estimates, would, I think, be greater, and at least it was definite and ascertained. That would appear to be a considerable advantage to a company embarking on any railway construction project. In this particular case the effect of the supplementary contract was to fix definitely the minimum subsidy at $5.120 per mile, and practically, if not definitely, to fix the maximum subsidy. Section 11 of the Subsidy Act is not quite clear as to the balance of the maximum subsidy, that is, the forty per cent to be retained until completion of the whole work. It speaks of the maximum subsidy as being fixed "definitely," but it also states that the balance is to be paid on the completion of the whole work, "in so far as the actual cost is finally determined by the Governor in Council." I assume the last quoted words were intended as a safeguard in the final accounting, against contingencies of one kind or another. At any rate a minimum subsidy payment of $5,120 per mile was definitely fixed for completed sections of the railway, and that is all that is claimed here.

Now, the inclusion of the provisions of s. 11 in the supplementary contract did not disturb any section of the Subsidy Act, or any provision of the principal contract, other than s. 2 of the Act, and paragraph no. 9 of the principal contract. Sec. 5 of the Subsidy Act remains as it was, that is, as to time of payment of instalments of subsidy, which evidently was a matter to be arranged between the parties, or finally at the option of the Governor

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in Council. I would assume from the documentary evidence, and the conduct of the parties, that it had come to be understood that the terms of s. 5 (*b*) of the Subsidy Act would constitute the rule, though flexible, respecting the time or times of subsidy payments. And the clause of the principal contract, paragraph 5, making time the essence of the contract, and providing certain penalties and forfeitures in default of completion, was not disturbed or varied by the supplementary contract. A draft form of subsidy contract, in respect of railway subsidies authorized by the Subsidy Act of 1912, was approved by the Governor in Council, and the executed subsidy contract followed that form, and it included the clause just mentioned. Now that clause is very clear and definite, and I have already quoted it precisely as found in the text. It says in part "... . the company shall forfeit absolutely all right and title, claims and demands, to any and every part of the subsidy or subsidies payable under this agreement, whether for instalments thereof at the time of such default earned and payable by reason of the completion of a portion of the line, or otherwise howsoever." Section 11, and its corresponding provision in the supplementary contract, was not, in my opinion, intended to eliminate or vary in any way paragraph 5 of the principal contract. Section 11 of the Subsidy Act was intended merely to fix definitely in advance the minimum and maximum subsidy, otherwise the contract remained as it was. It did not waive or vary the suppliant's obligation to complete the whole work within the stipulated time, or the penalty and forfeiture provisions for failure to do so. The supplementary contract provided that the railway "shall be constructed and completed" in accordance with "all the provisoes, covenants, agreements and conditions in such subsidy contract contained," which, I think, are not inconsistent with any of the terms of the supplementary contract, except as already mentioned. It would be altogether improbable that the supplementary contract was intended to mean, for example, that the suppliant might construct, say only five miles of railway, prior to August, 1916, and become entitled to the minimum subsidy, and escape entirely the penalty and forfeiture provision of the contract. It is quite likely that experience had shown that the inclusion of paragraph 5 of the principal contract was desirable and necessary, even though in many cases it would probably never be enforced.

There is another point in the case for decision. Sec. 8 of the Subsidy Act requires that every company operating a railway, or portion of a railway, subsidized under the Act, "shall each year furnish to the Government of Canada transportation for . . . mails . . over the portion of the lines in respect of which it has received such subsidy and, whenever required, shall furnish mail cars properly equipped for such mail service," and in or towards payment for such charges the Government of Canada "shall be credited by the company with a sum equal to three per cent per annum on the amount of the subsidy received by the company under this Act." Pursuant to this provision, and a similar provision in other Subsidy Acts, the suppliant has furnished to the Crown adequate transportation for mails, at the rates in effect from time to time, over the three sections of railway constructed and subsidized prior to the railway extension in question, also over the first ten-mile section constructed under the Subsidy Act of 1912, and upon which some subsidy was paid, and since February, 1916, or thereabouts, upon the balance of the completed extension, that is 14·17 miles, in respect of which it has received no subsidy. The suppliant claims that there is a balance still due it in respect of such carriage of mails, the amount depending upon whether or not the subsidy is payable in respect of that portion of the railway extension upon which no subsidy has been paid; and depending on whether or not the Crown is entitled to apply towards payment of the charges for mail services owing, an amount equal to one year's interest at three per cent on the subsidy paid in respect of each subsidized extension of the railway, or, to put it in other words, the suppliant claims that the calculation of the amounts due it for mail services, and the interest upon subsidies to be credited in respect of such mail services, are to be made separately in respect of each extension of the subsidized line. It is the contention of the Crown that in computing the credit of interest upon subsidy against mail services, all the subsidized extensions of the suppliant's branch line are to be treated as a single line. Further, it is the con-

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tention of the Crown that the annual credits of three per cent upon subsidies paid are cumulative, and do not lapse from year to year, and that the suppliant is not entitled to any payments on account of mail services until such accumulation of credits is exhausted.

The rates agreed to be paid any railway company on account of mail services are, I assume, in force for a year, or a period of years, and at any rate the amount earned under such rates are capable of calculation on an annual basis. The obligation upon the railway is that it "shall each year" furnish the necessary transportation and facilities for mail services. I think it is clear that the credit of three per cent upon subsidies received, is only to be applied annually against the sum payable annually, for the mail services which the railway "shall each year furnish." The annual charges for mail services are to be credited annually with the prescribed annual interest, upon subsidies paid. To say that the annual credit of interest upon subsidy was to be cumulative would seem to me to be something that the legislature never contemplated, and I do not think that is what the statute says, or what it was intended to mean. Failing express language to the effect that the yearly credits of interest upon subsidy are to be cumulative I do not think the contention of the Crown to be a tenable one. It is hardly necessary to say that it is only upon any "portion of railway subsidized" that there can be any credit of interest upon subsidy to apply against mail services.

I do not think the suppliant's contention, if I understand it correctly, that the charges or earnings for mail services, and the credits to be applied thereto on account of interest upon subsidies paid, are to be reached or calculated, upon each extension of the suppliant's line constructed under the several subsidy contracts. A provision similar to sec. 8 of the Subsidy Act of 1912, is to be found in all the other Subsidy Acts under which the suppliant received subsidies in aid of construction of its branch line. I see no reason for calculating the charges or earnings for mail services, and the interest credits, on the basis of each subsidized extension. I do not think the Subsidy Acts contemplated that cumbersome method of accounting, in the case where the subsidized railway extensions form part of a larger scheme, and are being extended in one continuous line in consummation of that projected larger scheme. In this case, I think the continuous extensions of the suppliant's branch line, upon which subsidies have been paid, must be treated as a single line of railway, and just as if constructed under one subsidy contract. This, of course, would not apply to the railway extension in question here, and upon which no subsidy has been paid.

I was led to believe by counsel that, with this expression of opinion on my part, any other difficulties pertaining to this particular issue might be adjusted between the parties. In case counsel be of the opinion that what I have said does not sufficiently dispose of the issue, I may be spoken to further, on the settlement of the minutes. There will be judgment therefore in accordance with the conclusions which I have expressed. There will be no order as to costs.

Judgment accordingly.

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BETWEEN:

PETER BIRTWISTLE TRUST ....APPELLANT;

AND

THE MINISTER OF NATIONAL REVENUE .... RESPONDENT.

Revenue—Income tax—Income War Tax Act, s. 11, ss 2, s. 4, ss e, secs 55 and 66—Income accumulating in trust for the benefit of unascertained persons—Interest—Discretion of Court

B, a Canadian citizen, in his lifetime transferred certain assets to the Trusts and Guarantee Co. Ltd. to be converted into cash and administered by it in accordance with the terms of an agreement entered into by them, which provided that after the expiration of 21 years following the death of B., the fund so established and all accumulations thereon should be paid to the Municipal Council of the Town of Colne in England, to be used by the said Council for the benefit of the aged and deserving poor of the said Town of Colne in such manner and without restriction of any kind, as shall be deemed prudent to the said Council. B died on April 19, 1927

The income from this fund was assessed for income tax under the Income War Tax Act, such assessment being confirmed by the Minister of National Revenue from whose decision the appellant appealed.

Held: That there is but one trust with two trustees, and the trust fund is being administered by the Canadian trustee, in Canada, where it must remain until 1948, and where the income is taxable.

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2. That the persons who may in the future become beneficiaries of the trust fund are unascertained, and any interest of persons in the trust fund is a contingent one, and therefore the income is taxable as provided for in s. 11, ss. 2, of the Act.
3. That the income here accumulating is not the income of a charitable institution within the meaning of s. 4, ss. *e*, of the Act.
4. That s. 66 of the Act does not vest a discretionary power in the Court to forego interest on any tax recovered by a judgment of the Court.

APPEAL under the provisions of the Income War Tax Act from the decision of the Minister of National Revenue.

The appeal was heard before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa.

S. Casey Wood, K.C., and *Guy M. Jarvis* for appellant.

G. A. Urquhart, K.C., and *J. R. Tolmie* for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT, now (January 4, 1938) delivered the following judgment:

This is an appeal from the decision of the Minister of National Revenue affirming the assessment, under the Income War Tax Act, of certain income received and accumulated under and subject to the terms of an indenture, dated May 27, 1918, and made between Peter Birtwistle (hereafter referred to as the Settlor), a Canadian citizen, then resident in the City of London, in the Province of Ontario, and The Trusts and Guarantee Co. Ltd. (hereafter referred to as the Canadian Trustee), a trust company having its head office in the City of Toronto, in the same province. By this indenture it was provided that the principal of a certain fund, called the Investment Account, and certain assets real and personal, mentioned in a schedule to the said indenture, should be transferred in trust to the Canadian Trustee by the Settlor, and that the same, with any proceeds therefrom, and with any accruals thereto, should, save as to certain disbursements therein provided for, be invested and reinvested, administered and managed, by the Canadian Trustee, and that at the expiration of twenty-one years after the death of the Settlor, the whole of the fund, and the proceeds of the assets real and personal so transferred, together with accumulations thereon, should be paid to the Municipal Council of the Town of Colne, in Lancashire, England (hereafter referred to as the Colne Trustee), to be used by the Colne Trustee "for the benefit of the aged and deserving poor of the said Town of Colne in such manner and without restriction of any kind, as shall be deemed prudent to the said Council." The indenture provided that the real and personal assets transferred by the Settlor should be converted into money, under the terms and conditions and at the time or times therein provided, and added to the Investment Account, and I understand this has already been done. The Settlor died on April 19, 1927. The corpus of the Investment Account, ultimately to be paid to and administered by the Colne Trustee, is estimated to reach the sum of one million dollars and over, at the end of the twenty-one year period, April, 1948.

It may be desirable to explain more fully the origin of the trust in question. On September 20, 1916, the Settlor paid over to the Canadian Trustee, subject to the terms and conditions contained in an agreement of the same date, the sum of $100,000, and by indenture of even date did transfer to the said Trustee further assets, real and personal, by it to be converted into money and the proceeds thereof added from time to time to the said fund of $100,000. In this agreement the Settlor was called "the Investor," and the agreement was known as an "Investment Agreement." That agreement was revoked and superseded by another agreement, also known as an "Investment Agreement," made between the same parties, and dated October 20, 1916, pursuant to which the said fund of $100,000 and all additions thereto made from time to time, was to be held by the said Trustee, subject to the trusts, terms and conditions, therein set out, the said Trustee guaranteeing the payment of the corpus of the fund to such person, persons or corporation as the Settlor might by will or otherwise appoint, at the period of twenty-one years after his decease, with interest at a specified rate. Later, the Settlor being desirous of transferring to the said Trustee certain other assets, real and personal, to be converted and administered by the said Trustee, and being desirous also of determining definitely the corporation to which the said assets, with the accruals thereon, should be paid at the end of the twenty-one year period, another agreement was entered into between the same parties, on May 27, 1918, and it is this agreement with which we are here concerned.

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By the terms of this agreement the Settlor agreed to assign and set over unto the Canadian Trustee, its successors and assigns, all his right, title and interest, in the assets held by the said Trustee under the agreement of October 20, 1916, and certain additional assets, real and personal, which the Settlor desired to make subject to the terms of the same agreement, all of which was transferred to and received by the Canadian Trustee as "Trustee of Birtwistle Trust." The terms and conditions of this agreement need not be mentioned, with the exception of one paragraph, as all other terms of that trust instrument were stated by counsel not to be relevant to the controversy here. And there is no dispute apparently as to the amount of the yearly income, the assessment of which is here questioned. If the amount of the income is questioned that may be the subject of a reference, if ultimately it is held that the appellant is liable for the tax. Paragraph 4 (*b*) of the agreement is the important one here, and it reads as follows:—

> 4. (*b*) The Trustee shall pay the whole of the Investment Account, together with accumulations thereon, to the Municipal Council of the Town of Colne in Lancashire, England, at the end of the period of twenty-one years after the death of the Settlor, to be used by the said Council for the benefit of the aged and deserving poor of the said Town of Colne in such manner and without restriction of any kind, as shall be deemed prudent to the said Council, save and except and the Settlor hereby declares it to be his wish that the said Council should in so far as possible or convenient, leave any of the said fund which is not required for immediate distribution to be held by the Trustee hereunder and invested by the Trustee under an arrangement similar to that comprised in this Indenture, the Settlor believing that it will be advantageous for the Council to retain this colonial investment which the Settlor considers likely to return a better rate of interest than can be readily obtained in England.

The assessments in question, for the years 1919 to 1934 inclusive, were made under s. 11, ss.(2) of the Income War Tax Act, Chapter 27 of the Revised Statutes of Canada, 1927, as amended by sections 7 and 8 of Chapter 55 of the Statutes of Canada, 1934. That subsection reads as follows:—

> 11. (2) Income accumulating in trust for the benefit of unascertained persons, or of persons with contingent interests shall be taxable in the hands of the trustee or other like person acting in a fiduciary capacity, as if such income were the income of a person other than a corporation, provided that he shall not be entitled to the exemptions provided by paragraphs (*c*), (*d*), (*e*), and (*i*) of subsection one of section five of this Act.

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Sec. 4 of the Act defines incomes that are not liable to taxation, and ss. (*e*) reads:

(*e*) The income of any religious, charitable, agricultural and educational institution, board of trade and chamber of commerce . . .

It is the words "charitable . . . institution" that are of importance here.

It is the contention of the appellant that the income in question is being accumulated for the benefit of the Colne Trustee, or for the Colne Trust, and is not taxable under ss. 2 of s. 11 of the Act, or otherwise, because it is not being accumulated for the benefit of any person or persons within the meaning of the Act, or for the benefit of unascertained persons within the meaning of the Act, or for the benefit of persons resident in Canada within the meaning of the Act; that neither the Colne Trustee nor the Colne Trust, nor any beneficiary of the Colne Trust has or have received any of the income in question; and that the Canadian Trust and the Colne Trust are both charitable institutions and as such excepted from taxation. Alternatively, it was pleaded that if the respondent contended that the income in question should be considered as being accumulated for the benefit of the beneficiaries of the Colne Trust, namely, the aged and deserving poor of the Town of Colne, the income was not taxable in the hands of the Canadian Trustee because the said beneficiaries are not beneficiaries of the Canadian Trust, and have no interest therein; that the income is not taxable because the said beneficiaries are not unascertained persons within the meaning of the Act, and none of them could become liable to taxation in Canada in respect of any sum or sums received out of the fund as being resident in Canada, or as receiving taxable income in Canada or elsewhere; and that if the said income or any part thereof is held to be taxable under the Act, interest should be allowed only in respect of such tax, additional tax and surtax, as is allowed from February 21, 1936, the date when first the assessments in question were made. All these contentions are contested by the respondent. What I have referred to above as the "Canadian Trust" is the trust in question being administered in Canada by the Canadian Trustee.

The case is rather an unusual one. The income here is accumulating for the benefit of a class, of the Town of Colne, the members or units of which are presently unas-

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certainable and will always be fluctuating; in that class the trust estate can never be vested, and they can never discharge the trustee; the individuals of that class may never be the recipients of any portion of the accumulated fund and any benefits received therefrom may be indirect only; and the interest of that class, in any event, will never be more than an equitable interest, that is, the right to enforce in equity the specific execution of the Settlor's intention, to the extent of the particular interest of the beneficiaries therein, which interest may be distributed in one of many forms. The income is not accumulating for the benefit of the Town of Colne. There is little or no authority to assist one upon the major points in issue; most of the authorities to which I was referred by counsel, or those which my own researches have discovered, are based upon the particular language of other statutes, and argument by analogy is unsafe, particularly where taxing statutes are involved.

After giving a most anxious consideration to the construction of s. 11, ss. (2), I am unable to reach any other conclusion than that the income in question is taxable. I think the word "trust" must be construed widely enough to embrace a charitable trust, and no exception is made in favour of charitable trusts. The persons who may in the future become beneficiaries of the trust are certainly unascertained, and any interest of persons in the trust fund is, and must be, a contingent one. In the last analysis the beneficiaries of the trust are persons, and it matters not, I think, that they fall within the class described by the Settlor. The beneficiaries of charitable trusts are usually a class of unascertained persons, and as the income of such trusts, when accumulating, is not excepted from the tax, it is to be presumed that the legislature had not in mind any distinction between the beneficiaries of charitable trusts and any other trust where income was accumulating for unascertained persons, or persons with contingent interest. If I am correct in this there is not much more that can be usefully added. The contention that there is more than one trust is, in my opinion, untenable. There is but one trust, with two trustees, and the trust fund, as conceived and formulated by the Settlor, is being administered by the Canadian Trustee, in Canada, where it must remain until 1948, and ~~where I think~~ the income is taxable.

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Sec. 4 (*e*) provides that the income of any charitable institution shall not be liable to the tax. A charitable institution is, I think, an organization created for the promotion of some public object, of a charitable nature, and functioning as such, and I do not think it can be said that either the Canadian Trustee or the Colne Trustee, or the Town of Colne, or the trust fund itself, fall within that definition. A charitable institution is, I think, clearly distinguishable from a charity, or a charitable trust. The trust instrument here does not purport to create a charitable institution; its purpose is to set up a charitable trust. In any event the income in question here cannot, I think, be construed as the income of a charitable institution. The income which is here accumulating is not, in the true sense of the word, the income of a charitable institution within the meaning of the Act; such income if belonging to a charitable institution would be something to which it had the right to present enjoyment. There is no charitable institution which can claim the income here. The Australian case, *In Re the Will of MacGregor, Deceased* (1), might usefully be referred to.

A question arises as to whether the appellant is liable for interest upon the tax, prior to the assessment. It appears that annual returns of income were made by the Canadian Trustee on behalf of the "Peter Birtwistle Trust," beginning with the year 1919. The first assessment seems to have been made in 1936, for the years 1919 to 1934 inclusive, and that apparently was the consequence of an application made in the Supreme Court of Ontario by the Colne Trustee, but that application, and the decision of Rose C.J. thereon (2), has nothing to do with the issue here, and no purpose would be served by any discussion of it. Sections 48, 49 and 54 of the Act provide for the imposition of interest, if the tax is not wholly paid at maturity. S. 55 provides for the continuation of liability for any tax where no assessment has been made. It is as follows:—

. . if no assessment has been made, the taxpayer shall continue to be liable for any tax and to be assessed therefor and the Minister may at any time assess, reassess or make additional assessments upon any person for tax, with interest and penalties.

(1) (1917) 24 Argus Law Reports 17.

(2) (1935) 4 D.L.R. 137.

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It is the assessment made by the Minister under the powers granted by that section, that is here in question. Then s. 66 provides as follows:—

> Subject to the provisions of this Act, the Exchequer Court shall have jurisdiction to hear and determine all questions that may arise in connection with any assessment made under this Act and in delivering judgment may make any order as to payment of any tax, interest or penalty or as to costs as to the said Court may seem just and proper.

The submission made on behalf of the appellant was that as the terms of the Act in respect of the filing of returns of income were duly complied with, that it would be right and proper if the appeal is dismissed, to relieve the appellant of any interest charges, for the years prior to the assessments in question, and that it was within the discretion of the Court so to do by virtue of s. 66. The language of the latter part of that section is extremely awkward and confusing, whatever was intended. It is arguable that the section is open to the construction that the Court might, in the exercise of its discretion, refuse any claim for interest if it were thought right and proper to do so, by reason of any special circumstances appearing in the case. On the other hand, s. 55 expressly provides for preserving any liability to the tax, and to interest and penalties, if for any reason no assessment has been made. The imposition of interest in respect of any tax not paid when due, seems to be a definite principle of the Act, and therefore indiscriminately to be applied, so unless there is very clearly vested in the Court a discretion to relieve the taxpayer of interest charges, and that in the circumstances of the case it is right and proper so to do, I think the taxpayer must be held liable for the statutory interest, in addition to the tax. Whether the words of the latter portion of s. 66 are to be treated as mere surplusage, or as the bestowal of a discretion in the Court is a question not altogether free of difficulty. It is, however, difficult to believe that the section was intended to mean, for example, that liability for payment of the "tax" was to be a matter in the discretion of the Court, and not something to be determined wholly according to the provisions of the statute. It is difficult also to understand why it was necessary to say that the matter of costs was within the discretion of the Court; as an exception to the rule the Customs Act provides that, in suits brought under that Act for penalties, or to enforce any forfeiture, if the Crown succeeds he

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shall be entitled also to recover full costs of suit. I am inclined to the view that this section is not to be construed as vesting a discretionary power in the Court to forego interest on any tax recovered by a judgment of the Court, though conceivably it might be a right and proper thing to do in many cases. Presently, I do not feel warranted in holding that the appellant, whom I find liable for the tax, should escape the interest charges imposed by statute upon any unpaid tax. It may be that the Minister has power to do so.

The appeal is therefore dismissed. This is a case where, I think, in all the circumstances there should be no order as to costs.

Judgment accordingly.

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June 7-11; 14-18; 21-25.

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Feb 25.

BETWEEN:

UNDERWRITERS' SURVEY BUREAU LIMITED ET AL. .... PLAINTIFFS;

AND

MASSIE & RENWICK LIMITED........DEFENDANT.

Copyright—Action for infringement of copyright and conversion of infringing copies—Infringement by authorization—Copyright in fire insurance plans and rating schedules—Ownership of copyright—Property in copyright passes to executor by general bequest of all my "property real and personal of every nature and kind whatsoever in the Dominion of Canada" in will of owner of the copyright though not specifically mentioned in the will—Copyright Act, R.S.C., 1927, c. 32, s. 2, ss. (c) and (n); secs. 3 and 17; s. 20, ss. 3; secs. 21 and 24; s. 42, ss. 5—Combines Investigation Act, R S.C., 1927, c. 26—Criminal Code, R.S.C., 1927, c. 36, s. 498—Period of limitation established by Copyright Act not a bar to relief where infringement is accomplished by fraudulent acts of defendant.

The action is one for infringement of copyright, and conversion of infringing copies, in fire insurance plans and rating schedules. The Underwriters' Survey Bureau Limited, a Canadian corporation, was incorporated in 1917. Its business is that of making fire insurance plans for the Canadian Fire Underwriters' Association, an unincorporated body in existence since 1883, of which all the other plaintiffs are members. The latter are incorporated bodies licensed to carry on in Canada the business of fire insurance. All assets and property, including copyright, vested in the name of the Canadian Fire Underwriters' Association, or in its custody, belong to the Members of the Association who support and maintain it, and whose affairs are administered by officers elected annually by the Members. The capital stock of the Bureau is held in trust for the Association and its

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Members. Prior to the incorporation of the Bureau there was an organization known as the Plan Department of the Association After incorporation of the Bureau it became the Plan Department of the Association, and as such it is referred to at the present time. The rating schedules were prepared by the Rating Department of the Association in collaboration with the Plan Department, now the Bureau.

These plans and rating schedules were not sold or offered for sale to fire insurance companies who were not Members of the Association, and when copies of the same were put in the possession of agents or representatives of Members, they were loaned only, and on condition that the same would be returned to the Association when the agent ceased to represent a Member. None of these plans and rating schedules was ever published within the meaning of s. 3, ss. 2, of the Copyright Act, R S C., 1927, c. 32, by or under authority of the Canadian Fire Underwriters' Association.

In 1880, one, C. E. Goad, began the production in Canada of fire insurance plans, copyright in which was registered as required by the Copyright Act then in force, and continued to produce such plans to the time of his death in 1910. These plans were sold by him to fire insurance companies or their agents, whether Members of the Canadian Fire Underwriters' Association or not. C. E. Goad, by his will, devised and bequeathed all his "property real and personal of every nature and kind whatsoever in the Dominion of Canada" to the Toronto General Trusts Corporation in trust as his executor with power "to sell and convert into money."

In 1911 the business of C. E. Goad including the copyright in the plans, was sold by the executor to the three sons of C. E Goad who continued the business as partners under the name of C. E. Goad Company. They produced some new plans and revisions and reprints of plans made by C. E. Goad, copyright therein usually being registered. For some time prior to 1911, the Plan Department of the Canadian Fire Underwriters' Association had been making, revising and issuing plans for the use of its Members, and in 1911 it entered into an agreement with the C. E. Goad Company whereby the latter undertook to make and revise plans for the Association exclusively. The agreement terminated on January 1, 1917, and was not extended. The Plan Department of the Association resumed the making and revising of its own plans, and after January, 1918, this work was done by the Bureau on behalf of the Members of the Association In October, 1917, or early in 1918, the Bureau acquired from the C. E. Goad Company the right to revise and reprint the Goad plans, for the use of Members only, and in March, 1931, purchased all the assets of the C. E. Goad Company, including the copyright in any plans produced or owned by them, the same being assigned to the Bureau.

Plaintiffs alleged that defendant, not a Member of the Canadian Fire Underwriters' Association, authorized others to make copies or reproductions of the plans and rating schedules and converted such to its own use.

Defendant denied plaintiffs' title to copyright in the plans produced by C. E. Goad, and claimed by plaintiffs to have been acquired by assignment from the C. E. Goad Company in 1931. Defendant further pleaded that the acts of the plaintiffs in withholding from the defendant and others, copies of the works in question, constitute a combine and conspiracy within the meaning of the Combines Investigation Act, R.S.C, 1927, c. 36, and the Criminal Code, R.S C., 1927, c. 36, s. 498; that the plaintiffs acquiesced in the alleged infringement and conversion and are guilty of laches; that the period of limitation applicable to such actions is a bar to relief.

Held: That plaintiffs' plans and rating schedules are entitled to copyright protection and that copyright has been infringed and infringing copies have been converted by defendant.

2 That copyright being an incorporeal property, not dependent upon property in the paper or manuscript, the copyright in C. E. Goad's productions passed to the executor of his will, although the will made no specific mention of "copyrights."

3. That the effect of s. 42, ss 5, of the Copyright Act, R.S.C., 1927, c. 32, is to prolong the term of any copyright which the plaintiffs may have had in any plans, prior to the coming into force of the Copyright Act.

4. That the works in question never having been produced for sale, or for profit, or for issue to the public, or to compete in any way with others who might do the same thing, it cannot be said that the plaintiffs "combined," or "conspired," within the meaning of those words, as used in the Combines Investigation Act, R.S.C., 1927, c. 26, and in the Criminal Code, R.S.C., 1927, c. 36, s. 498, to effect a restraint upon trade, or a restraint upon competition in trade.

5. That the plaintiffs have a right to copyright in the works they have produced and may publish or refrain from publishing the same, as they see fit.

6. That the evidence does not establish acquiescence by the plaintiffs in the infringement of their works, or in the conversion of the infringing copies.

7 That the defendant having fraudulently, and by fraudulent concealment, infringed and converted the works in question, the period of limitation established by the Copyright Act is not a bar to the relief claimed by plaintiffs.

ACTION by plaintiffs alleging infringement of copyright and conversion of infringing copies by defendant in fire insurance plans and rating schedules, copyright in which plaintiffs claim to own.

The action was tried before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa and Toronto.

J. A. Mann, K.C., W. D. Herridge, K.C., and *H. G. Lafleur* for plaintiffs.

O. M. Biggar, K.C., H. Cassels, K.C., and *Christopher Robinson* for defendant.

The facts and questions of law raised are stated in the reasons for judgment.

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THE PRESIDENT, now (February 25, 1938) delivered the following judgment:

This action is directed against infringement of copyright and conversion of infringing copies, in what is known as fire insurance plans, and in various related compilations of fire insurance rating schedules, the copyright in all of which the plaintiffs claim to own. The action involves not merely one alleged act of infringement of copyright, or the conversion of a single infringing copy, but actually many hundreds. The case is rather unusual, and many disputed questions of fact and law are involved. I understand that proceedings have been taken already against others, similarly situated as the defendant here, or such proceedings are imminent. Such an amount of oral and documentary evidence was presented at the trial that it will hardly be possible to examine the same, as directed to any particular point, in any great detail. In the very able and exhaustive arguments of counsel an unusual number of points were debated, but I hope I shall not overlook any that are vital to a disposition of the case.

The Underwriters' Survey Bureau Limited, the first named plaintiff, hereafter referred to as the "Bureau," is a Canadian corporation, incorporated in 1917. Its business is the making of fire insurance plans, which I shall presently describe, for the Canadian Fire Underwriters' Association. The other plaintiffs, hereafter referred to as "Members," are all corporate bodies, resident within Canada and there licensed to carry on the business of fire insurance, and all are members of the Canadian Fire Underwriters' Association, hereafter to be referred to as the "Association." The Association is an unincorporated body, existing since the year 1883, and all assets and property, including copyright, vested in the name of the Association, or in its custody, belong to the Members of the Association who support and maintain it; the affairs of the Association are administered by officers elected annually by the Members.

The defendant carries on the business of fire insurance in Canada, its principal places of business being Toronto and Montreal. It might be desirable to add just here, what is stated in the defendant's statement of defence, that since the formation of the Association there have been in

Canada two classes of fire insurance underwriters, known respectively as "Board" and "non-Board" companies, the former consisting of Members of the Association, who, though under different managements, agree to quote identical insurance rates, while the latter act individually, or in small groups, and determine independently the rates of insurance to be charged for different risks. It is into the latter class that the defendant falls, and accordingly it is not a Member of the Association.

With these introductory remarks it might be desirable to explain at once the nature of the works in which copyright is claimed by the plaintiffs. The plans consist of drawings, to scale, representing the boundaries of the individual plots into which the total area of a city, town or village, generally urban areas, is divided. By appropriate signs, symbols and references, information required by fire underwriters regarding any building located on any plot, at the date of the preparation of a plan, is made available. There is printed on each plan, or on the first sheet of a plan, what is called the "key of symbols," which explains the significance of the various signs or symbols impressed on the various plots of land shown on the plan. In general outline the plan would show the boundaries of the city or town, the subdivisions of the area, streets, buildings and the use to which they are devoted, water courses if any, railway tracks, etc. The symbols, which may be colours impressed on the different plots, would indicate such particulars as street widths, the character of the outside and inside construction of buildings, passages or driveways, probable fire cut-offs, fire walls, openings in walls, piled lumber, water mains, the character of the municipal fire protection service, fire hydrants, fire alarm boxes, and many other particulars. The work incident to the production of such plans involves such steps as field surveying, chaining, plotting from chain notes, drawings from the surveyor's sheets, lithographing, colouring, stenciling, printing, mounting and binding. It will be obvious how important and necessary these plans would be in the conduct of fire insurance underwriting. It will be obvious also that the production and revision of these plans would involve a considerable expenditure of money and it is claimed that nearly one and a half million dollars have been expended by the

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Association and the Bureau, in acquiring, producing and revising plans, from March, 1917, to the end of 1934, and, I think, it was stated that altogether about ten million dollars had been expended in the production of plans and rating schedules, the latter of which I am about to explain.

The other works, rating schedules, in which copyright is claimed by the plaintiffs, are set forth in Schedule No. 2 attached to the statement of claim, and consist of printed rating schedules for specific classes of risks, such as manufacturing plants, mercantile risks, and residential institutions; rate cards for certain areas specifically rated, under what is called the "Rate Card System"; rate books for other areas specifically rated in the Provinces of Quebec and Ontario under what is called the "Rate Book and Slip System"; and underwriting rules, etc. These rating schedules were produced, and from time to time revised, by what is called the Rating Department of the Association, in collaboration with the Bureau, for the use of Members. The rating schedules are primarily founded on the information supplied by the plans, and on the experience of Members of the Association as underwriters, and are companion works to the plans. The rating schedules always bear the name of the Association and, I think, in some instances, specific words indicating the same to be the property of the Association.

Prior to the incorporation of the Bureau, the capital stock of which is held in trust for the Association and its Members, there was what was known as the Plan Department of the Association, and the Bureau, after its incorporation in 1917, became the Plan Department of the Association, and as such it is sometimes referred to to-day. The operations of the Plan Department of the Association, and of the Bureau after 1917, related to the preparation, revision and issuing of plans of cities, towns, villages, and districts, which were found convenient or necessary by Members in the business of fire insurance underwriting. As already stated the rating schedules, applicable to different classes of fire risks, were prepared by what is known as the Rating Department of the Association in collaboration with the Plan Department, now the Bureau. The plans and rating schedules were not sold or offered for sale to fire insurance companies who were not members of the Association, it being intended that the only persons or concerns entitled to receive such plans and rating schedules were the Members of the Association and, in some cases, affiliated associations. In cases where copies of the same were put in the possession of agents or representatives of Members, they were loaned only, and on the condition that the same would be returned to the Association when the agent ceased to represent one of the Members. It is claimed, correctly I think, that none of the works in question was ever published, within the meaning of s. 3, ss. 2, of the Copyright Act, by or under the authority of the Association.

At this stage it might be well to explain, as clearly as I can, the origin of the plaintiffs' claim to copyright in the plans in question, as distinguished from the rating schedules, because all the plans in question are not original works produced by the Bureau, or the Plan Department of the Association. As far back as 1880, and up to the time of his death in 1910, one Charles Edward Goad began to produce in Canada what came to be known as Goad's Plans, that is, fire insurance plans of the nature I have described, and copyright in these plans was registered at Ottawa, as required, in the case of published works, by the Copyright Act in force in that period. I think it is correct to say that Charles Edward Goad sold copies of such plans as he produced to fire insurance companies, or their agents, without any discrimination as between Members of the Association, and non-Board fire insurance companies. Charles Edward Goad by his last will and testament vested his plan business in the Toronto General Trusts Corporation, his executor, to be sold for the benefit of his estate, and in 1911 that business was sold, including, it is claimed, the copyright in the plans, by the Toronto General Trusts Corporation to three sons of the deceased Goad, and they continued the plan business of their father, as partners, under the firm name of C. E. Goad Company; they produced some new plans, and revisions and reprints of plans made by their father, and copyright therein was usually registered. For some time prior to 1911, the Plan Department of the Association had been making, revising and issuing plans for the use of its Members. In 1911 the C. E. Goad Company proposed that the Association aban-

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don the making and revising of its own plans, and that they, the C. E. Goad Company, should make and revise such plans for the Association exclusively. The members of that partnership, the three sons of Goad, the deceased, were, it is said, then the owners of the copyright, either as authors or by assignment, in all, or practically all, the so-called Goad plans that had been produced up to that time. This proposal was accepted by the Association and accordingly an agreement was entered into embodying the proposal, for a term of six years. This agreement terminated on January 1, 1917, and was not extended. Upon the termination of this agreement the Plan Department of the Association resumed the making and revising of its own plans, and after January, 1918, this work was done by the Bureau on behalf of the Members of the Association. In October, 1917, or early in 1918, the Bureau acquired from the C. E. Goad Company the right to revise and reprint the Goad plans, for the use of Members only, in consideration of certain royalties to be paid to the C. E. Goad Company. About this time the C. E. Goad Company had concluded to cease producing any further plans, and to dispose of their stock of original plans, or copies of plans, and by the end of 1930 or early in 1931, this stock was about exhausted. In March, 1931, the Bureau purchased all the assets of the C. E. Goad Company, including their copyright in any plans produced or owned by them, and the same was duly assigned to the Bureau.

The plaintiffs claim to have copyright (1) in the plans which they themselves produced from original surveys and all revisions and reprints of the same (2), in the revisions and reprints of Goad plans made for the plaintiffs under contract of service by the C. E. Goad Company (3), in the revisions and reprints of Goad plans which the plaintiffs themselves produced under licence from the C. E. Goad Company; and finally (4), in the plans which they acquired by assignment in 1931 from the C. E. Goad Company. A complete list of the plans in which the plaintiffs claim copyright is to be found in Schedule No. 1 attached to the statement of claim. It is not to be inferred that the plaintiffs acquired title to copies of plans produced and issued to the public, by the Goads. Any copies of plans which were purchased from the Goads, became the property of the purchaser and he was free to do with them what he wished, but that would not give him, or any one else, the right to make copies of the same, that is, if copyright, which means the sole right to make copies, were in the Goads. Claims to copyright in certain of the Goad plans, and mentioned in the schedules to the plaintiffs' statement of claim, were abandoned during the trial, the reasons for which I need not explain; a list of such abandoned claims, is, I think, to be found in an exhibit in the case.

In Schedule A to the statement of claim will be found a list of the plans made either by the Bureau, or the Plan Department of the Association, from original surveys, showing the dates when the plans were made, and the dates of revisions and reprints made by the Bureau. In Schedule B, will be found a list of Goad plans completely revised and reprinted by the plaintiffs, showing the dates of the original Goad plans, the date of any revision made by the Goads, the date of any revision and reprint made by the plaintiffs, and the particulars of any registration of copyright therein. In Schedule C, appears a list of the Goad plans revised and partially reprinted by the plaintiffs. This Schedule shows the dates of the Goad plans, the dates of any Goad revisions, the dates of the plaintiffs' revisions, and the particulars of any registration of copyright therein. In Schedule D, appears a list of the Goad plans, acquired by the plaintiffs by assignment from the C. E. Goad Company, showing the dates of the original plans, the dates of any Goad revision and the particulars of any registration of copyright therein; these plans were neither revised nor reprinted by the plaintiffs. I should not fail to compliment the solicitor of the plaintiffs upon the great care and industry shown in the preparation of the various schedules attached to the statement of claim, and which have been of such great assistance in appreciating the many complicated facts of the case. I should add here perhaps another word. It will readily occur to one, when once it is mentioned, that revisions and reprints of plans, or sheets of plans, would become necessary with the passing of the years, and particularly in the case of the plans of growing cities and towns. And this, I assume, would be true also of the rating schedules. The practical life of a plan is

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reckoned to be about twenty years, though it might well be less in some cases. In the interval between the printing of a plan made from original surveys, and any revision and reprint of the same, resort is made to what is called "stickers," that is, miniature drawings, symbols, etc., adhesively applied to the original plan, which would convey to underwriting Members the necessary information regarding any changes affecting fire risks under consideration, occurring since the production of the original plan. In the course of time the original plan, or some of the sheets of a plan, would thus become overladen with this superimposed material, and a substantial or complete revision and reprint of the plan would thus become necessary, and in which copyright would subsist.

We may now consider whether copyright protection is given to works of the nature in question here, the plans and rating schedules. Sec. 2 (*c*) of the Copyright Act, defines "book" to include "every volume, part or division of a volume, pamphlet, sheet of letter-press, sheet of music, map, chart, or plan separately published," and s. 2 (*n*) defines "literary work" to include "maps, charts, plans, tables and compilations". The term "book" has been held, in English cases, to include such material as the prices of stocks compiled by a stock exchange, racing information, a catalogue when not a mere list of articles, a telegraph code, a stud book, a map of the island of St. Domingo, a book of lithographic sketches on monumental designs, a post office directory, the design of a Christmas card, compilations and selections from former works and partly original compositions, and improvements in existing works. Halsbury's Laws of England (1), in discussing subject-matter in copyright, states:

> It may only consist in the improvement of an existing work as in bringing up to date a directory, or a road book, or in bringing out a new edition of an existing work, provided that work is so enlarged and improved as to constitute in reality a new work. The new edition if it fulfills that condition, becomes a separate subject of copyright.

It would seem hardly open to debate that the plans with which we are here concerned, are entitled to copyright protection. The rating schedules, such as I have explained, fall within the terms "compilations" and "books," and are also, in my opinion, works entitled to copyright pro-

(1) Vol. 7 (2nd Ed.) 522.

tection. The word "book" as used in the statute is not to be understood in its technical sense of a bound volume, but any species of publication which the author selects to embody his production. There is no distinction between the publication of a book and the publication of the contents of such book, whether such contents be published piecemeal or *en bloc*.

Upon a consideration of the evidence and the law, I am of the opinion that the plaintiffs have established their title to copyright in the plans, and in the revisions and reprints of plans, mentioned in their statement of claim, and more specifically enumerated and described in the schedules thereto, subject to any variations properly resulting from the evidence adduced at the trial, but which need not now be mentioned, and subject to a consideration of other grounds of attack against the plaintiffs' claim to copyright, and which are yet to be discussed. Mr. Mann, I might say, abandoned any claim to copyright in any of the Goad plans, registered prior to January 1, 1896, that is to say, copyright, which by the lapse of twenty-eight years, had expired on January 1, 1924, the date when the present Copyright Act came into force. I entertain no doubt as to the plaintiffs' title to the copyright claimed in the rating schedules in question. However, an attack was directed against the title of the plaintiffs to copyright in certain of the plans in question, and this must be referred to. This attack is directed against the plaintiffs' title to copyright in the plans produced by Goad the elder, and, as already stated, claimed to have been acquired by the plaintiffs by assignment from the Goad brothers in 1931.

The late Charles Edward Goad by his will devised and bequeathed all his "property real and personal of every nature and kind whatsoever in the Dominion of Canada" to the Toronto General Trusts Corporation in trust as his executor with power "to sell and convert into money" such of the said property as may not at the time of his death "consist of money or be in the nature of investments of a sound character." No specific mention of "copyrights" as part of the testator's personal property so devised in trust, is made in the will. In this respect the Goad will is different from the will of Charles Dickens,

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to which I shall presently refer, and the question arises whether Goad's copyrights passed to the executor as part of the "property real and personal of every nature and kind whatsoever" expressly devised in trust to the executor. In *Jefferys* v. *Boosey* (1), Erle J. said:

> The nature of the right of an author in his work is analogous to the rights of ownership in other personal property, and is far more extensive than the control of copying, after publication in print, which is the limited meaning of copyright.

Erle J.'s opinion as to the nature of copyright, and that of Lord Brougham in the same case, has been accepted by the courts as correct and authoritative. Lord Watson, in *Caird* v. *Sime* (2) approves Lord Brougham's opinion. In *Mansell* v. *Valley Printing Co.* (3), after referring to Lord Watson's judgment in *Caird* v. *Sime,* Cozens-Hardy M.R. said:

> The law thus laid down is based upon property, irrespective of implied contract or breach of duty. It does not depend upon property in the paper or manuscript. It is an incorporeal property.

In the same case Farwell L.J., at p. 744, said:

> Every invasion of a right of property gives a cause of action for damages to the owner against the invader, whether the invasion be intentional or not, and whether it is innocent or malicious. This applies to all rights of property, real and personal, corporeal or incorporeal . . .

In the *Dickens* case (4), it appears that after certain bequests, the testator, Charles Dickens, devised all his real and personal estate to Georgina Hogarth and John Foster "upon trust at their . . . discretion to proceed to an immediate sale or conversion into money of said real and personal estate (including my copyrights)" for the benefit of the residuary legatees. A comparison of these terms in the Dickens will with the terms of the Goad will above cited reveals a close similarity of language between the two wills, with the exception that Goad did not use the word "copyrights" as designating a part of his residuary estate, as Dickens did. But, on this point, it is important to refer to what Maugham J. said in the *Dickens* case at p. 188:

> If the will had not mentioned copyrights at all they would have passed under the gift of residue.

(1) (1855) 24 L.J. Exch. 81 at 85
(2) (1888) 12 A.C. 326 at 344.
(3) (1908) 77 L.J. Ch.D. 742 at 744
(4) (1935) 51 T.L.R. 181.

I therefore see no reason for questioning the validity of the title of the Goad brothers in any copyright which their father had in any plans, at the time of his death.

Another point in the controversy here might be referred to at this stage, because it has a bearing upon the question of the plaintiffs' title to copyright in some of the plans in question. The plaintiffs, it is contended, had at common law, copyright, or a proprietary right or interest, in their unpublished plans, that is, plans, "copies" of which were not "issued" to the "public," prior to the coming into force of the Copyright Act of 1921, and with this I agree. Unpublished works, prior to January 1, 1924, were protected under the common law and not by virtue of any Copyright Act. The nature of this common law protection was fully discussed in the *Dickens* case, already referred to. The Copyright Act of 1921, however, abolished common law copyright and confers statutory copyright upon all works as from the date when the same are made. Subsection 5 of s. 42 of the Copyright Act provides that

copyright shall not subsist in any work made before the first day of January, one thousand nine hundred and twenty-four, otherwise than under, and in accordance with, the provisions of this section.

But if any person, before the date just mentioned, had copyright at common law in unpublished works, that is, the right of withholding publication or restraining others from publishing, then s. 42 grants that person a substituted right, which is set out in the First Schedule to the Act. The particular interest, as I understand it, that the plaintiffs have in respect of this point, is that s. 42 has the effect of prolonging the term during which copyright shall subsist in what was common law copyright, and that may be of importance to the plaintiffs. Under the earlier Copyright Acts the term for which copyright subsisted was twenty-eight years, whereas under the Copyright Act of 1921, the term is for the life of the author, and fifty years after his death. The substituted right in any work made prior to 1924, is specified in the second column of the First Schedule, and the existing right in the first column of that Schedule. The practical effect of sec. 42 of the Copyright Act is, therefore, to prolong the term of any copyright which the plaintiffs may have had in any plans. It is not now necessary for me to designate what particular plans are affected by this point.

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I come now to consider another ground of defence to this action, one that has already been the subject of considerable debate. It is the contention of the defendant that the plaintiffs have unlawfully combined and conspired to withhold from the defendant and others, copies of the works in question here, and that the bringing of this action was the culminating act, in a series of acts, to make completely effective their unlawful object; that the realization of this object would be injurious to the defendant and other non-Board fire insurance companies, and detrimental to the public interest by limiting competition in the business of fire insurance; and that such acts constitute a combine, and a conspiracy, within the meaning of the Combines Investigation Act, hereafter called the Combines Act, and s. 498 of the Criminal Code. Before the trial of this action this ground of defence came before me, pursuant to Rule 150, as a question of law to be determined in advance of the trial, and I decided that the same was not, in point of law, a defence to the plaintiffs' action: *Underwriters' Survey Bureau Ltd.* v. *Massie & Renwick Ltd.* (1). As a result of that decision the paragraphs of the statement of defence relative to that defence were ordered, later, to be struck out. Upon appeal taken to the Supreme Court of Canada, that Court directed (2) that the paragraphs of the defence so struck out be restored, but without deciding the point of law stated for decision. At the trial, Mr. Herridge objected very strenuously to the reception of any evidence directed to the defence of "combine" and "conspiracy," on the ground that the Supreme Court of Canada, not having passed upon the law point, was without jurisdiction to direct the restoration of the said paragraphs of the defence, the striking of them out being merely an interlocutory order following my decision on the point of law; and he argued that such paragraphs of the defence still stood deleted, and that therefore no evidence was admissible respecting such point of defence. However, I allowed evidence to be given in respect of this defence, subject to the objection of Mr. Herridge, and treated the relevant paragraphs of the defence as having been restored.

(1) (1937) Ex C.R 15

(2) (1937) S.C.R. 265.

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While my own view in respect of this defence remains unchanged, yet, in deference to Mr. Biggar, who with his usual ability argued so strongly in support of it, I feel I should more fully discuss the point than I did when the same was earlier argued before me as a preliminary point of law. Mr. Biggar referred to a line of cases which in effect decide that a person cannot enforce a right directly resulting from the crime of that person. Typical of such cases is *Cleaver* v. *Mutual Reserve Assurance Co.* (1). One Maybrick insured his life in favour of his wife, Florence Maybrick, who was later convicted of having murdered her husband, though she was not hanged. The executors of Maybrick, trustees of the wife, brought an action upon the insurance policy, and the insurance company defended the action on the ground that if the executors obtained the money they would hold it in trust for the benefit of the wife, and that she would consequently be reaping a benefit by virtue of her crime. It was held by the Court of Appeal that public policy prevented Florence Maybrick from asserting any title as *cestui que trust* of the fund created by the policy, and that brought into operation the resulting trust in favour of the estate of the insured, which enabled the executors to maintain an action as plaintiffs without any taint derived from the crime committed by Florence Maybrick. The principle urged by Mr. Biggar was concisely stated by Fry L.J. in the following words:

> The principle of public policy invoked is in my opinion rightly asserted. It appears to me that no system of jurisprudence can with reason include amongst the rights which it enforces, rights directly resulting to the person asserting them from the crime of that person.

Another case referred to was *Beresford* v. *Royal Insurance Co. Limited* (2). In that case one Beresford, who was heavily insured in the defendant company, committed suicide, and the administratrix of his estate brought action upon the policies of insurance. The Court of Appeal reversed the judgment of the court below, which was in favour of the plaintiff, holding that the fact that the assured feloniously committed suicide rendered it against public policy for the insurance company to pay under the policies, and that the plaintiff was not entitled to recover. Other cases referred to are much of the same character

(1) (1892) L.R. 1 Q.B.D. 147. (2) (1936) 53 T.L.R. 583.

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and need not be mentioned. It is to be observed that in the two cases which I have mentioned, the felony alleged as a defence in each case was something positively established.

Pursuing his line of argument further Mr. Biggar then contended that the plaintiffs were guilty of an indictable offence, under s. 498 of the Criminal Code; and of entering into a combination in restraint of trade contrary to the provisions of the Combines Act, in restricting the distribution and use of the works in question to Members, in preventing the defendant from making or procuring copies of the same, in having restrained the Commercial Reproducing Company from reproducing the said works, and on other grounds. Being therefore guilty of such wrongs, and being before the court with unclean hands, Mr. Biggar argued that the plaintiffs were barred from enforcing any rights in the copyrights in question.

The Combines Investigation Act provides for an enquiry by the Registrar into the facts of any alleged combine, and if by that officer found or believed to exist, the offending persons may be proceeded against by the Attorney-General of any Province, or by the Solicitor-General of Canada. Sec. 498 of the Criminal Code has frequently been construed by the Courts and I was referred to such cases as *Weidman* v. *Schragge* (1); *Stinson-Reeb Builders Supply Co.* v. *The King* (2); and *Belyea* v. *The King* (3), all decisions of the Supreme Court of Canada. These cases decide, that in any enquiry as to whether there has been an infraction of s. 498 of the Criminal Code, the test is not whether the act or acts complained of were reasonably necessary for the protection of the interest of the parties concerned, but whether as a matter of fact, the Act being designed to restrain encroachments upon freedom of competition in the public interest, there is injury to the public by the hindering or suppressing of free competition. At common law the rule seems to be somewhat different, and it has been laid down in several cases, of which *Sorrell* v. *Smith* (4) is one, that if the real purpose of a combination is not to injure another, but to forward or defend the trade

(1) (1912) 46 S.C.R. 1.
(2) (1929) S.C.R. 276.
(3) (1932) S.C.R. 279.
(4) (1925) A.C. 700.

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of those who enter into it, then no wrong is committed and no action will lie although damage to another ensues.

I hope I have substantially stated Mr. Biggar's line of argument on this point, though, of course, it is not as completely stated as he put it. I do not think the contention of Mr. Biggar is a tenable one, for several reasons. In the first place, the relief claimed by the plaintiffs does not emerge from any crime, misdemeanor, combine, or conspiracy, but from a right to copyright in one's own works, given by the Copyright Act of 1921, and earlier Copyright Acts, and the plaintiffs claim that there has been infringement and conversion of such copyright, by the defendant. The *Maybrick* case, and the recent *Beresford* case, are not applicable here because the rights there sought to be enforced had their genesis in crime, and therefore the principle of law expressed by Fry L.J. in the *Maybrick* case, which principle is here relied on by Mr. Biggar, is not, in my opinion, applicable to the case under discussion. The general principle is that a criminal, or his representatives, shall not be allowed, by a judgment of the court, the fruits of his crime. The Master of the Rolls in the *Beresford* case truly stated that in these days there are many statutory offences which are the subject of the criminal law, and in that sense are crimes, but which would afford, he said, no moral justification for a court to apply the maxim on which the principle just stated is founded. The construction to be given to s. 498 of the Criminal Code, the doctrine of the common law in respect of combinations in restraint of trade, and the distinction, if any, between them, it seems to me are not of consequence here, and I do not think that offences against the Combines Act, and sec. 498 of the Criminal Code, are available as defences in this action. Even if the wrongs imputed against the plaintiffs were established in fact, I do not think that would deprive them of their right to protect their copyrights; their copyrights would not perish because they had offended against another statute.

Further, the plaintiffs have not been charged with, or convicted of, an offence against s. 498 of the Criminal Code, nor has their conduct, as owners of the copyright in the plans and rating schedules in question, been the subject of an enquiry under the Combines Act. This court, is not

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authorized to conduct any enquiry contemplated by the Combines Act, and it is without jurisdiction to try the plaintiffs on any information or charge levelled against them for breach of any provisions of the Criminal Code, and moreover, it is quite clear that the works in question were not produced for sale, or for profit, and they are not "commodities" or articles of "trade and commerce" within the meaning of either of those statutes. The alleged combine and conspiracy apparently arises from the fact that the plaintiffs do not issue copies of their works to the public, and that, I think, is a matter quite apart from the making of fire insurance rates. It may be said, I think, that there is no evidence, in fact I do not think it was suggested, that the plaintiffs by doing that which the defendant accuses them of, did result in, or contribute to, the establishment of fire insurance rates that are against the public interests, or that the same resulted in lessening competition in fire insurance underwriting. The works in question never having been produced for sale, or for profit, or for issue to the public, or to compete in any way with others who might do the same thing, I cannot quite appreciate how it can be said that the plaintiffs "combined," or "conspired," in the sense in which those words are used in the Combines Act, and in the Criminal Code, to effect a restraint upon trade, or a restraint upon competition in trade. What the defendant says to the plaintiffs is virtually this: "We admit your plans and rating schedules are very desirable and almost necessary in the conduct of our fire insurance business, but as we cannot carry on our business very conveniently without resort to your plans and rating schedules we propose to have copies made of them, when and if we can, and thus partake of the fruits of your useful and informative works, and it is very wicked of you to try and prevent us doing that." That is just what I cannot quite appreciate. And after all that is an epitome of the whole controversy in this case. The legislature has enacted so as to say that the plaintiffs have a right to copyright in the works they have produced, that is, the sole right to reproduce the same; and they may publish or refrain from publishing the same, as they see fit. I am therefore of the opinion that this defence fails.

Before approaching the question of infringement and conversion it will be desirable to make reference to certain provisions of the Copyright Act. Sec. 3 of the Act defines what is copyright. It states:

For the purposes of this Act "copyright" means the sole right to produce or reproduce the work or any substantial part thereof in any material form whatsoever . . .; if the work is unpublished, to publish the work or any substantial part thereof; and shall include the sole right . . . to authorize any such acts as aforesaid.

Therefore the sole right to "publish," to "produce" or to "reproduce," is in the owner of the copyright, and the owner of the copyright is the only person who can "authorize" others to do the thing or things which the Act gives to him the sole right to do. Sec. 3 (2) defines "publication" to mean "the issue of copies of the work to the public," and ss. 3 of the same section is to the effect that a work shall not be deemed to be published . . . if published . . . without the consent or acquiescence of the author, his executors, administrators or assigns. If any unauthorized person does the thing which the owner of the copyright has the sole right to do, then that person would infringe the copyright. That is made clear by s. 17 which in part reads:

Copyright in a work shall be deemed to be infringed by any person who, without the consent of the owner of the copyright, does anything the sole right to do which is by this Act conferred on the owner of the copyright . . . .

Secs. 20 and 21 set up certain presumptions as to copyright, and ownership therein. Sec. 20, ss. 3, reads:—

In any action for infringement of copyright in any work, the work shall be presumed to be a work in which copyright subsists and the plaintiff shall be presumed to be the owner of the copyright, unless the defendant puts in issue the existence of the copyright, or as the case may be, the title of the plaintiff, and where any such question is at issue, then (*a*) if a name purporting to be that of the author of the work is printed or otherwise indicated thereon in the usual manner, the person whose name is so printed or indicated shall, unless the contrary is proved, be presumed to be the author of the work; (*b*) if no name is so printed or indicated, or, if the name so printed or indicated is not the author's true name or the name by which he is commonly known, and a name purporting to be that of the publisher or proprietor of the work is printed or otherwise indicated thereon in the usual manner, the person whose name is so printed or indicated shall, unless the contrary is proved, be presumed to be the owner of the copyright in the work for the purposes of proceedings in respect of the infringement of copyright therein.

I might here interpolate that, following the year 1917, the name of the Bureau appeared on all plans produced by it, and prior thereto the name of the Association, or the Plan Department of the Association, or Charles Edward

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Goad, or the C. E. Goad Company, appeared on all plans that are here in issue. Sec. 21 provides that

> All infringing copies of any work in which copyright subsists, or of any substantial part thereof, . . . shall be deemed to be the property of the owner of the copyright, who accordingly may take proceedings for the recovery of the possession thereof or in respect of the conversion thereof.

I come now to the questions of infringement and conversion. It is not claimed that the defendant has infringed by itself reproducing copies of the plaintiffs' plans and rating schedules. The offence charged is that of authorizing others to make copies or reproductions of the same. The word "authorize," in the last line of s. 3 (1) of the Copyright Act has been judicially construed to include any one who sanctions, approves, or countenances, and I need only refer to the judgment of Tomlin J. in the case of *Evans* v. *Hulton & Co. Ltd.* (1), and to the case of *Ash* v. *Hutchinson & Co.* (2). The sole right of making copies of any work in which copyright subsists is in the owner, and the owner is the sole person who may authorize others to make copies. To the statement of defence is attached an appendix containing an extensive list—since added to I think—of copies of plans and rating schedules which the defendant admits having purchased from the Commercial Reproducing Company Ltd., a company with offices at Toronto and Montreal at all times material here. The business of this company, as its name indicates, was chiefly concerned with the production of copies of such things as plans, documents, etc. It did not carry in stock copies of any of the works with which we are here concerned, but it would produce copies of the same, upon request, and on being provided with the original plan or rating schedule, of which copies were desired. And this they did for the defendant when requested, the defendant providing the original work. There is a vast amount of evidence directed to the point of infringement but it is not practical to review it in any detail. It has been established to my satisfaction that the defendant company, through its Toronto and Montreal offices, would in some way come into possession of original plans issued by the plaintiffs to their Members, and would have copies made of them by the Commercial Reproducing Company. To this the evidence

(1) (1924) 131 L.T.R. 534. (2) (1936) 2 All E.R. 1496.

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of the witnesses Cooper, Merry and Shillabeer was particularly directed, and those witnesses were all in the employ of the Commercial Reproducing Company, at one time or another. In producing such copies the name of the Association, or the Bureau, appearing on the original plans, would be eliminated from the copies, and also the Bureau's plan registration number. The Bureau, however, had other means of identifying these copies, as being copies of the plaintiffs' plans. It is quite evident that all the copies produced by the Commercial Reproducing Company and paid for by the defendant, were upon the authorization of the defendant, by its officers or managers. The evidence of the witnesses Lawson, Green, and Freeman, former employees of the defendant company, explains how the defendant would secure possession of the plans from which copies were to be made. Those three employees were regularly instructed and directed, weekly I think, by the defendant to borrow or procure for a brief space, from persons properly in possession of the desired plans of the Association, so that copies of the same might be made for the defendant by the Commercial Reproducing Company. It was described how copies would be made as hurriedly as possible, and the originals returned to the persons from whom they were procured, so as to minimize the possibility of detection of the improper loan of the plan by any of the inspecting officers, or Members, of the Association. And Lawson stated "we knew it was copyright." It is quite obvious that this procedure was deliberately planned and executed, and no doubt carried out on an extensive scale. There can be no doubt but that plans so procured were improperly obtained, and that the production of copies of the same was authorized by the defendant. The whole affair from beginning to end was carried out with more or less secrecy, and without any suggestion of authorization by the plaintiffs. What I have just said about the plans would apply to the rating schedules. I therefore hold that the defendant has infringed and converted the works of the plaintiffs here in issue.

It was contended that the plaintiffs had knowledge of, and acquiesced in, the infringements and conversion alleged against the defendant, and that they condoned the same and took no active steps to protect their copyright, and are

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therefore guilty of laches. It was urged that knowledge of the reproduction of the works in question by the authorization of the defendant, and others, had been brought home to the plaintiffs at various times, and extending back for a considerable period, and particularly was it said that the plaintiffs were aware that the Commercial Reproducing Company was reproducing copies of the plans, for the defendant and others, and that the plaintiffs by their laches have become disentitled to any relief against the defendant.

There is some evidence to show that rumours of infringement did reach the Bureau or Association, on more than one occasion. In 1929, Cooper, then the manager of the Commercial Reproducing Company, went to the office of the Association in Montreal to inform them that he had in mind the reproduction of a certain number of copies of a manual concerning insurance rates, produced by the Association, and he was informed that the manual was "copyright." Cooper then said: "Well, we reproduce some of your plans," and it was stated that the person whom he was addressing then said: "Well, I do not know about plans." There is no evidence as to whom Cooper was addressing, whether a responsible officer of the Association, or some employee occupying a minor position. Long, the manager of the Bureau, testified that the first actual knowledge he had of reproduction of the plaintiffs' plans was when he saw a report of Clarkson, Gordon, Dilworth & Co., a firm of accountants, made after an examination of the books of the Commercial Reproducing Company, and this report, he states, revealed to him for the first time the fact that the defendant, and other fire insurance brokers, had been authorizing the production of copies of the plaintiffs' works, by the Commercial Reproducing Company. And he stated that the first photostatic copy of the plaintiffs' plans he ever saw was in the defendant's office at Toronto, just prior to the trial. Long also stated that he once went to the office of a non-Board insurance broker in Montreal, with a view of obtaining evidence of infringement, and he asked to be shown, and was shown, a particular volume of plans, but this he found to be a volume of plans properly in that broker's possession. And Long had once a similar experience in the defendant's office in Toronto. There is some evidence that at one time the defendant company was suspected of reproducing a certain plan, and an officer of the Bureau or Association called on Col. Massie, then associated with the defendant company, to enquire about this rumour or suspicion. What transpired between those two presons is not of importance, but evidently suspicion was allayed, or the supposed infringement was satisfactorily explained. Then there is evidence that as a result of rumours of infringement the plaintiffs sought the opinion of their solicitor as to their legal position in respect of copyright in the plans, and on another occasion a committee, representative of the Association, was appointed to investigate a rumour that copies of a particular volume of plans were in use in a certain fire insurance office in Montreal. These incidents do not, in my opinion, establish acquiescence of the plaintiffs in the infringement, or in the conversion, nor does it show that the plaintiffs had been put in possession of such facts as would assure them of success if they commenced actions for infringement of copyright against the defendant, or anyone else. I think it is not unfair to say that all this evidence rather indicates that the plaintiffs always actively concerned themselves about any rumours of infringement which came to their attention, and it negatives any idea of acquiescence. I do not think any other conclusion could be fairly reached. It was not until proceedings were taken against the Commercial Reproducing Company by the plaintiffs that they came into possession of reliable evidence of the defendant's infringements. Moreover, the general conduct of the defendant in respect of the works in question quite satisfies me that its managers and officers never entertained the view that the plaintiffs had in any way abandoned their copyright, or acquiesced in any infringement or conversion of the same, or that they were unlikely to proceed against infringers if they obtained sufficient evidence to act upon. I do not think the defendant can now be heard to say: "You did not attempt to prevent us in authorizing copies of the plans to be made, and therefore you acquiesced in our doing so." That is what the defendant now attempts to say, but in my opinion, the facts do not support that contention. It would require some positive evidence to warrant one holding that the plaintiffs had acquiesced in the infringement of copyright,

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or in the conversion of infringing copies, and evidence of that nature is not before me.

One other point remains for decision and that is whether or not, in respect of the claims of infringement and conversion, the period of limitation applicable to such actions is a bar to relief here, the plaintiffs contending that the defendant fraudulently, and by fraudulent concealment, infringed and converted the works in question, and that, in such a state of facts, the period of limitation cannot be set up as a bar. A discussion of this point might logically have appeared earlier than this, but its consideration at this stage will, after having disposed of the question of infringement and conversion, and the question of the acquiescence of the plaintiffs therein, avoid a repetition of many of the facts referred to in my discussion of those other questions. By s. 24 of the Copyright Act it is enacted that an action in respect of infringement shall not be commenced after the expiration of three years next after the infringement. Sec. 21 provides that

> all infringing copies of any work in which copyright subsists, or of any substantial part thereof . . . shall be deemed to be the property of the owner of the copyright, who accordingly may take proceedings for the recovery of the possession thereof, or in respect of the conversion thereof.

At a previous stage in the history of the action, I held that the period of limitation prescribed by s. 24 applied not only to the claim for infringement but also to the claim for conversion, and on appeal this decision was affirmed by the Supreme Court of Canada. In this case, and in respect of the point immediately under discussion, we escape the possible complications which might arise if the infringement and conversion of any one of the plaintiffs' works occurred at different times, and was the act of different persons. Here, each infringement and conversion is charged against the same person, the defendant, and so far as I can see the conversion would, in the practical sense, be contemporaneous with the infringement, because, so far as I now recall, the conversion of the infringing copies was to the defendant's own use; and the infringing copies, the property of the plaintiffs, are still in the possession of the defendant.

In the case of *Bulli Coal Mining Company* v. *Osborne* (1) it was held that the Statute of Limitations was no

(1) (1899) A C 351

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answer to a claim in respect of a concealed and fraudulent trespass in the working of a coal mine, so long as the party defrauded remained in ignorance without any fault or laches of his own. The fraudulent act there was the taking furtively, underground coal from a neighbour's pit. In delivering the judgment of the Judicial Committee of the Privy Council, Lord James of Hereford said:

> Now it has always been a principle of equity that no length of time is a bar to relief in the case of fraud, in the absence of laches on the part of the person defrauded. There is, therefore, no room for the application of the statute in the case of concealed fraud, so long as the party defrauded remains in ignorance without any fault of his own. The contention on behalf of the appellants that the statute is a bar unless the wrong-doer is proved to have taken active measures in order to prevent detection is opposed to common sense as well as to the principles of equity.

Other authorities on this point, and to which I was referred, are *Lynn* v. *Bamber* (1), *Betjemann* v. *Betjemann* (2), and *Oelkers* v. *Ellis* (3). Salmond on the Law of Torts (4), discussing the rule of concealed fraud states:

> When the defendant has been guilty of fraud or other wilful wrong doing, the period of limitation does not begin to run until the existence of a cause of action has become known to the plaintiff This is commonly spoken of as the rule of concealed fraud, but the term *fraud* is here used in its widest sense as meaning any act of wilful and conscious wrong doing—for example—a wilful underground trespass and abstraction of minerals. The term *concealed,* moreover does not imply any active suppression of the facts by the defendant, but means merely that the wrong is unknown to the person injured at the time of its commission. . . . The rule of concealed fraud does not apply when the plaintiff could by the exercise of care and diligence have discovered the fraud. In other words, the statute runs not from the time when the cause of action was discovered by the plaintiff, but from any earlier time at which it ought to have been discovered.

Upon a consideration of the evidence, and the course of conduct of the defendant's officers and servants, I cannot avoid the conclusion that the defendant wilfully and wrongfully concealed from the plaintiffs its procurement of original works of the plaintiffs, the plaintiffs' property, from persons unauthorized to part with them, and similarly concealed the fact that it had caused copies of the same to be made for its own use, and in furtherance of that it caused or countenanced the removal of the name or names of the owners of the copyright from the said copies. If secrecy and concealment were deemed necessary in the steps lead-

(1) (1930) L R 2 K B D. 72.
(2) (1895) L R 2 Ch D 474
(3) (1914) L.R. 2 K B D. 139.
(4) 9th Ed , pp 180, 181

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ing to the production of the infringing copies, it is improbable that the defendant would cease to conceal from the plaintiffs the conversion of the infringing copies to its own use; and it is a fair inference that every possible means was taken to conceal this conversion in order to prevent the plaintiffs obtaining evidence of the infringement. I do not think there has been laches, or lack of reasonable diligence, on the part of the plaintiffs, to discover the infringement and conversion, and it was not their fault that they remained in ignorance of the same. The evidence points strongly to the conclusion that the officers and managers of the defendant company believed the plaintiffs had copyright in the works in question, and that would be a sufficient motive for concealing their wilful wrong doing. I can hardly believe that the officers of the defendant company would not be conscious of their wrong doing, and they would not openly adopt the attitude that they were entitled as of right to enjoy the fruits of the extensive and expensive labours of the plaintiffs, and this would furnish a motive for concealing their wrong doing. Upon the facts and the law I am therefore of the opinion that the plaintiffs' contention upon this point must prevail, and that the principle of law to which I have referred is applicable here. I do not propose now to embark upon the task of specifying the infringements and conversions of the works in question which become affected by my decision on this point; that will have to be determined on the settlement of the minutes of judgment.

My conclusion is therefore that there has been infringement of copyright and conversion of infringing copies, by the defendant, generally, as claimed by the plaintiffs; and that the plaintiffs are entitled to the relief claimed. I cannot pretend in this judgment to state precisely the specific works infringed or converted by the defendant, and probably that is not expected of me. The works in which copyright was originally claimed by the plaintiffs, and the infringements and conversions of infringing copies claimed in the statement of claim and the schedules thereto, are admittedly subject to revision; and the list of the works set forth in the appendix to the statement of defence, and which I find were produced on the authorization of the defendant by the Commercial Reproducing Company, is, I think, also subject to some revision as a result

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of the evidence. I require that counsel for the plaintiffs give counsel for the defendant at least seven days' notice of their motion to settle the minutes of judgment, the same to be accompanied by a draft of the order for final judgment proposed to be submitted on behalf of the plaintiffs, which, I hope, will be suggestive of some clear and concise method of designating the works to be affected by the several terms of this judgment. There will be the usual order for an enquiry into damages, if requested by the plaintiffs. The matter of costs will be reserved until the settlement of the minutes of judgment, but only for the reason that several proceedings were heard in the cause before trial, in respect of which the matter of costs was left undetermined, and my recollection of some of them is not at the moment clear.

Judgment accordingly.

BETWEEN:

1936

Dec. 3, 4 & 5.

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Mar. 9.

HIS MAJESTY THE KING............PLAINTIFF;

AND

MARIA MATHER PIERCE ET AL....DEFENDANTS;

AND

ETHEL LALLEMAND GIFFORD, Sole Heir and Executrix of the Will of Maria Mather Pierce, Deceased.. } DEFENDANT "en reprise d'instance".

Expropriation—Assessment of damages for loss of lease entered into by owner of land expropriated and lessee whereby the lessee undertook to erect a building on the land expropriated, said building to become the property of the owner of the land at expiration of lease.

Held: That in assessing the damages resulting from the expropriation of real property by the Crown, the fact that the owner of the property expropriated had entered into a lease whereby the lessee was to erect a building on the land, which, after the expiration of the lease, was to become the property of the owner of the land expropriated, must be considered.

INFORMATION by the Crown to have certain property, expropriated for terminal facilities for the Canadian National Railway, valued by the Court.

The Crown, on May 10, 1929, expropriated certain vacant property in the City of Montreal. Defendants alleged that on May 11, 1928, they had entered into a lease with one, J. Albert Julien, by which the land was

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leased for a period of twenty years at a rental of $14,400, payable yearly at the rate of $720, the lessee covenanting to pay taxes and to erect a building on the land; that the lessee had already prepared plans and specifications to erect a building of the approximate value of $25,000, which was to remain the property of the defendants at the expiration of the lease. The defendants claimed for damages suffered by them on this account as well as for the value of the land expropriated. The case is reported on the first point only.

The action was tried before the Honourable Mr. Justice Angers at Montreal, P.Q.

C. A. Bertrand, K.C. for plaintiff.

C. E. Guérin, K.C.; F. Chaussé and *S. V. Ozero* for defendants.

ANGERS J. now (March 9, 1938) delivered the following judgment:

This is an information exhibited by the Attorney-General of Canada whereby it appears that the lands hereinafter described were taken, under the provisions of the Expropriation Act (R.S.C., 1927, c. 64), for the purposes of a public work of Canada, to wit, terminal facilities for the Government Railways, by depositing, on the 10th day of May, 1929, a plan and description of the said lands in the Registry office for the Registration Division of Montreal, in which the said lands are situated.

[The learned Judge determined the value of the land and continued.]

There remains the question of the lease made between Maria Mather Pierce and J. Albert Julien and of the building which Julien, the lessee, was to erect on the lot and which, at the expiry of the lease, was to become the property of the lessor or her heirs.

The lease in question was executed on May 11, 1928, before J. P. Lalonde, N.P.; an authentic copy thereof was filed as exhibit D. The lease is for a period of twenty years reckoning from the first day of May, 1928. The rental is fixed at $14,400 for the term of twenty years and is stipulated payable by equal monthly payments of $60 each. The lessor acknowledges having received from the lessee the sum of $1,260 for twenty-one months in advance. The other monthly payments are to become due and exigible after the expiry of these twenty-one months, to wit, from the first of February, 1930.

The lease is made subject to, among others, the following clauses and conditions:—

1.—Le locataire a le privilège et le droit d'ériger sur le susdit terrain une bâtisse, suivant les plans qu'il jugera a propos mais en se conformant toutefois aux règlements de la cité de Montréal se rapportant aux constructions, laquelle bâtisse servira pour le commerce de fruits du dit locataire et toutes autres fins jugées nécessaires dans l'intérêt de ce dernier;

2.—Le locataire s'engage à construire la susdite bâtisse d'ici au premier mai mil neuf cent vingt-neuf, et à se conformer à tous les règlements concernant le feu, la police et la santé, et généralement à toutes les lois en force en la cité de Montréal;

3.—A l'expiration du présent bail la dite bâtisse ne pourra être enlevée du susdit terrain mais elle restera la propriété absolue de la bailleresse ou de ses héritiers légaux;

4.—Le locataire s'oblige de payer toutes les taxes municipales, scolaires, générales ou spéciales, sa taxe d'eau, sa taxe d'affaires, et toutes autres taxes imposées sur le susdit immeuble et ce pendant toute la durée du présent bail.

It was urged on behalf of plaintiff that the lessee, under the lease exhibit D, had the right and privilege of erecting a building on lot 538 but that he was not bound to do it. I must say that I cannot share this view. Clauses 1, 2 and 3 of the lease must be read together. In virtue of clause 2 the lessee obliges himself to complete the building in question on or before the 1st of May, 1929. Clause 3 stipulates that, at the expiry of the lease, the building shall not be removed but shall remain the property of the lessor or her legal heirs. This building obviously formed part of the consideration for which Maria Mather Pierce agreed to lease lot 538 to Julien.

It was further argued by counsel for plaintiff that, on the face of the pleadings, it appears that Maria Mather Pierce, the only lessor of the lease exhibit D, does not "comprise in herself the whole of the estate and ownership of the property" and that consequently "the claim urged on the strength of the lease cannot be ascribed to the other defendants, who are in law precluded from benefiting therefrom." Again I may say that I cannot adopt this view. Whether the substitutes could have refused to acknowledge the lease under the provisions of article 949 of the Civil Code of the Province of Quebec is, as I think, wholly immaterial. One may assume that, if the lease had

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been advantageous the substitutes would likely not have wished to terminate it. The only question which matters is whether the lessee could have claimed the cancellation of the lease on account of the decease of the lessor. The question, to my mind, must be answered in the negative; the contract of lease is not dissolved by the death of the lessor: article 1661 C.C.

The point in question is to determine what value, if any, this lease represented for the lessor.

The evidence discloses that Julien did nothing towards the erection of the building in 1928. On February 14, 1929, eleven days only before the notice of expropriation, Julien made a contract with one Octave Archambault, by which the latter undertook to erect a building on lot 538, according to the plans and specifications prepared by Chs. Bernier, architect, for the price of $19,600. The contract, which was filed as exhibit H, stipulates that the work must be completed on or before the 1st of May, 1929. The delay is indeed exceedingly short. Plans had been prepared by Chs. Bernier in January, 1929; at least the plans filed as exhibit I bear this date. Neither Archambault nor Bernier appeared as witnesses; it was stated that both were dead. No specifications were produced; none were found and from the evidence it seems very doubtful whether any were drawn up.

L. P. Boisvert, accountant for J. A. Julien, testified that he was aware of the lease exhibit D and that Julien took steps to erect the building mentioned therein.

Julien declared that, on the 26th or 27th of February, 1929, he received a notice not to build because the property was being expropriated; the notice was dated the 25th of February.

According to Julien the excavations for the foundations had been started, no precise date being indicated, but had to be discontinued owing to the expropriation.

The evidence also shows that three leases were made by J. A. Julien for stores and offices in the building which was to be erected: a lease to Mutual Brokers Montreal Limited, dated February 2, 1929, for a term of five years from the first of May, 1929, for the sum of $3,780, payable at the rate of $60 per month for the first four years and $75 per month for the last year; a lease to Wolfe

Fruit Company Limited, dated February 14, 1929, for a term of five years from the first of May, 1929, for the sum of $11,100, payable at the rate of $175 per month for the first three years and $200 per month for the last two years; a lease to Montreal Fruit Exchange Limited, dated February 15, 1929, for a term of five years from the first of May, 1929, for the sum of $11,100, payable at the rate of $175 per month for the first three years and $200 per month for the last two years; these leases were filed respectively as exhibits E, F and G.

It may be noted that these three leases contain a clause by which the lessor gives to the lessee the option of cancelling the lease at the end of every year by giving a notice by registered letter to the lessor, on or before the first day of February, of his intention to cancel the lease.

In cross-examination Julien declared that he was solvent and that he would have erected his building; he admitted however that in 1934 he had made a compromise with his creditors and added that he had paid the amount agreed upon.

It was extremely difficult in the circumstances, particularly on account of the lack of specifications and the non-appearance of the architect and the contractor as witnesses, to say what the building in question would have been worth after twenty years.

Gaspard Archambault, who has been in the construction business since 1913, stated that he examined the contract exhibit H and the plans exhibit I with a view to making an estimate of the cost of the building contemplated. According to him the contract is rather summary and, as there are no specifications, it is difficult to value the cost of the construction. He made an estimate of $28,874 and added $400 for the plans, which makes a total of $29,274. This amount is for a building of a moderate value. A sum of $19,600 for a building of the size and nature indicated by the plans would represent a value of approximately 13 cents per cubic foot. In witness's opinion the contractor must have made his reckonings for an economical construction; he must have purposed using second hand materials. A building erected in these conditions would be a third class building. This is the cheapest kind of construction which the City of Montreal permits; its average life is

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about forty years. In the present case the life of the building, in witness's opinion, would not have exceeded thirty years; the lessee would have had no interest in spending money for its upkeep, considering that at the end of twenty years the ownership of the building was to become vested in someone else. Archambault fixed the depreciation of this building after twenty years at two-thirds of its cost, which I may say does not seem to me excessive in the circumstances. This means that, at the expiry of the lease, the building would have been worth about $6,500. The value of this capital in 1929, realizable in twenty years, computing the interest at 5%, compounded yearly, would be approximately $2,500. I deem it fair to allow this sum to the defendants, with interest thereon at the rate of 5% per cent per annum from the date of the expropriation, namely, the 10th of May, 1929.

It is almost impossible to determine with any degree of precision the amount of rent which the defendants might have received from Julien under the lease exhibit D. It is indeed problematical whether Julien would have succeeded in renting all the space in the building; and it is very doubtful, assuming that he would have been able to rent it all, whether he would have collected all his rentals.

The lessor has already received $1,260, being the rent for twenty-one months paid in advance. The balance of the rent from February 1, 1930, to the expiry of the lease is $13,140. In view of the general depression existing since the end of 1929 and the removal of the fruit terminal, in 1932 or 1933, from the location it occupied between Mountain, Aqueduct and Rolland streets and the railway tracks (see plan A) to a place on Richmond street near Trudel avenue, it seems to me almost certain that Julien would have found it difficult to rent his building after 1933 and, as a consequence, to pay the rent of the lot to the defendants. He made a compromise with his creditors in 1934 at 50 cents on the dollar; he was evidently not in a very good financial position. What he could have done with his building after 1933 is, to say the least, extremely uncertain and hypothetical. I am inclined to believe nevertheless that the defendants would have collected a certain proportion of their rent and I think that they should be granted some compensation on this account. After giving

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the matter careful thought and consideration, I have come to the conclusion that I would be doing justice to both parties in granting to the defendants the sum of $2,000 as rent for lot 538 after February 1, 1930.

I think it is fair to allow to the defendants the customary allowance of 10% on the value of the land for forcible taking; 10% on $15,736.50 is $1,573.65; the total compensation granted to the defendants will accordingly be $21,810.15. See Cripps on Compensation, 7th edition, p. 198.

There will be judgment as follows:—

(1) The lands herein expropriated are hereby declared vested in His Majesty the King as of the 10th of May, 1929;

(2) The compensation for the lands so expropriated, with all damages arising out of or resulting from the expropriation, is hereby fixed at the total sum of $21,810.15, with interest at the rate of 5% per annum from the 10th day of May, 1929, date of the expropriation, to the date hereof;

(3) The defendants are entitled to recover the said sum of $21,810.15, with interest as aforesaid, upon giving to the Crown a good and valid title, free from all mortgages, charges and encumbrances whatsoever;

(4) The defendants are also entitled to their costs.

Judgment accordingly.

BETWEEN:

MARY M. RIDDELL ....APPELLANT;

AND

MINISTER OF NATIONAL REVENUE .... RESPONDENT.

1937 May 3.

1938 Mar. 26.

Revenue—Income War Tax Act—Capital or income—Payment of salary to executor of will of deceased partner—Assessment on beneficiary entitled to revenue from estate of deceased—No liability for tax.

R., a member of a partnership, was entitled, under an agreement with the other members of the partnership by which his interest in the firm was established as that of a special partner, to a salary of $15,000 per year "during his lifetime and to continue for six months after his death." R. died, and the firm paid to the executor of his will the sum of $3,750 as so much of the greater amount payable for six months after his death, under the terms of the agreement. The

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executor treated this payment as an accretion to the capital of the estate. Under the terms of R's will the revenue from this sum of money was paid to R's widow.

R's widow, the appellant herein, was assessed income tax on the said sum of $3,750, which assessment was confirmed by the Minister of National Revenue from whose decision she appealed to this Court.

Held: That the assessment was improperly made and must be set aside

APPEAL under the provisions of the Income War Tax Act from the decision of the Minister of National Revenue.

The appeal was heard before the Honourable Mr. Justice Angers, at Ottawa.

W. F. Macklaier for appellant.

L. M. Gouin, K.C. and *J. R. Tolmie* for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

ANGERS J., now (March 26, 1938) delivered the following judgment:

This is an appeal, under sections 58 and following of the Income War Tax Act (R.S.C., 1927, c. 97 and amendments thereto), by Mary Morris, widow of Alexander F. Riddell, in his lifetime accountant, of the City of Montreal, from the assessment made by the Minister of National Revenue, through the Commissioner of Income Tax, on October 23, 1934, for the taxing year 1932.

The facts are briefly as follows:

By his last will and testament, made on the 3rd day of June, 1932, before Edward W. H. Phillips and Ivanhoe Bissonnette, notaries public, the said Alexander F. Riddell gave, devised and bequeathed unto the Royal Trust Company, a corporation having its head office in the City of Montreal, all his estate and property, real and personal, movable and immovable and wheresoever situated at the time of his death, upon certain trusts which it is not necessary for the purposes herein to relate in detail, with the exception however of the one concerning the testator's wife, the appellant herein, worded as follows:

> And as to all the rest, residue and remainder of my estate and property, real and personal, movable and immovable and wheresoever the same may be situate at the time of my death, including the proceeds of all life insurance policies and all property which I may have power to affect by will, I direct my Trustee to pay over all the net income and revenue therefrom to my said wife during her lifetime, * * * *

The clause then provides for the division of the testator's estate at the death of his wife or at his death should his wife predecease him; the last part of this clause has no relevance to the question at issue.

By his said last will and testament the testator appointed his trustee as executor, extending its power and authority over and beyond the year and day limited by law.

The said last will and testament contains, among others, a clause relating to the capital and revenue of the estate, which reads as follows:

> In case of doubt as to whether assets or liabilities are to be credited or charged to the capital or revenue of my estate, as the case may be, and in all questions and matters of doubt in connection with my estate, the decision of my said Trustee and Executor in such matters shall be final and binding upon all parties interested.

Alexander F. Riddell was senior partner in the firm of Riddell, Stead, Graham & Hutchison, chartered accountants, of Montreal.

On July 11, 1932, an agreement was entered into by the said Alexander F. Riddell and his then partners, A. C. Stead, James Hutchison and John Patterson, reading as follows:

> We, the undersigned, severally agree that, dating from the 1st July, 1932, Mr. A. F. Riddell's share and interest in the firm of Riddell, Stead, Graham & Hutchison, Chartered Accountants, will be that of a Special Partner with a salary of Fifteen thousand dollars ($15,000) per annum during his lifetime and to continue for six months after his death. It is understood and agreed that from the 1st July, 1932, Mr. A. F. Riddell will not be liable, as a Partner, for any losses of the firm that may hereafter arise.
>
> This Agreement, as regards Mr. A. F. Riddell's interest in the firm, replaces any previous Agreements.

By consent this agreement was not filed; it was reproduced at length in the admission of facts hereinafter referred to.

Alexander F. Riddell died on September 24, 1932.

On December 27, 1932, the firm of Riddell, Stead, Graham & Hutchison sent to the Royal Trust Company, executor and trustee under the last will and testament of the said Alexander F. Riddell, the sum of $3,750, representing one half of the amount payable by the said firm to the latter's estate under the agreement aforesaid.

The only evidence adduced at the trial consists of an admission of facts and a copy of the last will and testament of Alexander F. Riddell, filed respectively as exhibits 1 and 2.

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Leaving aside the facts previously mentioned, the document entitled "Admission of facts" contains in substance the following statements:

On April 28, 1933, the appellant filed her income tax return for the year 1932, reporting her net taxable income as $1,719.41; on May 1, 1933, the appellant paid $58.78, which amount was confirmed as the tax assessed and levied upon appellant's income as reported for the year 1932 by income tax assessment notice issued on November 17, 1933; on October 23, 1934, the Inspector of Income Tax at Montreal added to appellant's return of income an item of $3,750 alleged, in the notice of assessment, as "additional income from estate A. F. Riddell, being amount paid to estate A. F. Riddell under agreement with partners of Riddell, Stead, Graham & Hutchison" and the Inspector levied upon appellant a tax in the sum of $301.93 in respect of alleged income for the taxation year 1932;

Through her agent, the Royal Trust Company, the appellant objected to the additional tax of $301.93 at which she was assessed, caused a notice of appeal to be served upon the respondent within the statutory delay and carried on negotiations with the respondent with respect to such appeal;

The agreement referred to in the notice of assessment was the agreement made on July 11, 1932, between the late Alexander F. Riddell and A. C. Stead, James Hutchison and John Patterson (hereinabove quoted);

Under the terms of the will of her husband, Alexander F. Riddell, the appellant is entitled to receive during her lifetime the full amount of the net revenue of the estate after an annuity of $5,000 per year to the testator's son has been paid and in 1932 the net revenue of the estate, apart from the $3,750 received from the firm on December 27, 1932, was sufficient to pay the proportionate part of the said annuity due for the remaining 98 days of the year 1932 between the date of the death of Alexander F. Riddell and the end of the calendar year and to leave a surplus;

On December 27, 1932, a payment of $3,750 was made by Riddell, Stead, Graham & Hutchison to the Royal Trust Company, trustee and executor of the will of the late Alexander F. Riddell, as so much of the greater amount payable for six months after his death under the terms of the agreement aforesaid; the Royal Trust Company has never actually paid to the appellant the said amount of $3,750; this amount has never been placed by the Royal Trust Company to appellant's credit and the Royal Trust Company has treated it as an accretion to the capital of the estate; the only payment made to the appellant by the Royal Trust Company, as a result of the payment to it of the amount of $3,750, is the revenue derived from the said amount;

During the year 1932 the Royal Trust Company paid $413.64 to the appellant, as being the amount of revenue which she was entitled to receive from the estate of her late husband;

The firm of Riddell, Stead, Graham & Hutchison continued to use the name of the late Alexander F. Riddell as part of the firm name from July 1, 1932, until the death of the said Alexander F. Riddell; the said firm continued without interruption to use his name during the six months following his death and is still using it.

It was submitted on behalf of the appellant that the agreement of the 11th of July, 1932, constituted a sale and that Alexander F. Riddell had thereby sold to the partnership the right to use his name as well as his share and goodwill in the firm. I must say that I am unable to adopt this view; the agreement in question has not, to my mind, the character of a sale: see in this connection the decision in the case of *Mackintosh* v. *Commissioners of Inland Revenue* (1), the head-note of which reads as follows:

A partnership deed provided that in the event of death of a partner the remaining partners might continue to use the firm's name, marks, and goodwill, paying to the executors of the deceased partner for this privilege the sum of £500 quarterly for a period of five years "after which it may be enjoyed without further payment." One of the partners died, leaving one-half of his residuary estate in trust for his widow, the appellant. The value of the deceased's share in the capital and income of the partnership was agreed and paid to the executors in full discharge of all claims except the quarterly payments. These payments were duly made, at first in full, but later under deduction of income tax. The appellant was assessed to Super-tax for the year 1926-27 in respect of her half share of the four quarterly payments received in 1925-26

For Estate Duty purposes the quarterly payments of £500 for five years were valued at £8,584 at the date of death and duty had been paid thereon.

(1) (1928) 14 Tax Cases 15.

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The Special Commissioners, on appeal, confirmed the assessment.

Held, that the payments were income assessable to Super-tax

It seems expedient to me to cite a passage from the judgment of Rowlatt J. (p. 18):

In this case the point raised is whether the successive sums of £500 payable quarterly for a period of five years to the trustees—by which I think the parties to the document meant the executors—of a deceased partner in this firm, Mr. Mackintosh, are instalments of purchase money and so capital, or whether they are an annuity or annual sum taxable as income. That is the point, and as has often been said, it is an extremely narrow point.

* * *

But looking at the way this is framed, I do not think this was handled as if it was a purchase by instalments. The executors of the dying partner have not really sold anything that can properly be called a subject of sale. What they have really done is this When the partnership was dissolved the right to the use of the name, and the goodwill, and these established grade marks, whatever they may be, were all assets of the partnership and ought to have been valued. But these were left in the partnership. The late partner had an interest in them in a way. You might say his executors were obliged to sell them, but what really happened was that they released their right—I think it is more accurate to say—to have these assets valued or included in the liquidation of the partnership. That is really what they did. How is it expressed? I think that really throws a good deal of light upon it; in fact I am not certain it is not the principal thing one has to go upon. The remaining partners may continue the use of the firm name on payment of a quarterly sum for this privilege for five years, after which it may be enjoyed without further payment. I think they are treating it not as paying by instalments for a thing they have got once for all, but I think they are treating it as paying for the use as they are using it, but that is only to go on for five years. I think it is a payment in the nature of income for the use of the firm name, the goodwill and rights, a payment concurrent with the enjoyment of the thing for which the payment is made, running on year after year and therefore prolonging the interest of the deceased partner in the income, although it is merely securing an income for a period of five years. That is the best conclusion I can come to upon a question which I am bound to say is a very narrow one.

It was argued on behalf of appellant that the Commissioner has assessed the wrong party; that, if the Commissioner had a proper right of assessment against anyone, which of course is not admitted, it was not against the appellant but against the estate of Alexander F. Riddell. The argument is based on the fact that the appellant did not actually receive the sum of $3,750. This sum was paid by Riddell, Stead, Graham & Hutchison to the Royal Trust Company and the latter kept it, treating it as an accretion to the capital. Counsel for appellant contends that this sum of $3,750 cannot be considered as income to the appellant because income is something that comes in; and, as far as the appellant is concerned, it cannot be said that

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the sum in question did come in; it is admitted that the appellant did not receive the sum of $3,750 and that the only payment which she got, as a result of the payment by the firm of Riddell, Stead, Graham & Hutchison to the Royal Trust Company of the said sum of $3,750, was the revenue derived therefrom.

The appellant's contention appears to me well founded; the Commissioner has assessed the wrong party; the assessment should have been made against the estate of Alexander F. Riddell.

I may add incidentally that, in my opinion, the sum of $3,750 paid by Riddell, Stead, Graham & Hutchison to the Royal Trust Company is income within the meaning of section 3 of the Income War Tax Act. On this point the case of *Allen and another* v. *Trehearne* (1) may be consulted with benefit. The clause of the will authorizing the trustee and executor to decide whether assets or liabilities ought to be credited or charged to the capital or revenue of the estate does not affect the rights of the Crown.

There will be judgment maintaining the appeal and setting aside the assessment and the decision of the Minister affirming it.

The appellant will be entitled to her costs against the respondent.

Judgment accordingly.

BETWEEN:

HIS MAJESTY THE KING, ON THE INFORMATION OF THE ATTORNEY-GENERAL OF CANADA .... PLAINTIFF;

1937 June 28 & 29

1938 March 24.

AND

JOHNSON MATTHEY & COMPANY (CANADA) LIMITED .... DEFENDANT.

Revenue—Income War Tax Act, R.S.C., 1927, c. 97, s. 2 (b) and s. 9B, ss. 2 and ss. 4—Tax on dividend—Distribution of fully-paid shares—Transfer from earned surplus account to share capital account—Liability for tax.

The Income War Tax Act, R.S.C., 1927, c. 97, provides that:—

"2 (*b*) 'Dividends' shall include stock dividends.

9B. ss. 2. In addition to any other tax imposed by this Act an income tax of five per centum is hereby imposed on all persons who are non-residents of Canada in respect of

(1) (1937) 2 All E.R. 400.

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Maclean J.

(a) All dividends received from Canadian debtors irrespective of the currency in which the payment is made.

ss. 1. In the case of interest or dividends in respect of fully registered shares, bonds, debentures, mortgages or any other obligations, the taxes imposed by this section shall be collected by the debtor who shall withhold five per centum of the interest or dividend on the obligation and remit the same to the Receiver-General of Canada."

Defendant company was incorporated under the laws of the Dominion of Canada, with an authorized capital of $250,000 divided into 25,000 shares of the par value of $10 each. A by-law of the company, enacted on December 11, 1933, provided that: "For the amount of any dividend which the Directors may lawfully declare payable in money they may issue shares of this company as fully paid."

On December 11, 1935, the directors of the company declared a dividend "on the issued share capital of this Company in the form of an issue of whole shares of this Company's capital stock of such aggregate par value as shall be, as nearly as may be, equal in total amount to the surplus of this Company on 31st December, 1935, less the amount of a fair reserve for any taxes * * *"

The surplus was determined at $49,571.51, and the company allotted and issued 4,957 shares of its capital stock to its shareholders of record at the close of business on December 31, 1935, pro rata according to their holdings of issued shares of the company as of that date, and these shares were paid up in full by the transfer from the "earned surplus" account of the company of the sum of $49,570 to the credit of the share capital account. This surplus thus capitalized was available prior to its capitalization for the payment of cash dividends to the shareholders of defendant. The defendant did not collect or withhold or pay the tax in respect to 4,907 of these shares allotted and issued to a non-resident of Canada.

Held: That these transactions were in effect a declaration of a stock dividend within the Income War Tax Act and that defendant company was liable to pay tax on the value of the shares issued to non-residents of Canada.

INFORMATION exhibited by the Attorney-General of Canada to recover from the defendant a certain sum for tax upon a stock dividend paid by defendant to certain of its shareholders who were non-residents of Canada.

The action was tried before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa.

J. O. Plaxton, K.C. for plaintiff.

B. B. Osler for defendant.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT, now (March 24, 1938) delivered the following judgment:

In this Information, the plaintiff seeks to recover from the defendant, under the provisions of s. 9B, ss. 2 of the

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Income War Tax Act, a certain sum of money claimed to be due and payable, and being a tax upon a stock dividend paid by the defendant to certain of its shareholders who were non-residents of Canada. Sec. 9B, ss. 2 (*a*) of the Act is as follows:

> In addition to any other tax imposed by this Act an income tax of five per centum is hereby imposed on all persons who are non-residents of Canada in respect of (*a*) All dividends received from Canadian debtors irrespective of the currency in which the payment is made * * *

Subsec. 4 of s. 9B provides that:

> In the case of interest or dividends in respect of fully registered shares, bonds, debentures, mortgages or any other obligations, the taxes imposed by this section shall be collected by the debtor who shall withhold five per centum of the interest or dividend on the obligation and remit the same to the Receiver-General of Canada.

By s. 2 (*b*) of the Act "dividends" include "stock dividends."

The defendant is a company incorporated under the laws of the Dominion of Canada and having its head office in the City of Toronto, Ontario. Its authorized capital was $250,000 divided into 25,000 shares of the par value of $10 each. On December 31, 1935, the defendant company had outstanding and fully paid up 10,750 shares of its capital stock of which 10,650 shares were owned by non-residents of Canada. On December 11, 1933, a by-law, numbered 6, was enacted by the directors of the defendant company in the following terms: "For the amount of any dividend which the Directors may lawfully declare payable in money they may issue shares of this Company as fully paid." That by-law was subsequently sanctioned by the shareholders at a special general meeting called for that purpose. On December 11, 1935, the directors of the defendant company duly passed the following resolution:—

> Resolved that whereas By-law No. 6 of this Company authorizes the directors to issue fully paid shares for the amount of any dividend they may lawfully declare payable in money, a dividend be and it is hereby declared on the issued share capital of this Company in the form of an issue of whole shares of this Company's capital stock of such aggregate par value as shall be, as nearly as may be, equal in total amount to the surplus of this Company on 31st December, 1935, less the amount of a fair reserve for any taxes, the amount of which may be based upon the operations of this Company up to 31st December, 1935, as the same may be determined by this Company's auditors, and that the same are hereby allotted and directed to be delivered on 2nd January, 1936, pro rata to the shareholders of this Company of record at the close of business on 31st December, 1935, or as they may respectively direct.

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The amount of the surplus of the defendant company on December 31st, 1935, as determined by its auditors, after deducting the amount of a fair reserve for any taxes, was $49,571.51. By virtue of the resolution just mentioned the defendant company duly allotted, as fully paid, 4,957 authorized and unissued shares of its capital stock of the par value of $10 each to its shareholders of record at the close of business on December 31, 1935, pro rata according to their holdings of issued shares of the defendant company as of that date. Pursuant to the authority contained in By-law numbered 6, the said 4,957 shares were paid up in full by the transfer from the "earned surplus" account of the company of the sum of $49,570 to the credit of the share capital account. The whole of the earned surplus so capitalized by the defendant company was available prior to its capitalization for the payment of cash dividends to the shareholders of the defendant company.

Johnson Matthey & Company Limited, an English company and a non-resident of Canada, was entered in the stock register of the defendant company as the owner of 4,907 of the said 4,957 shares, all of which have been credited as fully paid, and it has received share certificates representing them. The defendant company did not collect or withhold, or pay, the tax in respect of the said 4,907 shares of its capital stock allotted to Johnson Matthey & Company Limited.

The submission of Mr. Osler on behalf of the defendant was to the effect that what took place was simply a capitalization of surplus and a distribution of shares, and that there was no payment of a dividend because nothing was divided and nothing changed; that no "Canadian debtor," no "payment," and no "currency," was involved in the transactions that took place, and that s. 9B 2 (*a*) contemplates only the case where a dividend is being paid in Canadian funds and that therefore a stock dividend is not taxable under that section of the Act.

I have carefully considered the argument of Mr. Osler, but I do not think it can prevail. We are dealing with a particular statute which plainly declares that "dividends" include "stock dividends." The words "payment," "currency" are perhaps not apt words in the case of a "stock dividend," but I do not think they obscure what appears

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to be the intention of the legislature. It being known that a stock dividend is taxable it is to be presumed that, before payment thereof, provision would be made for the payment of the tax either by the company or the taxpayer. A stock dividend, like any other dividend, is based upon an earned reserve or surplus, otherwise the dividend would not be declared. Here, it is agreed that the whole of the earned surplus so capitalized was available, prior to its capitalization, for the payment of cash dividends to the shareholders of the defendant company. There were many methods available to the defendant to ensure the collection of the tax. There was a definite statutory obligation on the part of the defendant to withhold the tax in question. At first, it might appear that the section of the Act in question is not practically operative in a case of this kind and was not therefore intended to apply, but as a stock dividend is a dividend and taxable, then the company paying it must make some provision for the collection of the tax. I assume that in all such cases if the liability to the tax is conceded there would be no difficulty in providing for its payment.

The case of *Swan Brewery Company Ld.* v. *The King* (1) would seem applicable here. The Dividend Duties Act, 1902, of Western Australia, provided that when a company carrying on business in Western Australia and not elsewhere, declared a dividend, it became bound to pay a duty of 5 per cent on the amount or value of the dividend before distributing the same. The Act described the word "dividend" as including "every profit, advantage, or gain intended to be paid or credited to or distributed among the members of any company." The company had accumulated a reserve fund of more than £101,450. It passed the necessary resolutions to increase its capital by £101,450 divided into 81,160 new shares of £1 5s. each. These new shares were duly allotted to the then shareholders according to their holdings of old shares. No money passed, but £101,450 was transferred from the reserve fund to the credit of the share capital account, and thereafter represented the capital value of the new shares. It was held by the Judicial Committee that these transactions were in effect a declaration of a dividend amounting to £101,450,

(1) (1914) A.C. 231.

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within the Dividend Duties Act, and that the Swan Brewery Company was liable to pay duty upon that amount. In delivering the judgment of the Judicial Committee Lord Sumner said:

The argument is that there has been no dividend and no distribution, because nothing has been divided and nothing changed. Where formerly there was one share, enhanced in value by its right to participate in the reserve fund, if the company, being solvent, should be wound up voluntarily, now there are two, possessed of the same right of participation, but for that very reason worth no more and no less together than the one share was worth before Formerly the company had a certain amount of capital; now it has the same without diminution or increase either temporary or permanent. The change is but one of name. Formerly its funds were so much share capital and so much reserve, all invested in the business; now they are so much more shares capital and so much less reserve, all invested in the business still and still unchanged in total amount. The duty claimed is not, it is said, a duty on or in proportion to any advantage either to the company or the shareholder measured by the increased stability of the company's own position or the increased facility to the shareholder in marketing his shares; it is measured by and is levied upon the whole nominal value of the new shares allotted, which is not the same thing as the value of the advantage distributed. Is this argument sound?

Their Lordships agree with the Supreme Court of Western Australia in thinking that it is not. There can be no doubt that the new shares were distributed and were not the same things as the old ones. They certainly were supposed to be advantages to the members of the company, none the less that the making of the issue was probably an advantage to the company also. In so flourishing a business doubtless they really were advantages. The new shares were credited as fully paid, and, what is more, they were fully paid, for after the allotment the company held £101,450 as capital produced by the issue of those shares and for that consideration, and no longer as an undivided part of its accumulated reserve fund. True, that in a sense it was all one transaction, but that is an ambiguous expression. In business, as in contemplation of law, there were two transactions, the creation and issue of new shares on the company's part, and on the allottees' part the satisfaction of the liability to pay for them by acquiescing in such a transfer from reserve to share capital as put an end to any participation in the sum of £101,450 in right of the old shares, and created instead a right of general participation in the company's profits and assets in right of the new shares, without any further liability to make a cash contribution in respect of them. In the words of Parker C.J, "Had the company distributed the £101.450 among the shareholders and had the shareholders repaid such sums to the company as the price of the 81,160 new shares, the duty on the £101,450 would clearly have been payable. Is not this virtually the effect of what was actually done? I think it is."

I am of the opinion that here the defendant is liable for the tax, and the claim of the plaintiff is accordingly allowed, and with costs.

Judgment accordingly.

1937
June 28.
1938
April 14.

BETWEEN:

HIS MAJESTY THE KING, on the Information of the Attorney-General of Canada .... PLAINTIFF;

AND

CANADIAN NATIONAL RAILWAYS ... DEFENDANT.

AND

HIS MAJESTY THE KING, on the Information of the Attorney-General of Canada .... PLAINTIFF;

AND

CANADIAN PACIFIC RAILWAY COMPANY .... DEFENDANT.

Revenue—Tax on seats, berths and other sleeping accommodation—Special War Revenue Act—Railway employees travelling in Pullman or parlour cars on business of employer—No liability for tax.

Held: That railway employees travelling in Pullman or parlour cars while on the business of the railway are not liable for the tax imposed by the Special War Revenue Act, R S C , 1927, c. 179, s. 32.

INFORMATIONS exhibited by the Attorney-General of Canada to recover from the defendants taxes on seats, berths and other sleeping accommodation alleged to be due the Crown under the provisions of the Special War Revenue Act, 1927, c. 179, and amendments thereto.

The actions were tried before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa.

F. P. Varcoe, K.C. and *J. R. Tolmie* for plaintiff.

G. A. Walker, K.C. for the Canadian Pacific Railway Co.

I. C. Rand, K.C. for the Canadian National Railways.

The facts are stated in the reasons for judgment.

THE PRESIDENT, now (April 14, 1938) delivered the following judgment:

By agreement between counsel these two Informations involving precisely the same issue, were heard together, it being understood that any evidence in the one case would be evidence in the other. In point of fact the only evidence submitted is to be found in the form of written admissions made in each case, and the admissions are much to the same effect.

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In the material time, certain employees of each of the defendant railway companies who were required to travel to and from places at which they had duties to perform, would obtain from a ticket agent of the railway company with which they were employed, standard tickets for parlour car and sleeping car accommodation. Such tickets were obtained by such employees upon payment of the regular rates prescribed for such accommodation, and also a tax thereon which will shortly be explained. The defendants in all cases either furnished such employees with funds by means of an accountable advance for expenses to enable them to obtain the tickets, or subsequently reimbursed them the amounts so paid. The employees of the defendant railway companies so travelling are furnished with passes which authorize free transportation to them over the railway with which they are employed, but passes are not generally issued to cover parlour car and sleeping car accommodation. In the case of the Canadian Pacific Railway, passes to cover sleeping or parlour car accommodation are issued to its directors, and to a limited number of officers of its Sleeping Car Department whose duties require them to travel more or less constantly. In the case of the Canadian National Railways, inspecting officers of its Sleeping and Parlour Car Department, and officers of its Operating Department, are permitted to occupy parlour car seats, or sleeping space, while travelling on duty, without the payment of any money therefor. In the case where employees travel in private business cars equipped with sleeping and chair accommodation no tickets or permits are issued therefor. If railway employees travel on their own account they pay for their seating and sleeping accommodation just as do the public.

In procuring tickets, covering seating and sleeping accommodation, the railway employees would in practice pay, in addition to the prescribed rate, the tax imposed by s. 32 of The Special War Revenue Act. Sub-s. 1 and 2 of s. 32 of that Act are as follows:

1. Every purchaser of a seat in a Pullman or parlour car shall, in addition to the price paid for such seat, pay to the person selling such seat, for the Consolidated Revenue Fund, ten cents.

2. Every purchaser of a berth in a sleeping car or of other sleeping accommodation on a railway train shall pay to the person selling the berth or other sleeping accommodation for the Consolidated Revenue Fund in addition to the price paid therefor, a sum equal to ten per cent of the

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Maclean J.

said price, provided that in no case shall the tax imposed by this subsection be less than twenty-five cents.

The controversy here relates to these two taxes. The defendant railway companies have not accounted to the Minister of National Revenue for the tax paid by their employees in the circumstances described, as they do in the case of sales of similar tickets to the public, and they contend that they are not liable to the tax, and that the same was not intended to apply to the described transactions between themselves and their employees, when travelling on duty, and that is the question for decision.

The defendants assert that instead of issuing to employees passes or permits—which they might do—which would entitle employees to occupy chair and sleeping space while travelling on their employer's trains without any payment of money therefor, they prefer, largely as a matter of convenience and for accounting purposes, to direct that their employees procure a ticket or tickets in the usual way, from cash advances made to them, or by paying for the same themselves and including the expenditure in their next rendered expense account. The tickets purchased have in all cases a perforated section which is intended as a voucher for the expenditure, and this voucher would be attached to the expense account of the employee; the auditing officers of the railway company could readily ascertain for what purpose the expenditure was made, and whether or not it should have been made. The defendants contend that this procedure simplifies the accounting and supervision incident to such expenditures by employees. It is claimed that by this internal procedure the selling ticket agent is relieved of inquiring and determining whether the employee is travelling on the business of the railway, or on his own account. If ticket agents were instructed not to collect the tax where the employee was travelling on the railway's business they would have to determine in each case whether the employee was about to travel on the railway business, or on his own account, which obviously would be altogether impractical.

A railway company is for some purposes a public corporation, that is, it is subject to the provisions of the Railway Act, and as a common carrier it is under certain legal obligations to the public. And for some purposes it is a private corporation. It can lawfully give travelling

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privileges on its own trains to its own employees while in the course of discharging their duties, and it can even extend those privileges to the families of its employees; it may employ its own railway facilities for its own purposes so long as this does not encroach upon its obligations to the public. It was urged that when an employee of a railway enters a train, to travel from one point to another point in performance of his duty, he is not a passenger in the ordinary sense but he is there under his contract of service, and not as one whom the railway has contracted to carry from one place to another. It was contended also that the relations between a railway company and its employees, while the latter are travelling on the trains of the former in performance of their duties, is to be distinguished from the relationship existing between a railway company and its passengers gathered from the general public; and in exemplification of this it was pointed out that all employees of a railway are treated as fellow servants, and that a railway company would not be liable to an employee for any injury to the latter while travelling on its trains in performance of his contract of service, in the absence of any specific understanding to the contrary.

The cases under consideration do not permit of any extended discussion. There can be no doubt but that each defendant could issue passes or permits to their employees covering the particular railway accommodation with which we are here concerned. The railway companies think that it is a preferable business practice to have employees purchase the train accommodations they require in the usual way, by money advanced to them, and if the employee makes the purchase from his own funds then the same would be included in his expense account, and he would thus be promptly reimbursed. It is very probable that there is advantage and convenience in this procedure, though some other procedure might easily be adopted which would obviate the necessity of purchasing tickets. While the employee has to go through the motions of purchasing a ticket yet it is the substance of the transaction that is to be looked at always, and not the form, and, I think, the substance of the transaction is that the railway company gives to the employee a pass or permit to occupy the desired car space. Having purchased a ticket, the employee is not in the same position as the ordinary member of the public would be. The employing railway company could say to the employee that he would have to postpone his travel because the public demands for space had not been satisfied, or on some other ground they could deny him the right to use the privileges which the ticket purports to give him. The employee by the purchase of the ticket has not, I think, a contract to provide train accommodation which he could enforce against his employer, or for failure of which he would be entitled to damages, as, I think, a member of the public might be, and the employee would not likely look at it in that way; in reality he did not use his own money to buy the ticket, and he was about to travel not on his own business but on that of the railway company which employed him. I do not think that in the true sense it can be said that the employee "purchased" a ticket, or that he was a "passenger" who acquired enforceable rights by his purchase of the ticket. I cannot think the taxing statute was intended to apply in the case of the transactions in question. It was the travelling public, not employees of railway while on duty, which was to be taxed on each seating or sleeping accommodation represented by the purchase of a ticket. I hardly think the legislature intended that the tax was to be applied to any internal arrangements of the railways whereby they furnished train accommodation to their own employees, while engaged in the performance of their duties.

The taxes in question first came into force in 1915; they were abandoned for a few years and later revived, and it was not till 1936 that payment of the tax was demanded of the defendants for the ticket purchases in question. When one finds the vigilant officers of the Minister of National Revenue overlooking this revenue reservoir, or being in doubt about the applicability of the statute to the transactions in question, it rather fortifies me in reaching the conclusion that the tax was not intended to apply here, or, at least, that the taxing statute does not make it clear that the defendants were to be taxed, and always the taxpayer is entitled to the benefit of any doubt.

The Informations are therefore dismissed and with costs.

Judgment accordingly.

1937

April 13-16; 19-23; 26 & 27.

1938 March 22.

BETWEEN:

BELDING - CORTICELLI LIMITED, SUPERSILK HOSIERY MILLS LIMITED, WELDREST HOSIERY LIMITED, THE BUTTERFLY HOSIERY COMPANY LIMITED, NORDIC HOSIERY LIMITED, HOLEPROOF HOSIERY COMPANY OF CANADA LIMITED AND THE TORONTO HOSIERY COMPANY LIMITED... PLAINTIFFS;

AND

CHARLES A. KAUFMAN ....DEFENDANT.

Patents—Impeachment action—Prior user—Subject-matter—Application of known method in analogous manner—Patent Act, 25-26 Geo. V, c. 32, s. 61, ss. 1—" Other inventor."

The action is one to impeach defendant's Canadian Patent No. 336,234; the invention claimed relates to full-fashioned hosiery, particularly of silk, and to methods for making the same. The defendant counterclaims for infringement of the same patent, and for damages therefor.

The plaintiffs allege that the patent in suit is invalid because (*a*) it lacks invention, being merely an analogous use of principles previously applied in the manufacture of other woven and knitted fabrics, (*b*) that there was prior user of the invention by others, and (*c*) that the defendant was not the first inventor.

The Court found that there was no subject-matter in defendant's patent; that he was not the first to make the alleged invention; that as between the defendant and one, Krenkel, the latter was an "other inventor" as contemplated by the Patent Act, 25-26 Geo. V, c. 32, s. 61, ss. 1, and that Krenkel was the first inventor.

Held: That the invention was not subject-matter for a patent, being only the application of a known method which did not require an inventive step.

2. That if a known article is applied to an analogous purpose, the application is not patentable simply because it produces advantages not produced before.

3. That the present case is one contemplated by the Patent Act, 25-26 Geo. V, c. 32, s. 61, ss. 1, and that the question of priority of invention arises thereunder as between the defendant and one, Krenkel, and on the facts Krenkel was the first inventor.

4. That s. 61, ss. 1 (*c*), of the Patent Act may be invoked in impeachment proceedings by others than the patentee or the applicant for a patent.

THE ACTION was tried before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa.

O. M. Biggar, K.C., A. S. Bruneau, K.C. and *Christopher Robinson* for plaintiffs.

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A. J. Thomson, K,C. and *B. V. McCrimmon* for defendant.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT, now (March 22, 1938) delivered the following judgment:

This is a consolidation of seven separate actions but it will be sufficient now to say that in the above style of cause the plaintiffs seek to impeach a patent, numbered 336,234, issued to the defendant Kaufman on October 10, 1933, upon an application therefor filed April 7, 1933. Kaufman filed application for the corresponding patent in the United States on May 20, 1932, and the same was granted on August 7, 1934. The invention claimed in the patent here in suit relates to what is called full-fashioned hosiery, particularly of silk, and to methods for making the same. The defendant counter-claims for infringement of the same patent, and damages therefor. It is the contention of the plaintiffs that there is not subject-matter for letters patent in Kaufman, and in the alternative, that if there were invention Kaufman was not the first inventor. In the whole field of dispute those two points are the important ones for decision.

The question of the validity of the corresponding United States patent was tried in the case of *Julius Kayser & Company and Textile Patents Corporation* v. *Rosedale Knitting Company,* in the District Court of the United States for the Eastern District of Pennsylvania, and it was there held that there was no invention in Kaufman, and that in any event Kaufman was not the first inventor of that which he claimed in his patent. By agreement between counsel much of the evidence heard in the United States case became evidence here, but that was supplemented by evidence given at the trial of this case; all that evidence, together with the exhibits, reach extensive proportions, but, I think, any extended reference to the evidence may be avoided, and considerable of it appears to me to have been unnecessary.

Throughout the specification of the patent, and the evidence, there will be found many references to "full-fashioned" stockings or hosiery and it might be well to

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explain at once that a full-fashioned stocking is knitted on a flat knitting machine, called a full-fashioned machine, as a flat piece of looped fabric with a selvage on either side and is shaped, or altered in width, during the process of knitting, so as to fit the leg. It is then joined together at the back by seaming the entire length of the leg and heel; any further operations in the completion of the stocking from the heel to the toe we need not pause to describe. Full-fashioned hosiery is, I understand, considered superior to other types and is readily distinguishable from them, largely because it is shaped during the process of knitting. In the knitting of full-fashioned hosiery very fine needles are used, and placed closely together, which permit the formation of very small loops and the use of delicate yarns, sometimes as fine as what is called " a one-thread " silk yarn. There is nothing novel about full-fashioned stockings, or other full-fashioned articles of wear, nor is there any novelty in the full-fashioned knitting machine, as distinguished from the circular knitting machine, which, I understand, is in more general use in the manufacture of hosiery. As the specification explains, " thread " and " yarn " are often employed as meaning substantially the same thing, but that is not altogether accurate, and I propose to employ the word "yarn" when reference is made to the unitary element entering into the manufacture of a stocking, or any fabric. In the case of natural silk a thread is composed of a varying number of cocoon filaments, and a number of these filaments are combined to constitute a thread. Kaufman states in his specification that a light silk yarn would be composed of two to five threads, a heavier yarn of six to eight threads, and a still heavier yarn of nine to twelve threads, and sometimes more; there is pretty general agreement upon this, and any difference of opinion in respect of that grouping in the weight of silk yarns, is not of serious importance.

The evidence puts it beyond controversy that natural silk yarns are uneven or irregular in their average thickness or diameter, and this has long been recognized. In any silk yarn numerous sections may be found to be of greater or less than average thickness or diameter, and of such lengths as to form a number of courses of knitting of the width required in the knitting of full-fashioned hosiery.

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That irregularity in silk yarns is equally true of cotton, woollen, linen, rayon, and other yarns and this has long been recognized in the textile trade generally. No yarn is absolutely uniform in size, but ordinarily yarn irregularities of this nature are not troublesome; in pattern fabrics it is usually of little importance, though in some specialties it might require correction. It is in the manufacture of full-fashioned silk hosiery, when the same is made of silk yarns of light weight—the yarn of the fewer threads—and of the solid and darker colours, that irregular yarns produce undesirable results. The juxtaposition of a number of courses of knitting made of yarn sections of greater thinness or thickness than the average produces a disfiguration in the product. This undesirable result is invariably characterized by horizontal "streaks," "rings" or "bands"—I shall employ the latter term—of varying widths, observable to the eye and distinguishable from the courses of knitting immediately above or below the band, and which by being conspicuous when displayed to the eye are regarded as objectionable in silk hosiery, rendering them unsaleable in some cases, and subject to a reduction in price in other cases. This, as I have said, is due to variations in the size of the silk yarn being fed from any one spool or cone to a knitting machine, with the result that in the manufacture of full-fashioned silk hosiery the inequalities of the silk yarns manifest themselves in the form of horizontal bands.

It is not disputed that there came a time in the development of the full-fashioned silk hosiery trade when the appearance of horizontal bands was regarded as objectionable by dealers and consumers, and when the practical elimination or substantial reduction of such bands was generally deemed to be desirable. And it was to this problem that Kaufman came to direct his attention, the result, he claims, being the invention here claimed. He proposed the elimination of the objectionable bands by what he claimed to be a new method of yarn feeding during the knitting operation of full-fashioned silk hosiery, and this is the essence of the invention claimed by Kaufman. That method is known as the three-carrier system of yarn feeding and consists in having three cones, or spools, of silk instead of one at each section for producing the major

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portion of the leg of the stocking. Each of these yarns is threaded to its own carrier so that there are three carriers available for knitting the leg, instead of the one carrier ordinarily used. The mechanical part of the device, for which no invention is claimed, consists of automatic means for traversing one of the carriers for a stroke, say from right to left, leaving this carrier idle at the left end of the machine, traversing a second carrier from left to right and leaving it idle at the right end of the machine, and then traversing a third carrier from right to left and leaving it idle at the left end of the machine, thereafter traversing the first carrier from left to right and following this sequence of carrier operation throughout the knitting of the leg portion of the stocking. That is substantially the manner in which the three-carrier method of yarn feeding and knitting was described in some book or trade publication put before me at the trial, and that, I think, substantially sets forth the method of knitting described and claimed by Kaufman. The idea in alternating the silk yarns is to diffuse and distribute the inequalities of the same yarn, among the more perfect yarns, and to make such irregularities less apparent. If, therefore, all the yarns fed to the knitting machine do not simultaneously run thick or thin in succeeding courses, the result and effect on the stocking will be one of relatively even translucency. It would be improbable that all the different yarns used would have their heavy parts at the same spot, and that they would follow each other within one rotation of courses. At any rate, it is common ground that this method of yarn feeding has greatly decreased the yarn irregularities mentioned, and therefore the bands; and that method has been adopted by all the plaintiffs, and many other silk hosiery manufacturers. The patentee states that while his invention is of importance in all shades or colours of hosiery, the undesirable bands are particularly observable in light weight hosiery in dark shades, whether black or some other dark colour. I think this will sufficiently describe for our purposes here, what is claimed as invention by the patentee, and for the present at least it will not be necessary to refer to the descriptive portion of the specification, or the claims.

Mr. Biggar, for the plaintiffs, conceded that the appearance of bands in the type of hosiery with which we are here concerned was objectionable and that their elimination was desired by the trade and by consumers; that Kaufman's three-carrier method was the first ever put into practice that reduced or eliminated bands in full-fashioned silk hosiery and this was of advantage to all interested parties; that Kaufman's method of knitting such hosiery was widely adopted by manufacturers of full-fashioned silk hosiery, including the plaintiffs; that Kaufman's three-carrier method of knitting was successful, in the financial sense, to the owners of the patent. It was also conceded that there was no prior published patent describing Kaufman, and that no manufacturer had manufactured full-fashioned silk hosiery, on full-fashioned knitting machines, according to the method described by Kaufman, prior to June, 1931, the approximate date of Kaufman's alleged invention. These were bold admissions to make and ordinarily they would go far to sustain a claim to invention in any patent attacked on the ground of lack of subject-matter. These admissions obviously limit the area of dispute. The chief attacks against the patent are that there is no invention in Kaufman because the same method had been earlier used in the manufacture of other woven and knitted fabrics, or articles of wear, from a variety of yarns, for analogous purposes, which, it is claimed, negatives any inventive step in Kaufman; and that if there were invention in the method claimed by Kaufman, others, whose names will later be mentioned, earlier made and disclosed the same. There is a third point of attack but I do not think, in my view of the case, it will be necessary to consider it, but at least it need not be stated presently.

This would seem to be an appropriate stage to refer to certain evidence introduced by the plaintiffs for the purpose of showing certain trends in the development of the silk hosiery industry, for some years prior to the invention claimed by Kaufman. The evidence to which I propose to refer was no doubt intended, partially at least, to account for the delay in introducing multiple yarn feeding in the knitting of silk stockings for the purpose of diffusing the inequalities in silk yarns, which method of yarn feeding it is claimed was obvious, or was suggested by the use of the same method in the knitting of other articles of wear, for an analogous purpose. As already stated, it was known

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that bands usually appeared in full-fashioned silk stockings, particularly in those of light weight and dark shades, owing to the inequalities inherent in silk yarns. There is evidence tending to show that for a time this was not objectionable to the trade or consumers, but eventually it came to be generally recognized that the presence of bands in this type of stocking was objectionable to all concerned, and should, if possible, be eliminated. The witness, Fuestal, in one way or another interested in the sale of knitting machinery for many years in the United States and Canada, testified that in his long association with the sale of knitting machinery of various kinds he was obliged to familiarize himself with the manufacturing problems of his customers, including the matter of bands in silk stockings. At first, speaking particularly of the period between 1922 and 1928, he stated, the matter of bands in silk stockings would rarely be the subject of discussion with his customers, the reason being that in that period, silk stockings were knitted of such weight and colour of yarns that bands did not appear readily to the eye, and their existence was not therefore the subject of such criticism from customers as would disturb the manufacturer; he said, speaking generally, I think, of the same period, the demand for silk stockings exceeded the supply, the sales were high in volume and correspondingly the prices, and this was calculated to leave the manufacturer satisfied with his existing methods of knitting silk stockings. Then, a change in the situation occurred, somewhat synchronizing with the advent of the trade depression, the supply had caught up with the demand; silk stockings had gradually been coming to lighter weights in the darker colours, competition became keener between hosiery manufacturers, and the matter of bands in silk stockings, and improvements in manufacture generally, began to receive more serious consideration from manufacturers. Feustal stated that in the years 1922 and 1923 about ninety per cent of silk stocking yarns were of ten or eleven threads and over. Then, shorter skirts, low shoes, and prosperous business conditions, influenced the buying by women of finer silk stockings, that is a lighter weight stocking. Around 1925, Feustal stated, about ninety per cent of silk stockings would be made of eight silk thread yarns; in 1926 and 1927 seventy-five per cent would be of six thread and over, in 1928 and 1929 the five thread silk yarn slightly exceeded, or was on a parity with, the heavier weight yarns. Now, a very substantial proportion of the entire production of silk stockings are of four thread yarns, the balance being divided between those that are lighter or heavier than the four thread yarn. Stockings of the lighter weight, Feustal stated, tend to show any unevenness in the silk yarns more readily, because, light weight yarns are apt to run more unevenly and light weight stockings are knitted more closely, and when uneven sections of yarns happen to be laid in courses of close contiguity the unevenness of the silk yarns becomes more conspicuous and the bands will show more readily than in the heavier silk yarn stockings. Fuestal also stated that in the knitting of silk stockings with silk yarns of six threads and over, the three-carrier method is not generally employed, but in silk yarns of five threads and under the three-carrier method is generally employed. The evidence of Feustal is, I think, substantially correct.

The contention that there is no invention in Kaufman's idea of multiple yarn feeding, for the purpose of diffusing silk yarn inequalities, rests on the ground that it was obvious by reason of the prior use of multiple yarn feeding methods in knitting articles of wear other than full-fashioned silk stockings, and the equivalent thereof in weaving, for an analogous purpose, the suppression of bands. Another basis for that contention is that prior suggestions, and others almost contemporaneous, were made by several persons other than Kaufman, for the employment of multiple yarn feeding methods in the knitting of silk stockings, which, it is contended, illustrates the obviousness of the step taken by Kaufman, and indicates that there were no difficulties to be overcome in adapting a method of knitting already known in the art for the purpose of diffusing yarn inequalities which produced bands, even though used in the making of fabrics other than full-fashioned silk stockings.

The doctrine of analogous use seems to be clearly defined by the authorities, to many of which I was referred by counsel. The following propositions were laid down by

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Lindley L.J. in the case of *Gadd and Mason* v. *The Mayor &c. of Manchester* (1):

(1) A patent for the mere new use of a known contrivance, without any additional ingenuity in overcoming fresh difficulties, is bad, and cannot be supported. If the new use involves no ingenuity, but is in manner and purpose analogous to the old use, although not quite the same, there is no invention; no manner of new manufacture within the meaning of the statute of James. (2) On the other hand, a patent for a new use of a known contrivance is good and can be supported if the new use involves practical difficulties which the patentee has been the first to see and overcome by some ingenuity of his own. An improved thing produced by a new and ingenious application of a known contrivance to an old thing, is a manner of new manufacture within the meaning of the statute.

He then proceeded to say:

If, practically speaking, there are no difficulties to be overcome in adapting an old contrivance to a new purpose, there can be no ingenuity in overcoming them, there will be no invention, and the first rule will apply. The same rule will, I apprehend, also apply to cases in which the mode of overcoming the so-called difficulties is so obvious to every one of ordinary intelligence and acquaintance with the subject-matter of the patent, as to present no difficulty to any such person. Such cases present no real difficulty to people conversant with the matter in hand, and admit of no sufficient ingenuity to support a patent If, in these two classes of cases, patents could be supported, they would be intolerable nuisances, and would seriously impede all improvements in the practical application of common knowledge * * * * But, unless an invention can be brought within one or other of the above classes, a patent for it cannot be held bad on the ground of want of subject-matter.

And as Lord Halsbury observed in *Morgan and Co.* v. *Windover and Co.* (2),

* * * * but if it is simply the application of well-known and well-understood things to an analogous use, although it may be true that it is accompanied by advantages not thought of or practised before, that will not save him from the fatal objection that there is no invention.

I apprehend that all this embodies a fair statement of the law in respect of the application of an old use, method or device, to a new purpose, in all English speaking jurisdictions, but much of course would depend upon the special circumstances of each case. The principles just stated mean that if the alleged new use so nearly resembles the other uses to which the invention was applied, or known to be applicable, that it might have been suggested by them to persons skilled in the art, the new use is regarded as resulting from an exercise of the imitative not the creative faculties, and hence is not an invention in which the discoverer can have an exclusive right. If, on the other

(1) (1892) 9 R.P.C. 516. (2) (1890) 7 R.P.C 131, at 134.

hand, the new use is so unlike in its essential character to the preceding ones that it required an exercise of inventive skill to produce it, then the use is a new invention and is patentable.

There are two methods of manufacturing fabrics, that is, by weaving or knitting, the weaving art being much the older. Weavers experienced the difficulty of inequalities in yarn, and they used a device, called a "box loom," for diffusing such inequalities, and laying individual courses from different ends. For many years knitters of articles of wear, other than silk stockings, resorted to the same practice, for the same purpose, by using multiple carriers to diffuse the irregularities in yarns. Multiple yarn feeding would, of course, be resorted to when a variety of coloured yarns were being used in knitting any particular fabric, but it seems to have been long known that multiple yarn feeding could be successfully resorted to for diffusing inequalities in yarns of the same colour. In this connection there is a mass of testimony showing the prior use of multiple carriers for the analogous purpose described and claimed by Kaufman, but I do not propose attempting a review of the testimony of the many witnesses on this point, because if I did this judgment would reach an intolerable length. The evidence shows that in the weaving trade box looms were used to avoid the effect of irregularities in yarn. The evidence also shows that in some dozen or more knitting mills in Canada, United States and England, the same practice was resorted to for the purpose of avoiding or minimizing the effect of unevenness in yarns, or unevenness in shade, in the knitting of outerwear on full-fashioned machines, goods, such as ladies' suits, dresses, sweaters, caps and other articles, the yarns used being silk, wool, cotton, rayon, linen, and others I think; and likewise this practice was resorted to in the knitting of silk neckties of a solid colour, and in the knitting of woollen hose such as golf stockings. In all these instances various types of knitting machines were used, the number of carriers employed varied, and the number of courses knitted by each carrier also varied. However, it is true that in all these cases there was not one instance of the combination of the yarn silk, the article stockings, and the machine full-fashioned, if that is the invention described and claimed

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by Kaufman, and if the use of that precise combination would be necessary in order to show prior use of a method similar to Kaufman, for analogous purposes. It is, however, sufficiently established that the problem due to yarn irregularities, confronting the manufacturers of light weight and dark coloured silk stockings, had been known also to manufacturers of other knitted articles of wear, and they met it by diffusing the yarns in the manner stated, during the process of knitting. I leave that point without further comment for the present.

I now turn to certain evidence of another character. It will be convenient first to review this evidence, without stating to which of the main grounds of attack against Kaufman, the same is applicable, and without any designed order of presentation. This evidence tends to show that before Kaufman conceived his invention, others had earlier formulated and disclosed the idea of multiple yarn feeding, and others a little later than Kaufman. It is suggested therefrom that there was either an anticipation of Kaufman, or, that the idea of yarn diffusion was obvious to any one competent in the art, when his mind was seriously directed to the problem of eliminating the appearance of bands in the manufacture of silk stockings, or when the remedy for the so-called problem became urgent. It was contended that the occurrence of so many disclosures or suggestions of multiple yarn feeding, in principle the same as Kaufman, within a period of about five years, add weight to the contention that no inventive step was required to provide the remedy for avoiding bands in silk stockings. This point is, of couse, also involved in the defence relative to analogous use, which I have already mentioned.

I will first refer to a case where the disclosure or suggestion was made subsequent to Kaufman's date of invention, say June, 1931. The witness Friedlander, sales manager of the Duplan Silk Corporation, of New York, on December 9, 1931, wrote a letter to the representative of that corporation in North Carolina, a Mr. Cannon, and that letter reads thus:

> You will recall that years ago, when the dyeing of rayon was very unreliable, we very often resorted to the use of box looms for what otherwise would be a single shuttle job.

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We have in mind now the widespread trouble that is being reported throughout the full-fashioned hosiery industry with the irregular shades in the legs and feet. A simple thought occurs to us: why not finish full-fashioned hose from two cones by the use of two yarn carriers instead of one?

Mr. Wheeler thinks it could be done and we wonder whether Mr. Fred Gaddy thinks the same. We really would suggest this because it seems so very simple that we think someone must surely have tried it and found it lacking. At the same time we do not know of such trial having been made and would like to get Mr. Gaddy's reaction.

Concerning this letter a few observations might be made. Friedlander, who, so far as we know, had never heard of Kaufman's three-carrier method, or of any other disclosed method, suggests that the "trouble" concerning "irregular shades" in the legs and feet of full-fashioned hosiery was at that time quite "widespread," and was "being reported throughout the full-fashioned hosiery industry." This is rather confirmatory of certain evidence to which I earlier referred, namely, that the problem of irregular shades, caused by silk yarn irregularities, while known to be existent was not a very troublesome one, until about the period of 1930 or 1931. Friedlander's mind reverts back to the time, "years ago," when irregular shades, which spells bands, were encountered in the weaving of rayon fabrics, due to the irregular dyeing of rayon yarns, when, he states, his concern resorted to the use of "box looms" for what would otherwise be "a single shuttle job," and he suggests the analogous or equivalent method in knitting full-fashioned hosiery, to avoid "irregular shades." And then he speaks of his suggestion as a "simple thought," and I have no doubt by that he meant to say: "Why cannot we do in the case of full-fashioned silk hosiery, what we did in the weaving of rayon fabrics, to avoid irregular shades?" He thought that this was the obvious solution of the trouble to which he refers in connection with the knitting of full-fashioned hosiery, and so simple and obvious does it appear to him that he fears "some one must surely have tried it and found it lacking." And he states one Mr. Wheeler "thinks it can be done," and he wonders what a Mr. Gaddy thinks about it. It is true Friedlander suggests two carriers only, and, I think, Kaufman had this in mind originally, but later he found that for the particular purpose he had in mind, the three-carrier method was preferable, if not necessary. I assume

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that for certain purposes the two-carrier method would be quite satisfactory. Any person once seized with the idea of multiple yarn feeding would quickly discover by slight experimental work, whether or not the two-carrier method would meet his particular problem, and if not he would increase the number of carriers. There could be no invention as between two, and three or four or more carriers in knitting, for the purpose of diffusing yarns in order to avoid a result likely to occur if there were no multiple yarn feeding. Trial and error would easily and quickly determine what degree of yarn diffusion was necessary to effect the desired result in any particular case.

Then there is the memorandum of one, Luhn, written in June, 1928. Luhn was the private secretary of one, Janssen, an executive officer of two or three textile manufacturing concerns in the United States. Luhn dictated this memorandum to his own secretary, and he afterwards handed the same to Janssen. This memorandum seems to be a complete formulation of the very idea or principle underlying Kaufman. The memorandum is as follows:

Method of Avoiding Horizontal Stripes in Stockings

By using the same thread course after course in knitting the appearance of the knitted material will change according to the variation of the thickness of the thread. The well known shady stripes will appear and will be more or less pronounced, according to the quality of the silk.

In order to obtain a stocking of even appearance it will be necessary to use a most even silk of first choice. This, of course, reflects in the cost of the product and brings up the price of the stocking to an undesirably high level. A stocking made from rayon will be much better in appearance and still be reasonable in price because a difference in thickness of the thread does not exist.

In order to eliminate the formation of the stripes and also to permit the use of average quality of silk thread it is suggested not to use one and the same thread course after course, but to alternate two, three or more individual silk threads and to work with an according number of carriers. The carriers should be changed in rotation either after every course or after every two courses.

Then follows a pen sketch of his suggested multiple carrier system, and he proceeds:

By alternating the threads in the knitted fabric the heavier parts of a thread will occur only every 2nd, 3rd or 4th course or double course and will be spread over a wider area. The thinner part of the second thread will offset the heavy part and an average appearance of the thread quality will result. It is very unlikely that all of the different threads used have their heavy parts at the same spot and that they will follow each other within one rotation of courses. However, it is obvious that thick and thin spread parts will follow each other without rule and with the high probability of offsetting each other's irregularities.

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Luhn apparently was not under the impression at the time that he had made an invention, though later he applied for a patent in the United States but not, I think, in Canada. He freely communicated his idea to others, as well as to Janssen, and the latter communicated it to others. Janssen applied, in May, 1933, for a patent in the United States for the same thing described by Luhn. It is possible that had Luhn applied for a patent in the United States, concurrently with Kaufman, he would be confronted with the difficulty of not having proceeded with due diligence to reduce to practice his idea, but that of itself would not, I think, have been an obstacle to him in Canada, had he there applied for a patent prior to the issuance of the patent to Kaufman. However, it would appear that about three years before Kaufman's alleged date of invention, Luhn had disclosed the same method of knitting silk stockings, and any distinction between what each described is, in my opinion, of no consequence.

Then one, Meinig, president of the Meinig Hosiery Company, manufacturers of full-fashioned hosiery, in the state of Pennsylvania, stated that he conceived, in June, 1927, the idea of multiple yarn feeding to overcome the band effect of unevenness in yarns. He disclosed this idea to one, Hamel, his mill superintendent, and he directed him to do some experimental work in the way of demonstrating the practicability of his idea, but Hamel, after attempting manually to knit a piece of fabric according to Meinig's suggestion, reported it was not practical. Apparently nothing further was done about the matter until the latter part of 1932, when Hamel, at the instance of Meinig, succeeded in producing a piece of fabric, upon a machine, and knitted according to Meinig's idea. Shortly afterwards Meinig began the commercial production of full-fashioned hosiery according to the method which he conceived in 1927. He applied for a patent in the United States in March, 1933, and he filed an application in Canada in July, 1933, some four months subsequent to Kaufman's application, and a patent actually issued to him in 1934, although in the meantime a patent had issued to Kaufman. I see no grounds for disbelieving the evidence of

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Meinig, and while it might indicate that he had abandoned his idea after the reception of an unfavourable report from Hamel, yet there can be no doubt, I think, he had conceived in 1927 the same thing which Kaufman later patented. It is possible that had he submitted, in 1927, his suggestion about multiple yarn feeding to some person other than Hamel he might have succeeded in making an early and practical application of his idea. Meinig would appear to be of the opinion that Hamel never carried out the instructions he gave him in 1927, and that he did not seriously attempt to demonstrate the practicability of his idea. It would seem that in 1932 Hamel did not have any great difficulty in giving practical shape to the idea.

Then we come to the case of Krenkel, who for many years had been interested in the textile industry. In the latter part of January, 1931, Krenkel informed one, Waechtler, superintendent of a hosiery mill at Berlin, N.J., that he had conceived a method of avoiding "rings" in the manufacture of silk hosiery, but he did not then confide to him his method of doing so. A week later Waechtler called upon Krenkel requesting a disclosure of his method of avoiding "rings," and this Krenkel did, which was the three-carrier system, or a multiple yarn feeding method. He gave Waechtler three cones of silk and requested him to experiment in a practical way with his idea, that is, knitting one course from each cone alternately. A short piece of stocking leg was knitted in the month of February by Waechtler and one, Suess, from Krenkel's silk yarn, according to Krenkel's suggestion, on a hand operated machine. Nothing further seems to have been done by Krenkel, owing largely it would seem to lack of financial resources, until March, 1932, when Krenkel took the piece of stocking leg knit by Waechtler and Suess to Mr. Eberly of the Oakbrook Hosiery Mills, at Reading, Pa., to whom he explained his three-carrier method, hoping to secure his interest and assistance in providing the necessary mechanical equipment to produce stockings according to his suggested method. In August or September, 1932, Suess, who in the meanwhile had become associated with Krenkel in developing his multiple yarn feeding method, made drawings and patterns and superintended the making of some carrier attachments, at the plant of the Oakbrook Hosiery

Mills, and, in October following, the first silk stocking was produced by Krenkel and Suess on a machine having the three-carrier attachments. They also experimented with a two-carrier system but found it unsatisfactory. The knitting machine and attachments referred to would not function at the speed required and by December, 1932, a high speed knitting machine had been developed by Krenkel, Waechtler and Suess, and full-fashioned silk stockings were produced therefrom. On December 5, 1932, Krenkel filed an application in the United States for a patent of his three-carrier method of knitting, and in Canada on November 6, 1933, Krenkel and his associates then engaged in the manufacture and sale of his three-carrier knitting machine and continued to do so for some time. That Krenkel conceived his multiple yarn feeding method in the latter part of January, 1931, has been satisfactorily established by the evidence, and there is nothing suggesting that he ever abandoned his idea.

There is an additional feature incidental to the facts which I have just narrated which should be mentioned, and while they have reference to proceedings and occurrences in the United States, touching the same subject-matter, yet they, or some of them, have some bearing upon the question of priority of invention as raised in this case. In December, 1933, there were seven applicants, inclusive of Kaufman, for letters patent in the United States Patent Office, for the invention here in issue. They were Janssen, Meinig, Gastrich, Krenkel, Kaufman, Voehringer and Grosse, and besides the applicants others had by assignment or otherwise become interested in one or other of these applications. Before the preliminary statements of the applicants—that is, a sealed statement of the date of the invention claimed by each applicant—had been opened in the Patent Office, and before interferences were declared, an agreement was entered into, on December 11, 1933, between the applicants, and all others interested, wherein it was agreed that the applicant, eventually decided by the Patent Office to be entitled to a patent, should receive fifty per cent of any revenue resulting therefrom in the way of royalties, and the unsuccessful applicants were each to receive six and two-thirds per cent thereof. When the contents of the preliminary statements were disclosed it would appear that

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the applicants other than Kaufman and Krenkel, were of the opinion that their dates of invention were subsequent to those two applicants, and they ceased for the time at least to press their applications for letters patent; the precise facts I find difficult to state with confidence. Then, in January, 1934, an agreement was entered into between Kaufman and Julius Kayser & Company—the latter having become interested in Kaufman's application—and Krenkel, together with Waechtler, Suess and Eberly, all of whom had become interested in Krenkel's application for letters patent. It was then evidently thought that either Kaufman or Krenkel was the first inventor of the three-carrier method of knitting silk stockings. Those two applicants, by the terms of this agreement, agreed that the question of priority as between them, should be determined unofficially and they agreed that this determination should be left to an attorney, learned in the patent law; and it was agreed that a certain percentage of any revenue or profits accruing from any patent issuing to either applicant should go to the successful party, and a certain percentage to the unsuccessful party. In the end the arbitrator, or whatever he may be called, in a few words decided in favour of Kaufman. He said: "I deem Kaufman to be entitled to an award of priority, believing that in his name letters patent will most likely be sustained." I should state that concurrently with the execution of the agreement Kaufman and Krenkel each signed a concession of priority to the other, and which were deposited in escrow pending the decision of the arbitrator. Later, as I understand it, concessions of priority to Kaufman were filed in the Patent Office by all the applicants, and in due course a patent issued to Kaufman. At this stage Krenkel was an applicant in Canada for a patent of his invention, and it was a term of the agreement that upon the definite allotment to Krenkel and his associates of the agreed percentage of any royalties distributable under the agreement of December, 1933, Krenkel would on request of Kaufman, withdraw from his Canadian application any and all claims to subject-matter conflicting with any claims in the Canadian patent which had issued to Kaufman. And Krenkel later filed a disclaimer of certain claims in his Canadian application in pursuance of this agreement, and a patent ultimately issued to him for the balance of his claims. That briefly is the substance of the two agreements, and they are of importance here chiefly in connection with the second point in Mr. Biggar's contention, namely, that if there were invention Kaufman was not the first inventor, and this I shall refer to later.

I do not think there is invention in Kaufman. It is true that the method of knitting he described and claimed had not been applied before in the manufacture of full-fashioned silk stockings, and particularly of the weight in which the so-called horizontal bands, or light and heavy shade characteristics, might ordinarily be observed. But, for an analogous purpose, in the knitting of outerwear, neckties, woollen hosiery, and other articles, multiple yarn carriers were employed for diffusing yarn variations, so that bands, or light and heavy shade characteristics, might be substantially eliminated. In weaving, this was done, but it is not necessary to look to the weaving art, because more apposite illustrations are to be found in the knitting art. I cannot agree that the knitting of full-fashioned silk stockings by multiple yarn feeding, for the purpose of avoiding bands, is an art apart from the knitting of stockings, or other knitted articles of wear, of whatever yarn made, or on whatever machine made, for the analogous purpose. Nor can I think that there can be an inventive step in going from the practice of diffusing yarns of a solid colour, say for neckties, or woollen golf hose, or other garments, for the purpose of avoiding the known effect of yarn variations, to the same practice in the making of full-fashioned silk stockings, for the same purpose. Friedlander found no difficulty in suggesting the transfer of his experience and knowledge of yarn diffusion for an analogous purpose, to full-fashioned and light weight silk stockings. Had persons concerned with the problem of bands in full-fashioned silk stockings, described it to the heads of many knitting concerns who had employed the multiple carrier method in the manufacture of articles other than full-fashioned silk stockings, to meet the analogous problem, it seems to me that they would have got the necessary advice very promptly. They would hardly have failed to suggest the diffusion of yarns by some multiple yarn feeding system. There does not seem to have been any difficulty in adapting what had been

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known and used before to the new but analogous purpose, when once the idea was suggested. When, in the evolution of the silk stocking industry, there came a pressing demand for the elimination of bands, owing to the introduction of the lighter silk yarns in stockings, it has been seen that many came forward with the remedy, some of whom had connection with the knitting industry, and some of whom, notably Luhn, never had, so far as I know, any technical training or experience in the knitting industry. One cannot but feel that had the problem of bands been acute in 1927 Meinig would have pursued his idea of multiple yarn feeding more actively and persistently, and it was when it came to be rumoured that others were suggesting the adoption of the same idea, that Meinig pressed Hamel to greater activity in devising the necessary knitting machine carrier attachments, and apparently he then had no difficulty in doing so. The idea came to Krenkel and Kaufman apparently without any serious research or experimental work. Within a comparatively short space of time we find many persons suggesting the same thing, and one wonders if they were not all aware, or had become aware, of the prior use of methods or devices for the analogous purpose. The idea seems to have come quickly when once those concerned or interested became impressed with the fact that bands were becoming objectionable to the trade and to consumers. Monopoly cannot be granted for every slight improvement, or for the adaptation of well known practices to the same or a slightly different purpose, where no difficulty arises in applying the new use. For the reasons just stated my conclusion is that there is no invention in Kaufman.

But, assuming that there is subject-matter for letters patent in the method described by Kaufman, then the question would arise as to whether he was the first to make the invention. I entertain no doubt myself that Meinig, Luhn and Krenkel had all conceived the idea of multiple yarn feeding before Kaufman, and as I think I have already stated, that is really the invention, if invention there be. Once the idea of yarn diffusion is suggested there could be no invention in practically applying the idea, as it has since been done, though conceivably some means might be so much better than others as to involve invention. Sec. 61 of the Patent Act places difficulties in the way of voiding Kaufman by reason of anything disclosed by Luhn and Meinig; Luhn never applied for a patent in Canada, though, I think, he did in the United States, and it might be argued that both had abandoned their inventions; and the question as to whether either of them made their inventions "available to the public" is a difficult one upon the facts disclosed, and I do not propose to express any opinion upon the point, because in my view of the case it is not necessary to do so. The case of Krenkel is in a different position. He was an inventor, and it cannot be said he ever abandoned his invention, and, in my opinion, he made and disclosed it earlier than Kaufman. And he made an application in Canada, on November 6, 1933, but his Convention date of application in Canada would be December 5, 1932, the date on which he applied for letters patent in the United States.

It seems to me that s. 61 (*c*) contemplates precisely a case of this kind, and it puts Kaufman in constructive conflict with Krenkel, so that the question of priority of invention as between Kaufman and Krenkel clearly arises for decision, as a question of fact. Sec. 61, ss. 1 (*a*), (*b*), (*c*), reads as follows:

> 61 (1) No patent or claim in a patent shall be declared invalid or void on the ground that, before the invention therein defined was made by the inventor by whom the patent was applied for it had already been known or used by some other inventor, unless it is established either that,
>
> (*a*) before the date of the application for the patent such other inventor had disclosed or used the invention in such manner that it had become available to the public; or that
>
> (*b*) such other inventor had, before the issue of the patent, made an application for patent in Canada upon which conflict proceedings should have been directed; or that
>
> (*c*) such other inventor had at any time made an application in Canada which by virtue of section twenty-seven of this Act had the same force and effect as if it had been filed in Canada before the issue of the patent and upon which conflict proceedings should properly have been directed had it been so filed.

Krenkel is therefore before us as an " other inventor," as mentioned in s. 61, and we must view the situation just as if Krenkel had made an application in Canada before the issue of the patent to Kaufman on October 10, 1933, and we must assume conflict proceedings would have been directed had Krenkel filed his application before the issue of the patent to Kaufman. Therefore, the issue of priority of invention as between Kaufman and Krenkel is to be

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determined upon the facts, and upon the facts I am of the opinion that Krenkel was the first inventor. The fact that Kaufman and Krenkel made concessions of priority to each other in the United States, for the purposes I have mentioned, is of no moment here. Nor is the fact that Krenkel deleted the method and products claims contained in his Canadian application, in pursuance of the agreement referred to, of any consequence on the point I am now discussing. The effect and purposes of sec. 61, ss. 1 (*c*) of the Patent Act, which may be invoked in impeachment proceedings by any person other than a patentee, or an applicant for a patent, cannot in my opinion be modified or nullified in that way. There are interests other than that of the patentee, or the applicant for a patent, to be considered. I should also point out that Krenkel reserved the right in his disclaimer "to file this deleted subject-matter in divisional applications."

I am therefore of the opinion that the plaintiffs must succeed and they are entitled to the declarations claimed. The counterclaim is dismissed. Costs will follow the event.

Judgment accordingly.

1937
Sept. 27.
Oct. 16

BETWEEN:

VIRGINIA DARE LIMITED..........APPELLANT;

AND

THE COMMISSIONER OF PATENTS..RESPONDENT.

Trade-mark—Appeal from refusal of Registrar to register word mark—Unfair Competition Act, 22-23 Geo. V, c. 38, s 26, ss. 1 (b) and s. 29—"Virginia Dare."

Held: That although the words "Virginia Dare," being the name of a person, may not be registered as a trade-mark by virtue of the Unfair Competition Act, 22-23 Geo V, c 38, s. 26, the Court, upon being satisfied that such mark has been so used as to become generally recognized by dealers in, or users of, the class of wares in association with which it has been used as indicating that the person using it assumes responsibility for their character or quality, will direct the registration of such words as a trade-mark, pursuant to s. 29 of the said Act.

APPEAL by Virginia Dare Limited from the refusal of the Registrar of Trade-Marks to register the word mark "Virginia Dare," in connection with the sale of ladies' wear.

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The appeal was heard before the Honourable Mr. Justice Angers, at Ottawa.

R. M. Fowler for appellant.

W. P. J. O'Meara, K.C. for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

ANGERS J., now (October 16, 1937) delivered the following judgment:

This is an appeal by Virginia Dare Limited, a company incorporated under the laws of the Province of Ontario, having its head office at the City of Toronto, from the refusal of the registrar to register the word mark "Virginia Dare" in connection with the sales of ladies' stockings, lingerie, gloves, dresses and ladies' wear generally. The application, dated the 3rd of May, 1935, states that the applicant has continuously used the words "Virginia Dare" as a word mark from at least the 16th of December, 1925, in Canada and not elsewhere, in connection with the sale of the wares above mentioned.

On February 24, 1936, the Commissioner wrote to the applicant, citing a communication from the Examiner in charge of the application, in which it is stated:

> The words "Virginia Dare" form a personal name and attention is directed to section 26 (1) (*b*) of the Unfair Competition Act.

The communication from the Examiner further directed attention to the following trade-marks:

> Trade-mark No. 28547/123 "Dorothy Dare" for dresses, waists cloaks and other articles of feminine apparel; registered by Pullan Manufacturing Company, Limited, of Toronto, Ontario, on June 18, 1921.
>
> Trade-mark No. 20013/81 consisting of: (1) the name "Virginia" within a wreath at the top of which is the letter "V" in a shield; (2) the name "Virginia" with the photograph of a woman's head in a frame with the letter "V" in a shield at the top; registered for Women's Goodyear Welt Shoes by Perth Shoe Company, Limited, of Perth, Ontario, on July 31, 1914.
>
> Trade-mark No. 49084/226, "Crepe Virginia" for garments and fabrics, men's, women's and children's outerwear and underwear; registered by Canadian Celanese Limited, of Montreal, on April 3, 1930.

I do not think that these trade-marks have any materiality in the present instance.

On February 26, 1936, the solicitors for the applicant wrote to the Commissioner; the second paragraph of their letter reads in part as follows:

> We note also your reference to Section 21, 1 (*b*) of the Unfair Competition Act referring to the fact the words may be a personal name. We do not know whether you are putting this in the form of

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an objection or simply calling it to our attention for consideration. In any event we know of no person by the name of Virginia Dare.

On March 3, 1936, the Commissioner replied submitting a communication from the Examiner from which I may quote the following observations:

The surname "Dare" is well known and as "Virginia" is also a well known Christian name, this section was brought to your attention, since if there is a person of this name such mark may not be registered. This section referred to does not restrict the personal name to a person domiciled in Canada, and it is consequently very probable that the name used is a personal name.

On March 5, 1936, the applicant's solicitors replied to the Commissioner stating (*inter alia*):

Virginia Dare was the first English child born on this continent. She was born on the 18th of August, 1587. We expect that she is since deceased and know of no person of this name.

In their letter, the applicant's solicitors sent to the Commissioner a solemn declaration dated the 5th of March, 1936, by the President of Virginia Dare Limited, containing, among others, the following statements:

2. So far as I know, Virginia Dare is not the name of any living person or persons.

3. I have been advised and understand that Virginia Dare was the name of the first white child born on this continent.

On March 18, 1936, the Commissioner wrote to the applicant's solicitors and included in his letter a communication from the Examiner reading in part as follows:

Applicants' letter of March 5, 1936, has been carefully considered and it is noted that "Virginia Dare" was the name of the first English child born on this continent. These words are consequently the name of a person.

Section 26 (1) (*b*) of the Unfair Competition Act is not limited either to names of persons in this country or to living persons, and it is thought that it is a bar to the registration of this word mark.

Registration is refused.

Alfred Stock, the President of Virginia Dare Limited, heard as witness for the appellant, said that the company had been in business for twelve years, dealing in ladies' wear, gloves, stockings, lingerie, etc.; that it had fourteen stores all located in the Province of Ontario and that, in addition, it made sales through the mail. The witness added that the name "Virginia Dare" indicated to the public that the products sold under that name were those of the appellant.

This line of evidence would have been irrelevant and immaterial on a mere appeal from the decision of the registrar; counsel for the appellant, however, expressed his intention to avail himself of the provisions of section 29 of the Act; counsel for the respondent declared that his client did not wish to prevent the appellant from obtaining permission to register its trade-mark under section 29 if it could prove to the satisfaction of the Court that its mark had been so used as to become generally recognized by dealers in or users of the class of wares in association with which it has been used as indicating that the person using it, namely, the appellant, assumes responsibility for their character or quality. In the circumstances, I thought that the evidence should be admitted.

Stock declared that, according to his information, Virginia Dare had been the first English child born in America.

A page of the *Time* of September 1, 1930, on which appears an article intituled "First Child," concerning Virginia Dare, was filed as exhibit 1 and a newspaper reproduction of a photograph of the monument in Fort Raleigh Park, Roanoke Island, commemorating the birth of Virginia Dare, was filed as exhibit 2.

Stock admitted that he had made no enquiry to find out if there were any person living bearing the name "Virginia Dare."

Three word marks, namely, "Rob-Roy," "Cleopatra" and "Bessborough" recorded respectively on December 15, 1936, June 16, 1937, and July 16, 1937, were filed as exhibits 3, 4 and 5, for the purpose of establishing that the Commissioner had allowed the registration of word marks consisting of a name or surname. I do not think that the registration of these trade-marks is material.

The evidence adduced on behalf of the respondent consists of four affidavits by Allan Edward Jacques, civil servant, employed by the Dominion Government in the Trade-Mark Branch of the Patent Office, who says that, in the course of his duties, he searched city directories and found: (*a*) in Polk's Baltimore City Directory for the year 1937, on page 294, the name "Virginia Dare, h. 1600 Eutaw Pl."; (*b*) in Polk's Baltimore City Directory for the year 1937, on page 294, the name "Virginia Dare, Clk., Reads Drug Store (Br.) r. 2404 Md. Ave."; (*c*) in the Providence City Directory for the year 1937, on page 973, the name "Virginia Dare, Women's Furngs., 228 Westminster"; (*d*) in Polk's (Boyd's), Philadelphia (Pennsylvania) City Directory, 1935-1936, Vol. CVII, on page 491, the name "Virginia A. Dare, r. 4695 Calumet (Falls)."

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The application of the appellant was refused by the registrar in virtue of paragraph (*b*) of subsection (1) of section 26 of the Unfair Competition Act.

The material provisions of subsection (1) of section 26 read as follows:

> Subject as otherwise provided in this Act, a word mark shall be registrable if it
>
> (*a*) * * * *
>
> (*b*) is not the name of a person, firm or corporation;

It was submitted on behalf of appellant that the word "person" in paragraph (*b*) of subsection (1) of section 26 means a living person domiciled in Canada. I must say that I cannot agree with this proposition unreservedly.

Upon the record before him, the registrar was right in refusing to register the word mark "Virginia Dare."

In view, however, of the statement made by counsel for the appellant that, if the appeal from the refusal of the registrar could not be maintained, he wished to avail himself of the provisions of section 29 and ask the Court for a declaration that the trade-mark in question may be registered and in view of the assertion by counsel for the respondent that his client did not wish to take advantage of the lack of action or petition for the registration of the trade-mark under section 29, I will not dismiss the appeal but will give the appellant the opportunity of proceeding in virtue of said section.

If the appellant elects to proceed, it shall, within thirty days from the date hereof, give notice of its application for the registration of its trade-mark in accordance with the requirements of rule 35 of the General Rules and Orders of this Court; on the appellant's failure to proceed within said delay, the respondent may move for the dismissal of the appeal.

There will be no order as to costs for the present.

Judgment accordingly.

NOTE: The appellant herein filed a second petition, subsequent to the date of delivery of the judgment reported, praying registration of the trade-mark Virginia Dare, pursuant to the provisions of sec. 29 of the Unfair Competition Act, and on February 8th, 1938, the Honourable Mr. Justice Angers made an order granting the petition and directing the registration of the trade-mark.

1937

May 10, 11 & 21.

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April 20.

BETWEEN:

HIS MAJESTY THE KING on the Information of the Attorney-General for the Dominion of Canada .... PLAINTIFF;

AND

IMPERIAL TOBACCO COMPANY OF CANADA LIMITED .... DEFENDANT.

Revenue—Sales tax—Special War Revenue Act, R.S.C., 1927, c. 179, s. 119—Constitutional law—British North America Act, secs. 91 and 92—"Property and civil rights"—Ultra vires.

S. 119 of the Special War Revenue Act, R.S.C., 1927, c. 179, as enacted by 24-25 Geo V, c. 42, s. 14, provides: "Everyone liable under this Act to pay to His Majesty any of the taxes hereby imposed, or to collect the same on His Majesty's behalf, who collects, under colour of this Act, any sum of money in excess of such sum as he is hereby required to pay to His Majesty, shall pay to His Majesty all moneys so collected, and shall in addition be liable to a penalty not exceeding five hundred dollars."

Defendant company, a manufacturer, under colour of the statute, collected sums of money in excess of the amount which it was required to pay to His Majesty, in connection with goods produced or manufactured in Canada and also in connection with goods imported into Canada.

Held: That s. 119 of the Special War Revenue Act, R.S.C., 1927, c. 179, except the provision imposing a penalty, is *ultra vires* of the Parliament of Canada and consequently null and void.

INFORMATION exhibited by the Attorney-General of Canada to recover from the defendant money allegedly collected by it, under colour of the Special War Revenue Act, in excess of the sum it was required to pay to His Majesty as consumption or sales tax, and penalty, under the provisions of the Special War Revenue Act, R.S.C., 1927, c. 179, and amendments thereto.

The action was tried before the Honourable Mr. Justice Angers, at Ottawa.

J. G. Ahearn, K.C. and *H. H. Ellis* for plaintiff.

L. A. Forsyth, K.C. and *Colville Sinclair, K.C.* for defendant.

The facts and questions of law raised are stated in the reasons for judgment.

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Angers J.

ANGERS J. now (April 20, 1938) delivered the following judgment:

The plaintiff, by his action, seeks to recover from the defendant the sum of $68,132.54, made up as follows: $67,632.54 allegedly collected by the defendant, under colour of the Special War Revenue Act, in excess of the sum it was required to pay to His Majesty as consumption or sales tax and $500 penalty. The action is brought under the provisions of section 119 of the Act.

The information says in substance as follows:

by section 86 of the Special War Revenue Act, R.S.C., 1927, c. 179, it is enacted that, since April 7, 1932, "there shall be imposed, levied and collected a consumption or sales tax of six per cent on the sale price of all goods, produced or manufactured in Canada, payable by the producer or manufacturer at the time of the delivery of such goods to the purchaser thereof," of goods "imported into Canada, payable by the importer or transferee who takes the goods out of bond for consumption," and of goods "sold by a licensed wholesaler, payable by the vendor at the time of delivery by him";

by section 119 enacted and effective as and from the 28th of June, 1934, it is provided that

> everyone liable under this Act to pay to His Majesty any of the taxes hereby imposed, or to collect the same on His Majesty's behalf, who collects, under colour of this Act, any sum of money in excess of such sum as he is hereby required to pay to His Majesty, shall pay to His Majesty all moneys so collected, and shall in addition be liable to a penalty not exceeding five hundred dollars.

prior to April 7, 1932, there had been imposed by similar legislation to that contained in section 86 a consumption or sales tax of 4% instead of 6%;

the defendant for many years prior to April 7, 1932, and since that time has carried on business as manufacturer of cigars, cigarettes, tobaccos and accessories and as such was and is at all times in question herein required to pay to plaintiff a consumption or sales tax on the goods manufactured and sold by it;

prior to April 7, 1932, during the period when the sales tax was at the rate of 4%, the defendant did not charge the sales tax as a separate item on its invoices but charged its customers a composite price which included the said tax;

after April 7, 1932, when the rate was increased from 4% to 6%, the defendant continued to charge its customers the composite prices prevailing prior to the said date, adding thereto 2% of such composite prices on account of sales tax and the said 2% was shown as a separate item on every invoice;

the said item of 2% was collected from customers as being the increase in the rate of sales tax imposed from the 7th of April, 1932, but actually represented more than the said increase inasmuch as the said 2% was computed on the whole of the composite price, including the sales tax theretofore charged;

by this means the defendant, under colour of the statute, collected during the period from July 1, 1934, to December 31, 1935, the sum of $67,632.54 in excess of the amount which it was required to pay to His Majesty.

The Attorney-General, on behalf of His Majesty, claims:

judgment in the said sum of $67,632.54;
judgment in the penal sum of $500;
such further relief as shall seem meet;
the costs of the action.

The defendant, in its defence, admits that as and from the 28th of June, 1934, it has carried on business in Canada as a manufacturer of various tobacco products and that as and from that date His Majesty has been entitled to receive from it payment of consumption or sales tax as provided by the Special War Revenue Act, denies the other allegations of the information and says that the same are unfounded in law and irrelevant and pleads in substance as follows:

the defendant, as and from the 28th of June, 1934, has accounted for and paid to His Majesty all sums exigible from it for consumption or sales tax;

no sum or sums of money in excess of those required to be paid by the defendant to His Majesty have been collected by the defendant, under colour of the Special War Revenue Act, by the means alleged in the information or otherwise, during the period from July 1, 1934, to December 31, 1935, or at any time;

the defendant has during the said period, at all times, furnished quotations and made sales of its products to its customers upon an unequivocal and unambiguous state-

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ment of the price of such products and has received no moneys from its customers, either under colour of the Special War Revenue Act or otherwise, which it was not entitled to receive in accordance with the prices quoted to and accepted by such customers;

the obligation which section 119 purports to impose constitutes an interference with property and civil rights, a matter coming within the classes of subjects concerning which the legislature in each province has exclusive power to make laws by virtue of section 92 of the British North America Act; the Parliament of Canada has no authority, under any of the classes of subjects enumerated in section 91 of the British North America Act, to impose the obligation which section 119 purports to impose; section 119 is *ultra vires* of the Dominion of Canada and is illegal, null and void;

the claims made by His Majesty are unfounded in fact and in law.

A reply was filed by the plaintiff praying *acte* of the admissions contained in the statement of defence and denying the other allegations thereof.

The section of the Act imposing the consumption or sales tax is section 86; the only tax imposed by this section is a tax of four, six or eight per cent, as the case may be, according to the period of taxation in question: see R.S.C., 1927, c. 179, s. 86; 21-22 Geo. V, c. 54, s. 11; 22-23 Geo. V, c. 54, s. 11; 1 Ed. VIII, c. 45, s. 5.

Counsel for plaintiff submitted that section 119 creates an extension of the tax. His claim is that by section 86 the tax is made six per cent—or four or eight per cent depending on the taxation period—but that, if a manufacturer or producer collects more than the tax imposed by section 86, he must remit to the Government the entire amount so collected. According to him, the tax, in that case, is more than the rate fixed by section 86; it is that plus the sum collected in excess of the rate stipulated in the said section. I must admit that I cannot follow this mode of reasoning. Section 119 is not, in my opinion, a taxing section. It is apparently intended to prevent or at least dissuade the producer or manufacturer from collecting from a purchaser, under colour of the Act, a sum exceeding that which, under section 86, he is required to pay to the Crown and from appropriating it. Its object is to take away from the manufacturer or producer the sum which he has exacted from a customer in excess of the amount which he is obliged to pay to His Majesty and to penalize the manufacturer or producer guilty of such exaction; a further object is to vest the ownership of the sum thus illegally exacted in His Majesty. Section 119 is, to say the least, an uncommon piece of legislation.

Taxes, I may say in passing, are imposed by statute and the provision imposing them must be categorical and unambiguous: Maxwell on the Interpretation of Statutes, 7th edition, p. 246; *Cox* v. *Rabbits* (1); *Tennant* v. *Smith* (2); *Harris Company Limited* v. *Rural Municipality of Bjorkdale* (3).

It was argued on behalf of the defendant that section 119, inasmuch as it purports to make the taxpayer liable to pay to the Crown moneys, which he either deliberately or by mistake has collected from a purchaser in excess of the amount which he is bound to pay as consumption or sales tax, is *ultra vires* of the Parliament of Canada.

The legislative powers of the Parliament of Canada and of the provincial legislatures, apart from those concerning education and agriculture which form the subject of sections 93 and 95 respectively, are governed by sections 91 and 92 of the British North America Act, 1867.

It seems to me convenient to quote from these sections the provisions which are relevant to the matter at issue:

91. It shall be lawful for the Queen, by and with the Advice and Consent of the Senate and House of Commons, to make Laws for the Peace, Order, and Good Government of Canada, in relation to all Matters not coming within the Classes of Subjects by this Act assigned exclusively to the Legislatures of the Provinces, and for greater Certainty, but not so as to restrict the Generality of the foregoing Terms of this Section, it is hereby declared that (notwithstanding anything in this Act) the exclusive Legislative Authority of the Parliament of Canada extends to all Matters coming within the Classes of Subjects next hereinafter enumerated; that is to say,—

3. The raising of Money by any Mode or System of Taxation.

29. Such classes of Subjects as are expressly excepted in the Enumeration of the Classes of Subjects by this Act assigned exclusively to the Legislatures of the Provinces.

And any Matter coming within any of the Classes of Subjects enumerated in this Section shall not be deemed to come within the Class of Matters of a local or private Nature comprised in the Enumera-

(1) (1877-78) 3 A.C. 473 at 478. (2) (1892) A.C. 150 at 154.
(3) (1929) 2 D.L.R. 507 at 512.

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tion of the Classes of Subjects by this Act assigned exclusively to the Legislatures of the Provinces.

92. In each Province the Legislature may exclusively make Laws in relation to Matters coming within the Classes of Subjects next hereinafter enumerated; that is to say,—

13. Property and Civil Rights in the Province.

To determine whether an enactment is *ultra vires* of the Parliament of Canada one must find out if the subject thereof comes within the scope of section 92. If the subject appears *prima facie* to come within that section, it is necessary to ascertain whether the subject also falls under one of the enumerated heads in section 91. If it does, the Dominion Parliament has the paramount power of legislation in relation thereto. If the subject does not fall within either of the sets of the enumerated heads in sections 91 and 92, then the Dominion may have power to legislate under the general words contained in the first paragraph of section 91. This method of determining the respective powers of the Dominion Parliament and of the provincial legislatures is laid down clearly in, among others, the following decisions of the Judicial Committee of the Privy Council, namely: *Toronto Electric Commissioners* v. *Snider et al. and Attorneys-General for Canada and Ontario* (1); *John Deere Plow Co. Ltd.* v. *Wharton* (2).

In the first case above cited, Viscount Haldane said (p. 406):

The Dominion Parliament has, under the initial words of s. 91, a general power to make laws for Canada. But these laws are not to relate to the classes of subjects assigned to the provinces by s 92, unless their enactment falls under heads specifically assigned to the Dominion Parliament by the enumeration in s. 91. When there is a question as to which legislative authority has the power to pass an Act, the first question must therefore be whether the subject falls within s. 92. Even if it does, the further question must be answered, whether it falls also under an enumerated head in s. 91. If so, the Dominion has the paramount power of legislating in relation to it. If the subject falls within neither of the sets of enumerated heads, then the Dominion may have power to legislate under the general words at the beginning of s. 91.

In the case of *John Deere Plow Co. Ltd.* v. *Wharton* (*ubi supra*) Viscount Haldane expressed a similar opinion (p. 337):

The distribution of powers under the British North America Act, the interpretation of which is raised by this appeal, has been often discussed before the Judicial Committee and the tribunals of Canada, and certain principles are now well settled. The general power conferred on the Dominion by s. 91 to make laws for the peace, order, and good

(1) (1925) A.C. 396. (2) (1915) A.C. 330.

government of Canada extends in terms only to matters not coming within the classes of subjects assigned by the Act exclusively to the legislatures of the provinces. But if the subject-matter falls within any of the heads of s. 92, it becomes necessary to see whether it also falls within any of the enumerated heads of s. 91, for if so, by the concluding words of that section it is excluded from the powers conferred by s. 92.

See also *Russell* v. *The Queen* (1) and *The Citizens Insurance Company of Canada* v. *Parsons* (2).

In the case of *Russell* v. *The Queen,* Sir Montague E. Smith, who delivered the judgment of the Judicial Committee of the Privy Council, said (p. 836):

The general scheme of the British North America Act with regard to the distribution of legislative powers, and the general scope and effect of sections 91 and 92, and their relation to each other, were fully considered and commented on by this Board in the case of the *Citizens Insurance Company* v. *Parsons* (7 App. Cas. 96). According to the principle of construction there pointed out, the first question to be determined is, whether the Act now in question falls within any of the classes of subjects enumerated in section 92, and assigned exclusively to the legislatures of the provinces. If it does, then the further question would arise, viz., whether the subject of the Act does not also fall within one of the enumerated classes of subjects in section 91, and so does not still belong to the Dominion Parliament. But if the Act does not fall within any of the classes of subjects in section 92, no further question will remain, for it cannot be contended, and indeed was not contended at their Lordships' bar, that, if the Act does not come within one of the classes of subjects assigned to the provincial legislatures, the Parliament of Canada had not, by its general power "to make laws for the peace, order, and good government of Canada," full legislative authority to pass it.

It was argued for the defendant that section 119 interferes with property and civil rights, respecting which, under sections 91 and 92 of the British North America Act, provincial legislatures alone have the right to legislate. This contention appears to me well founded.

The words "property and civil rights" must be interpreted broadly: The *Citizens Insurance Company of Canada* v. *Parsons* (*ubi supra*), wherein Sir Montague E. Smith, delivering the judgment of the Judicial Committee, says (p. 110):

By that section (94 of the British North America Act) the Parliament of Canada is empowered to make provision for the uniformity of any laws relative to "property and civil rights" in Ontario, Nova Scotia, and New Brunswick, and to the procedure of the courts in these three provinces, if the provincial legislatures choose to adopt the provision so made. The province of Quebec is omitted from this section for the obvious reason that the law which governs property and civil rights in Quebec is in the main the French law as it existed at the time of the cession of Canada, and not the English law which prevails in the other provinces.

(1) (1882) 7 A.C. 829. (2) (1881) 7 A.C. 96.

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The words "property and civil rights" are, obviously, used in the same sense in this section as in no. 13 of section 92, and there seems no reason for presuming that contracts and the rights arising from them were not intended to be included in this provision for uniformity. If, however, the narrow construction of the words "civil rights," contended for by the appellants were to prevail, the Dominion Parliament could, under its general power, legislate in regard to contracts in all and each of the provinces and as a consequence of this the province of Quebec, though now governed by its own Civil Code, founded on the French law, as regards contracts and their incidents, would be subject to have its law on that subject altered by the Dominion legislature, and brought into uniformity with the English law prevailing in the other three provinces, notwithstanding that Quebec has been carefully left out of the uniformity section of the Act.

It is to be observed that the same words, "civil rights," are employed in the Act of 14 Geo. III, c. 83, which made provision for the Government of the province of Quebec. Section 8 of that Act enacted that His Majesty's Canadian subjects within the province of Quebec should enjoy their property, usages, and other civil rights, as they had before done, and that in all matters of controversy relative to property and civil rights resort should be had to the laws of Canada, and be determined agreeably to the said laws. In this statute the words "property" and "civil rights" are plainly used in their largest sense; and there is no reason for holding that in the statute under discussion they are used in a different and narrower one.

It was urged on behalf of plaintiff that the authority exercised by section 119 is ancillary to the raising of money by the system of sales tax; in support of his contention counsel relied upon the following cases: *Attorney-General for Ontario* v. *Attorney-General for Canada* (1); *Grand Trunk Railway Company of Canada* and *Attorney-General of Canada* (2); *Corporation of the City of Toronto* and *Canadian Pacific Railway Company* (3); *City of Montreal* v. *Montreal Street Railway Co.* and *Attorneys-General for Canada and Quebec* (4); *City of Montreal and Harbour Commissioners of Montreal* (5); *Royal Bank of Canada et al.* and *Larue et al. and Attorney-General for Canada* (6).

After carefully considering the arguments and authorities submitted by counsel, I have come to the conclusion that section 119 cannot be considered as ancillary or incidental to the collection of the tax imposed by section 86.

It was submitted by counsel for defendant that, where a power not enumerated in section 91 of the British North America Act is utilized by the Dominion Parliament, it is *ultra vires* unless it can be shown that it is not only help-

(1) (1894) A.C. 189.
(2) (1907) A.C. 65.
(3) (1908) A.C. 54.
(4) (1912) A.C. 333.
(5) (1926) A.C. 299.
(6) (1928) A.C. 187.

ful but absolutely necessary to the exercise of such power. This principle was affirmed in the following case: *Attorney-General for Canada* v. *Attorney-General for British Columbia* (1), where Lord Tomlin said (p. 118):

It is within the competence of the Dominion Parliament to provide for matters which, though otherwise within the legislative competence of the provincial legislature, are necessarily incidental to effective legislation by the Parliament of the Dominion upon a subject of legislation expressly enumerated in s 91: see *Attorney-General of Ontario* v *Attorney-Generol for the Dominion* (1894 A.C. 189); and *Attorney-General for Ontario* v. *Attorney-General for the Dominion* (1896 A.C. 348).

Lord Sankey expressed a similar opinion *in re The Regulation and Control of Aeronautics in Canada* (2).

Reference may also be had to the case of *City of Montreal* v. *Montreal Street Railway* (*ubi supra*), in which Lord Atkinson, dealing with the legislative powers of the Dominion Parliament and of the provincial legislatures, said (p. 343):

It has, no doubt, been many times decided by this Board that the two sections 91 and 92 are not mutually exclusive, that the provisions may overlap, and that where the legislation of the Dominion Parliament comes into conflict with that of a provincial legislature over a field of jurisdiction common to both the former must prevail; but, on the other hand, it was laid down in *Attorney-General of Ontario* v. *Attorney-General of the Dominion* (1896 A C. 348)—(1) that the exception contained in s. 91, near its end, was not meant to derogate from the legislative authority given to provincial legislatures by the 16th subsection of s 92, save to the extent of *enabling* the Parliament of Canada to deal with matters, local or private, in those cases where such legislation is necessarily incidental to the exercise of the power conferred upon that Parliament under the heads enumerated in s. 91; (2) that to those matters which are not specified amongst the enumerated subjects of legislation in s 91 the exception at its end has no application, and that in legislating with respect to matters not so enumerated the Dominion Parliament has no authority to encroach upon any class of subjects which is exclusively assigned to the provincial legislature by s. 92; (3) that these enactments, ss. 91 and 92. indicate that the exercise of legislative power by the Parliament of Canada in regard to all matters not enumerated in s. 91 ought to be strictly confined to such matters as are unquestionably of Canadian interest and importance, and ought not to trench upon provincial legislation with respect to any classes of subjects enumerated in s 92; (4) that to attach any other construction to the general powers which, in supplement of its enumerated powers, are conferred upon the Parliament of Canada by s. 91 would not only be contrary to the intendment of the Act, but would practically destroy the autonomy of the provinces; * * *

(1) (1930) A C. 111. (2) (1932) A.C. 54, at 72.

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See also *Attorney-General for Ontario* v. *Attorney-General for the Dominion* (1).

It was incumbent upon the plaintiff to show that section 119 of the Special War Revenue Act comes within the powers given by section 91 of the British North America Act or that it is ancillary to the exercise of some power set forth in said section 91: *L'Union St. Jacques de Montréal* v. *Dame Julie Bélisle* (2). The plaintiff has not, in my opinion, fulfilled this obligation.

I believe that the defendant has collected, under colour of the Act, possibly by mistake which to my mind is not material, sums of money in excess of the sums which it was required to pay to His Majesty, in connection with goods produced or manufactured in Canada as well as in connection with goods imported into Canada; I am not satisfied, however, that the defendant has done so with regard to samples. With the evidence before me, I am not in a position to determine the amount of the sums so collected. At the close of the evidence it was agreed that the defendant would put its books at plaintiff's disposal and that the latter would have a statement prepared by auditors to take the place of the evidence which regularly should have been adduced at the trial. The case was accordingly adjourned for the production of this statement and for argument. When court resumed, counsel stated that, in view of the considerable amount of work required to prepare the statement in question, the parties had agreed that, pending a decision on the question of liability of the defendant, the quantum might be left in abeyance subject to further directions of the Court.

Section 119 of the Special War Revenue Act, except the provision imposing a penalty of $500 or less, is, in my opinion, *ultra vires* of the Parliament of Canada and consequently null and void. For this reason the action fails with regard to the claim for $67,632.54; it can only be maintained with regard to the penal sum of $500. There will accordingly be judgment in favour of plaintiff against the defendant for $500, with interest from the date of service of the information.

(1) (1896) A.C. 348 at 359.

(2) (1874) 20 L.C.J 29, at 47; L.R. 6 P.C. App. 31 at 36.

The defendant having seen fit to contest the action for the whole instead of admitting its liability for the penalty as, in my opinion, it should have done, the plaintiff is entitled to costs against the defendant; seeing, however, that the plaintiff succeeds only for a trifling part of his claim, the costs should be reduced; in fixing the amount at $250 I think that I will render justice to both parties.

Judgment accordingly.

BETWEEN:

HIS MAJESTY THE KING, on the Information of the Attorney-General of Canada .... PLAINTIFF;

1937
Sept. 28 & 29
—
1938
April 29.

AND

BOULTBEE LIMITED ....DEFENDANT.

Revenue—Sales tax—Excise tax—Special War Revenue Act (R.S.C., 1927, c 179 and amendments) ss. 80 (1), 86 (1) (a) and 87 (c)—"Goods manufactured and produced"—"Tires manufactured by contract for labour only"—Used tires treated and retreaded for customers, or bought and retreaded, and retreaded tires sold or exchanged for used tires—Liability for taxes.

Defendant's business is that of retreading used automobile tires. Some of these tires are retreaded for customers to whom defendant returns the identical tires given it for treatment, the customer paying the usual charge for this work. Defendant also sells retreaded tires from stock to the public, and in other instances exchanges a retreaded tire from stock for an old tire, receiving as consideration the usual charge for retreading a tire.

Held: That where defendant retreads tires for customers to whom it returns the identical tires given it for treatment there is no liability for sales tax or excise tax.

2. That the tires defendant sells or exchanges from stock after retreading are "goods produced or manufactured" by defendant within the meaning of s 86 (1) (*a*) of the Special War Revenue Act (R.S.C., 1927, c. 179 and amendments) and are "tires manufactured or produced" by defendant within the meaning of s. 80 and schedule 11 (item 3) of the said Act; and defendant is liable to pay in respect thereof the sales tax and excise tax imposed by said sections accordingly. *The King* v. *Biltrite Tire Co.* (1937) Ex. C.R. 1 and (1937) S.C R. 364 followed.

ACTION by the Crown to recover from defendant certain money alleged due for sales tax, excise tax and licence fees on motor vehicle tires alleged to have been manufactured and sold by it.

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The action was tried before the Honourable Mr. Justice Maclean, President of the Court, at Vancouver, B.C.

G. E. McCrossan, K.C. and *J. R. Tolmie* for plaintiff.

R. L. Maitland, K.C. and *J. G. A. Hutcheson* for defendant.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT, now (April 29, 1938) delivered the following judgment:

In this Information the plaintiff seeks to recover from the defendant specified sums as consumption or sales tax, and as excise tax, under the provisions of the Special War Revenue Act. Paragraph 2 of the Information states the grounds of the plaintiff's claim in the following words:

> The defendant manufactured, sold and delivered tires for automotive vehicles, or manufactured such tires by contract for labour only, not including the value of the goods that entered into the same, or in or under unusual or peculiar manner or conditions so that the transactions were for the purpose of the Special War Revenue Act to be regarded as sales.

This paragraph of the Information virtually pleads s. 86 and s. 87 (*c*) of the Special War Revenue Act, to which reference will later be made.

The facts necessary to disclose the question for determination may be stated in fairly brief terms. The defendant operates a garage or shop, at Vancouver, B.C., and a substantial part of its business is the retreading of tires for automotive vehicles, the tread of a tire being that portion which strikes the pavement. The process of retreading a tire was described by the president of the defendant company. A portion of the old tread, or all of it, as the case may be, is removed leaving bare and intact that part of the fabric which holds the tread; the side walls of the tire are not disturbed. There is then cemented on the fabric a new tread, what is called camel-back, a solid semi-cured piece of rubber, manufactured expressly for this purpose. After the camel-back is cemented on the exposed fabric, the tire is placed in a mould and cured, and, as I understand it, it is while the tire is in the mould that the tread is given its non-skid features, by means of a die. The defendant's business of retreading tires cannot, I think, be said to be carried on in any very large way, but I assume it is quite substantial. Its business is confined to one shop or garage, it employs no agents to dispose of retreaded tires nor does it sell them by means of mail orders or distributing houses; and there is no evidence that the defendant purchases used or discarded tires from the public for the purpose of retreading and selling them, subject, however, to what I am about to say.

If a customer brings to the defendant's garage a tire to be retreaded, he gets back the identical tire, newly retreaded, and for this work the customer pays the defendant the charges usual in such a case. If it is inconvenient for a customer to wait for his own tire to be retreaded, as will sometimes happen, the defendant will retain the customer's tire and deliver him a retreaded tire, one from stock, charging him therefor only the regular price for retreading a tire; it seems that this is also frequently done in the case of dealers in used cars requiring newly retreaded tires; transactions of this kind the defendant claims to be a mere exchange and not a sale. If a customer purchases a new manufactured tire, which the defendant also carries in stock for sale, the defendant will take over the customer's old tire, if it is suitable for retreading, making the customer an allowance for the same on the purchase price of the new manufactured tire. This will explain how the defendant comes into possession of used tires, which in due course it retreads or repairs and carries in stock, either for sale to the public, or for the purpose of exchanging the same for a customer's used tire, in the circumstances I have just explained.

The plaintiff contends that, in all the transactions which I have described, the defendant is a manufacturer or producer of a tire or tires, and is brought within either sec. 86 or sec. 87 (*c*) of the Special War Revenue Act, and is liable for the taxes claimed. The defendant, it is claimed, takes a tire which is no longer of use, particularly when stripped of the old tread, and it has produced a new article of commerce. It is contended also on behalf of the plaintiff that there is no distinction between the case of a sale of a retreaded tire from stock to the public, and the case where a tire is retreaded to the order of a customer and to whom it is returned when the retreading has been completed, and that the latter transactions are to be regarded as sales.

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The relevant provisions of the Special War Revenue Act may now be referred to. Sec. 80 (1) has reference to the excise tax claimed and reads as follows:—

80. (1) Whenever goods mentioned in Schedules I and II of this Act are imported into Canada or taken out of warehouse, or manufactured or produced in Canada and sold, there shall be imposed, levied and collected, in addition to any other duty or tax that may be payable under this Act or any other statute or law, an excise tax in respect of goods mentioned

(a) in Schedule I, at the rate set opposite to each item in the said schedule computed on the duty paid value or the sale price, as the case may be;

(b) in Schedule II, at the rate set opposite to each item in the said schedule.

Sec. 86 (1) is in part as follows:

There shall be imposed, levied and collected a consumption or sales tax of eight per cent on the sale price of all goods (a) produced or manufactured in Canada, payable by the producer or manufacturer at the time of the delivery of such goods to the purchaser thereof.

Sec. 87 of the Act reads thus:

87. Whenever goods are manufactured or produced in Canada under such circumstances or conditions as render it difficult to determine the value thereof for the consumption or sales tax because

(a) a lease of such goods or the right of using the same not the right of property therein is sold or given; or

(b) such goods having a royalty imposed thereon, the royalty is uncertain, or is not from other causes a reliable means of estimating the value of the goods; or

(c) such goods are manufactured by contract for labour only and not including the value of the goods that enter into the same, or under any other unusual or peculiar manner or conditions; or

(d) such goods are for use by the manufacturer or producer and not for sale;

the Minister may determine the value for the tax under this Act and all such transactions shall for the purposes of this Act be regarded as sales.

I propose first to discuss the transactions where the defendant has merely retreaded the customer's tire. Under s. 86 the tax is imposed when goods manufactured or produced in Canada have been sold, and delivery made to the purchaser. I am unable to appreciate how the contention can be seriously advanced that a person who neither owns nor sells an article, but which he has repaired for the owner, is liable to the sales tax under s. 86, in the absence of precise words imposing the tax. I do not think it can be said that the defendant in retreading or repairing a tire at the request of its owner, and who on completion of the work delivers back to the owner the identical tire he was given to retread, has manufactured or produced a tire, or that he has made a sale. In such cases there is never a sale and unless there is a sale no sales tax is imposed; the tax is not on goods manufactured, it is on goods manufactured and sold and in my opinion the defendant is not liable for the tax in such cases, under s. 86 of the Act. These transactions with customers, or owners of tires, must, I think, be looked at as single transactions, for material supplied and labour performed, and nothing else.

Next, we must consider if s. 87 has the effect of making the defendant liable for the sales tax, based on the amount paid by the customer for having his tire retreaded,—not on the value of the tire claimed to be manufactured. It is upon this section of the Act, particularly s. 87 (*c*), that the plaintiff must rely for the recovery of the tax, in connection with tires retreaded for the customer. It is my opinion, that when the defendant retreads a tire for a customer it does not manufacture a tire, by contract for labour only, and I cannot think that s. 87 (*c*) has any application whatever to transactions of this nature. In such cases there is no contract on the part of the defendant to manufacture or produce a tire for the customer, nor does the customer deliver to the defendant any material with which to manufacture or produce a tire, that is, in the sense intended by s. 87 (*c*). The defendant merely repairs or retreads a tire, a simple and ordinary operation. There is no distinction between repairing an automobile tire and repairing anything else, for the owner. There is nothing unusual or peculiar about a transaction which merely involves the repair of an article by a tradesman, and payment by the owner of the article for the services rendered. There is no particular significance in the word "retreading" and one can only say it is a very convenient and descriptive term to use, just as the word "sole" is used in respect of shoes. To say that when a tire is delivered to the defendant by a customer for retreading, it is no tire at all, particularly at the instant of time when the old tread is removed, is not, I think, in fact true, and it is a contention that is not at all impressive to me. I cannot think that the words "manufacture," or "goods," mentioned in 87 (*c*) include, or were intended to include, transactions of the nature which I am discussing, or that such transactions were intended to be treated as sales.

It is common knowledge that finished goods are sometimes manufactured or produced by business concerns, and

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frequently by individuals—men and women—for persons who provide the material entering into such goods, under contract for labour only, and this practice is known to prevail to a considerable degree in branches of the clothing trade, and other examples of this practice might be given. It may be that it was the intention of 87 (*c*) to tax, in such cases, as a manufacture and as a sale, the cost of the labour performed by those who convert the furnished raw material into finished garments. If it were intended to include in the same category repair work performed upon a used article belonging to another, then, I think, it should appear as a separate section, and in clear and unmistakable language. The purpose of s. 87 (*a*), (*b*) and (*d*) is readily understood. I do not think the sales tax was intended to apply in the case of repair work applied to an automobile tire, owned by a customer, in order to prolong its life, the customer never having parted with his possession of the same. It is my opinion therefore that the defendant is not liable for the tax, upon such transactions under s. 87 of the Act.

I have now to consider the balance of the transactions which I have earlier described, sales of retreaded tires made from stock to the public, and the trading or exchanging of old tires for newly retreaded tires held in stock, the additional consideration being the usual charge for retreading the customer's tire. I think these two classes of transactions are to be treated as being in substance the same, and they are both readily distinguishable from the case where the tire is retreaded for the customer and owner. If there is a taxable sale in the first mentioned class, there is, I think, a taxable sale in the other class. The way in which the latter transactions are carried out may differ, the form of the consideration may differ, but the substance of the transaction is the sale of a retreaded tire. The receipt of the old tire as part of the consideration in the second mentioned class, does not, I think, negative the idea of a sale. While not entirely free from doubt that is the conclusion I have reached in respect of that point.

Now, in respect of these two classes of transactions, was there a manufacture or production? The facts in the *Biltrite Tire Company* case (1) strongly supported the

(1) (1937) Ex. C.R. 1.

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contention of the Crown that there was a "manufacture." There, the business of retreading and selling tires was carried on in a very large way, as will appear from the report of that case. Here, the defendant does not buy old tires from the public, it acquires them by way of trading old tires for newly manufactured tires, or by way of exchanging newly retreaded tires for old tires. There is that distinction between the *Biltrite Tire Company* case and the one under consideration, but that distinction is largely quantitative, and while I cannot state the exact volume of the defendant's transactions falling within the two classes mentioned, yet they must have been substantial, and at least they were not merely occasional transactions. What the defendant does is to acquire used tires, and by retreading and repairing them they are made more valuable and marketable, their life is prolonged, and the defendant deals in them, and makes such transactions a part of its business. There is, I think, a distinction between the case where one retreads or repairs a tire for an individual owner, a casual and unknown customer in some instances, and the case where one procures used tires in substantial quantities, for the purpose of repairing or improving them for the purpose of selling them to the public at a profit. I think, for the purposes of the Act, this may fairly be said to constitute a manufacture and so I hold.

My conclusion therefore is that the defendant is not liable for the tax claimed in the case where it merely retreads the tire of a customer and delivers it back to the customer, but in all other cases I think the defendant must be held liable for the tax claimed. There will be a reference to determine the amount of the sales which I hold to be taxable, unless the parties can agree upon this themselves. Until this has been determined the matter of costs will be reserved.

Judgment accordingly.

1938
April 21.
May 16

BETWEEN:

THE DISCOUNT AND LOAN CORPORATION OF CANADA........ APPELLANT;

AND

THE SUPERINTENDENT OF INSURANCE FOR CANADA .... RESPONDENT.

Appeal from ruling made by Superintendent of Insurance—Loan Companies Act, R S C., 1927, c 28—Powers of Superintendent of Insurance.

Appellant, a body corporate, created by special Act of the Parliament of Canada, deals in and lends money on various forms of security It is authorized to charge interest on all loans at a rate not greater than 7% per annum It is also authorized to make an additional charge for all expenses necessarily and in good faith incurred in making or renewing a loan "including all expenses for inquiry and investigation into the character and circumstances of the borrower, his endorsers, co-makers or sureties, for taxes, correspondence and professional advice, and for all necessary documents and papers, two per centum upon the principal sum loaned" S. 5 (1) (*b*) (iii) of the Act of incorporation also provides that "notwithstanding anything in the next two preceding sub-paragraphs (i) and (ii) the company shall, when a loan authorized by the said sub-paragraph (i) has been made or renewed on the security of a chattel mortgage, or subrogation of taxes, be entitled to charge an additional sum equal to the legal and other actual expenses disbursed by the company in connection with such loan but not exceeding the sum of ten dollars"

Appellant has issued 2,500 shares of its capital stock, of which 2,375 shares are held by the Beneficial Industrial Loan Corporation, a United States company. This latter company owns the entire issued capital stock of Beneficial Management Company, a corporation which performs certain services for the Beneficial Industrial Loan Corporation, the chief executive officers of both corporations being in the main the same persons. A company known as the Consolidated Credit Service Company Limited was incorporated under the provisions of the Dominion Companies Act, with a paid up capital of $10,000, all of which is held by persons who are officers, directors or shareholders of either the Beneficial Industrial Loan Corporation, or the Beneficial Management Corporation

By an agreement entered into between the appellant and the Consolidated Credit Service Company Limited, the latter agreed to perform certain services for the appellant in connection with the making and renewing of loans and to receive therefor an amount equal to one per centum on the principal sum loaned and in respect to loans or renewals on the security of chattel mortgages or subrogation of taxes an additional fee of $10 for the preparation of all necessary documents or papers in connection with each loan so made or renewed.

Appellant, since commencing business, operated under a licence issued by the Minister of Finance pursuant to the provisions of s 69 of the Loan Companies Act, R S.C, 1927, c. 28 In May, 1937, the Superintendent of Insurance recommended to the Acting Minister of

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Finance that the licence issued to appellant be renewed from month to month with the qualification "that no charge be made under the provisions of sub-paragraph (iii) of paragraph (b) of subsection 1 of section 5 of the Special Act incorporating the Company in respect of a loan made or renewed on the security of a chattel mortgage, in excess of the amount disbursed by the company, for legal and other actual expenses incurred in connection with the chattel mortgage, to persons other than the company's own employees or the Consolidated Credit Service Company Limited"

From this ruling the Discount and Loan Corporation of Canada appealed.

Respondent contends charges for "legal and other actual expenses disbursed" in cases where the loan was secured by a chattel mortgage, do not include a payment made in respect of the said expenses to an employee of the appellant, and do not constitute a "charge" or "disbursement" within the meaning of sub-paragraph (iii) of ss. 1 (b) of s. 5 of appellant's Act of incorporation, and that the Consolidated Credit Service Company Limited is to be regarded as a department or employee of the appellant.

Held: That the respondent acted beyond the powers delegated to him as Superintendent of Insurance by the Loan Companies Act, R.S.C., 1927, c. 28.

APPEAL from a ruling of the Superintendent of Insurance.

The appeal was heard before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa.

L. A. Forsyth, K.C. and *H. A. Aylen, K.C.* for appellant.

S. M. Clark, K.C. and *A. Macdonald* for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT, now (May 16, 1938) delivered the following judgment:

This is an appeal from a ruling made by the Superintendent of Insurance under the provisions of the Loan Companies Act, R.S.C., 1927, chap. 28, and in the circumstances which I am about to state. The appeal was heard on an agreed statement of facts, the testimony of the Superintendent of Insurance, and certain documentary evidence.

The Discount and Loan Corporation of Canada, the appellant, to be referred to hereafter as the "Loan Corporation," is a body corporate created by a special Act of the Parliament of Canada, namely, Chap. 63 of the Statutes of Canada, 1933, as amended by Chap. 68 of the Statutes of Canada, 1934. The head office of the Loan Corporation is in the city of Montreal, in the province of Quebec, and its authorized capital stock is one million

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dollars, divided into ten thousand shares of one hundred dollars each. The Loan Corporation is authorized, *inter alia,* to deal in and lend money on the security of conditional sales agreements, lien notes, chattel mortgages, hire purchase agreements, bills of lading, trade paper, warehouse receipts, bills of exchange, or other forms of security. I understand that the individual loans of the corporation are usually restricted to comparatively small amounts. The corporation may borrow money upon its own credit but it is not authorized to issue bonds, debentures or other securities for moneys borrowed, or to accept deposits.

The Loan Corporation, under sub-paragraph (i) of s. 5 (1) (*b*) of its Act of incorporation, is authorized to charge interest on all loans at a rate of not more than seven per centum per annum, and may deduct the interest in advance, and provide for repayments in weekly, monthly or other uniform payments; the borrower shall have the right to repay the loan before maturity, and, on such repayment being made, to receive a refund of such portion of the interest paid in advance as has not been earned, except a sum equal to the interest for three months.

By sub-paragraph (ii) of s. 5 (1) (*b*) of the same Act the Loan Corporation is authorized to make a charge, in addition to interest as aforesaid, for all expenses necessarily and in good faith incurred in making or renewing a loan, "including all expenses for inquiry and investigation into the character and circumstances of the borrower, his endorsers, co-makers or sureties, for taxes, correspondence and professional advice, and for all necessary documents and papers, two per centum upon the principal sum loaned."

Sub-paragraph (iii) of s. 5 (1) (*b*) is the important provision of the appellant's Act of Incorporation in dispute here, and it reads as follows:—

> (iii) notwithstanding anything in the next two preceding sub-paragraphs (i) and (ii) the company shall, when a loan authorized by the said sub-paragraph (i) has been made or renewed on the security of a chattel mortgage, or of subrogation of taxes, be entitled to charge an additional sum equal to the legal and other actual expenses disbursed by the company in connection with such loan, but not exceeding the sum of ten dollars.

In certain circumstances this maximum charge may be less than ten dollars but I need not delay to explain how this might occur.

Sub-s. 4 of s. 5 of the same Act is, I think, also of some importance and it is as follows:

(4) Any officer or director of the company who does, causes or permits to be done, anything contrary to the provisions of this section shall be liable for each such offence to a penalty of not less than twenty dollars and not more than five thousand dollars in the discretion of the court before which such penalty is recoverable; and any such penalty shal lbe recoverable and disposed of in the manner prescribed by section ninety-eight of the Loan Companies Act.

Sec. 6 of the same Act makes applicable to the Loan Corporation the provisions of the Loan Companies Act, in the following terms:

6. Except as otherwise provided in this Act, the Loan Companies Act, chapter twenty-eight of the Revised Statutes of Canada, 1927, excepting therefrom paragraph (*f*) of subsection one of section sixty-one, paragraph (*c*) of subsection two of section sixty-one, subsection three of section sixty-two, sections sixty-four, sixty-five, sixty-six, sixty-seven, eighty-two and eighty-eight shall apply to the company.

Presently, a total of 2,500 shares of the capital stock of the Loan Corporation have been issued, of which 2,375 shares are held by the Beneficial Industrial Loan Corporation, a United States corporation, authorized, I understand, to carry on in the United States the same class of business as the Loan Corporation. This corporation, it is stated, has a paid up capital in excess of $27,000,000, and its shareholders number over twenty thousand. A second United States corporation enters into the debate, namely, Beneficial Management Corporation, the entire issued capital stock of which is owned by the Beneficial Industrial Loan Corporation; the former corporation performs certain services for the latter corporation and apparently was created for that purpose; the chief executive officers of both corporations are much the same, and for all purposes here we may regard them as being precisely the same.

In September, 1933, there was incorporated by letters patent under the provisions of the Dominion Companies Act, the Consolidated Credit Service Company Ld., hereafter to be referred to as "the Service Company." The entire paid up capital of the Service Company, $10,000, is held by persons who are officers, directors or shareholders of either the Beneficial Industrial Loan Corporation, or the Beneficial Management Corporation. In the agreed statement of facts, it is stated that because of the possible technical constructions which might be placed on the language of the Act incorporating the Loan Corpora-

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tion, and particularly sub-paragraphs (ii) and (iii) of s. 5 (1) (*b*), it was suggested that the language of these two sub-paragraphs might give rise to difficulties of proof of charges made or expenses incurred, in an action brought by a dissatisfied or recalcitrant borrower. The Loan Corporation was advised by Canadian counsel that the creation of a separate and independent corporate entity would obviate the difficulties of proof which were apprehended, and which was necessary in order to comply strictly with the disbursement requirement of sub-paragraph (iii) in respect of each particular loan. Accordingly the Service Corporation was brought into being. The officers and directors of the Service Company would appear to be largely officers and directors of either the Beneficial Industrial Loan Corporation, or the Beneficial Management Corporation.

There is subsisting between the Loan Corporation and the Service Company an agreement, the principal terms of which are as follows:

> 2. The Service Corporation hereby agrees that in respect of all loans made or renewed by the Loan Corporation in accordance with the provisions of sub-paragraph (i) of subsection (*b*) of section 1 of article five of the said Act the Service Corporation shall inquire and investigate into the character and circumstances of the borrower, his endorsers or sureties, if any, and will pay all taxes for which the Loan Corporation may be liable in connection with the making of any such loans and conduct all correspondence and defray the cost of all professional advice and costs of registration for which the Loan Corporation may be liable and prepare all necessary documents or papers in connection therewith.
>
> 3. In consideration of the foregoing the Loan Corporation hereby agrees to pay the Service Corporation on or in respect of each loan made by the Loan Corporation an amount equal to one per centum (1%) upon the principal sum loaned and in respect of each loan made or renewed by the Loan Corporation under the authority of the said sub-paragraph (i) of subsection (*b*) of section 1 of article 5 or made or secured on the security of chattel mortgages or subrogation of taxes, and in addition thereto a fee of ten dollars ($10) for the preparation of all necessary documents or papers in connection with each loan so made or renewed; provided, however, that the payments hereinabove provided for shall be made and owing to the Service Corporation only in respect of loans as to which the Service Corporation shall render to the Loan Corporation some or all of the services hereinabove mentioned.

The head office of the Loan Corporation, as already stated, is in the city of Montreal, P.Q., and the head office of the Service Company is in the city of Ottawa, in the province of Ontario, but neither the Loan Corporation nor the Service Company carry on any business in the city of Montreal but both do so in the cities of Ottawa and Toronto, in the province of Ontario; the Loan Corporation carries on the business of loaning money as authorized by its Act of incorporation, and the Service Company performs the services required of it by the Loan Corporation, pursuant to the agreement referred to. The official auditors of the Loan Corporation and the Service Company are Messrs. P. S. Ross & Sons, chartered accountants, of Montreal, who prepare the annual audited statements required of both corporations by the Loan Companies Act and the Dominion Companies Act. Certain of such audited annual statements form a part of the agreed statement of facts, and their accuracy is in no way attacked. In addition, each loan effected by the Loan Corporation, and everything incident thereto, is subject to an audit or check by the Beneficial Management Corporation, and this latter corporation performs a similar service for the Service Company. It is suggested that by reason of the inter-related interest of the Loan Corporation, the Beneficial Industrial Loan Corporation, the Service Company, and the Beneficial Management Corporation, that it was inevitable that the affairs of the Service Company, so far as it performs any function in the business of the Loan Corporation, would be conducted so as to accord with the wishes of the Beneficial Industrial Loan Corporation. In any event, it is not open to dispute that the four corporations mentioned are closely related by share ownership, or by interlocking directorates or managements. Whether that is of any importance is another question.

The practice of the Loan Company Corporation, and the Service Company, in the transaction of their respective businesses, is illustrated by their co-operation in the city of Ottawa where they jointly occupy offices in the same building. The lease of these premises was taken by the Loan Corporation, but by agreement the Service Company became co-tenant and contributes to the monthly rental of $100 per month, the sum of $75 per month; each has its own name on the door of the premises referred to; each maintains its own books, records and accounts; there is no intermingling of funds, and each contributes one-half of the cost of the telephone service provided for the premises. The Loan Corporation is represented by one employee in

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the city of Ottawa, who is paid from the funds of that corporation. The Service Company is represented by its manager and a staff of two persons, their salaries being paid from the funds of that company. It would appear from the agreed statement of facts, that neither company exercises any control or authority over the other, and that their business relations are limited to those set forth in the agreement between them, the main provisions of which I have already mentioned.

Since the Loan Corporation commenced doing business, it operated under a licence issued by the Minister of Finance, under the provisions of s. 69 of the Loan Companies Act, chap. 28, R.S.C., 1927. In May, 1937, the Superintendent of Insurance recommended to the Acting Minister of Finance that the licence issued to the Loan Corporation be renewed, from month to month, I think, with the following qualification or limitation:

That no charge be made under the provisions of sub-paragraph (iii) of paragraph (*b*) of subsection 1 of section 5 of the special Act incorporating the company in respect of a loan made or renewed on the security of a chattel mortgage, in excess of the amount disbursed by the company, for legal and other actual expenses incurred in connection with the chattel mortgage, to persons other than the company's own employees or the Consolidated Credit Service Company Limited.

It is from this ruling that the Loan Corporation has appealed. The Superintendent, at the request of the Loan Corporation furnished a certificate wherein is set forth the reasons for the said ruling, and the recommendation to the Minister of Finance, and they are as follows:

4. That the reasons for the said recommendation were:—

(*a*) That the "legal and other actual expenses disbursed by the company in connection with such loan" referred to in sub-paragraph (iii) of paragrpah (*b*) of subsection (1) of section five of the said Special Act are the legal and other expenses incurred in taking a chattel mortgage or a subrogation of rights on payment of taxes and do not include expenses of the nature specified in sub-paragraph (ii) of the said paragraph;

(*b*) That a payment in respect of the said expenses to an employee of the said company is not a "disbursement" within the meaning of the said sub-paragraph (iii); and

(*c*) That a payment in respect of the said expenses to the Consolidated Credit Service Company, Limited, incorporated by letters patent under the Dominion Companies Act, on September 12th, 1933, is not such a "disbursement" since for the purpose of the said sub-paragraph (iii) the Consolidated Credit Service Company Limited, is to be regarded as a department of the company or as its agent or instrument so that in truth and substance the business and operations of the Consolidated Credit Service Company Limited were the business and operations of the company. The Consolidated Credit Service Company Limited constituted a device for evading the restrictions of sub-paragraph (iii) aforesaid.

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The ground therefore upon which the Superintendent recommended that the licence to the Loan Corporation be renewed, with the qualification or limitation stated, was, that charges made for "legal and other actual expenses disbursed," in cases where the loan was secured by a chattel mortgage, do not include a payment made in respect of the said expenses to an employee of the Loan Corporation and do not constitute a "charge" or "disbursement" within the meaning of sub-paragraph (iii) of sub-s. (1) (*b*) of s. 5; and that in the premises the Service Company is to be regarded as a department or employee of the Loan Corporation. In his report to the Minister on this subject-matter the Superintendent stated:

Sub-paragraph (iii) permits the company to charge an additional sum to the borrower when the loan is made or renewed on the security of a chattel mortgage, that sum being the amount of the legal and other actual expenses disbursed by the company in connection with such loan, but not exceeding the sum of $10. In view of the sweeping nature of the expenses intended to be covered by the charge of two per centum under sub-paragraph (ii), it is obvious that the additional expense covered by paragraph (iii) is the disbursements for legal and other expenses in respect of the chattel mortgage. It is believed that charges of this nature are imposed by the company upon borrowers in excess of the amount so disbursed to persons other than the company's own employees and that the company, in order to justify the said charge, disburses the amount thereof to another corporation, the Consolidated Credit Service Company Ltd. which the undersigned believes to be operated for the benefit indirectly of the owners of the majority shares of the Discount and Loan Corporation.

We may now turn to an examination of some of the provisions of the Loan Companies Act, which, as I have already stated, are made applicable to the Loan Corporation "except as otherwise provided in this Act," that is, the Act incorporating the Loan Corporation. It is quite obvious that the Loan Companies Act was never drafted or enacted with the idea that its provisions would be made applicable to a loan company of the type with which we are here concerned, and an examination of the provisions of that Act will reveal how difficult it is to make any satisfactory application of many of its provisions to the matter in dispute here. The Act would seem to relate particularly to companies lending money on the security of mortgages or hypothecs upon freehold real estate, with powers to borrow money on its bonds, debentures or other

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securities, and to receive money on deposit. However, the Loan Companies Act has been made applicable to the Loan Corporation, with the exception of a few sections, and it becomes necessary to examine some of the provisions of that Act.

Sec. 69 (1) relates to the licensing of loan companies to which that Act applies, and it first states that no company to which the Act applies shall transact the business of a loan company unless the company has obtained from the Minister of Finance a licence authorizing it so to do. The application of that provision to the Loan Corporation would seem quite practical. A condition for granting a licence to any loan company is that the financial position of the company is such as to justify its transaction of the business of a loan company. It was conceded by the Superintendent that the financial position of the Loan Corporation was satisfactory to him. Sec. 69 (3) provides that the licence shall be in such form as may be from time to time determined by the Minister, and "may contain any limitations or conditions which the Minister may, consistently with the provisions of the Act, deem proper." Sub-s. 4 of s. 69 provides that the licence shall expire on the thirty-first day of March in each year, but may be renewed from year to year subject, however, to any "qualification or limitation which may be considered expedient," and such "qualification or limitation" would, I think, have reference only to the financial position of the company. If the Minister refuses a licence, there is a right of appeal to the Governor in Council. Under s. 69, a licence could not therefore be refused, or if granted, qualified or limited, except on the ground of the unsatisfactory or doubtful financial position of the company applying for a licence. I doubt if this section, save perhaps sub-s. 4, is of any assistance in this case.

Sec. 70 requires that the company shall file annually with the Minister a statement, setting forth its capital stock, the portion thereof paid up, the assets and liabilities of the company, the nature of the investments made on its own behalf or on behalf of others, and other particulars. It would appear from the agreed statement of facts, that the requirements of this section, if applicable, were complied with by the Loan Corporation.

Sec. 71 requires the Superintendent to examine into and inspect annually the conditions and affairs of the company, and to make returns to the Minister as to all matters requiring his attention and decision. Sec. 72 provides that if, as the result of the examination required by s. 71, the Superintendent believes that the assets of the company are insufficient to justify its continuance in business, he shall make a special report to the Minister on the condition of the company; the Minister may, upon further inquiry and examination, and upon hearing the company, suspend or cancel the licence of the company, or he may issue such conditional licence "as he may deem necessary for the protection of the public." This section does not appear to have any bearing upon this case.

Then s. 73 is to the effect that in his annual report to the Minister, under the provisions of s. 71 of the Act, the Superintendent shall allow as assets only such of the investments of the company as are authorized by the Loan Companies Act, or by the Act incorporating the company, and he shall make all necessary corrections in the annual statements made by the companies, and he shall be at liberty to increase or diminish the assets or liabilities of such companies to the true and correct amounts as ascertained by him in the examination of their affairs. Sub-s. 3 and 4 of s. 73 are not relevant to this appeal because no question of unauthorized investments arises, and it is not suggested that the assets and liabilities of the Loan Corporation are inaccurately reported. It will be seen therefore how inapplicable are the provisions of s. 73, so far mentioned, to the facts of the case under discussion.

Sub-s. 5 of s. 73 must be referred to and it reads:—

> An appeal shall lie in a summary manner from the ruling of the Superintendent as to the admissibility of any asset not allowed by him, or as to any item or amount so added to liabilities, or as to any correction or alteration made in any statement, or as to any other matter arising in the carrying out of the provisions of this Act, to the Exchequer Court of Canada, which Court shall have power to make all necessary rules for the conduct of appeals under this section

It is doubtful if this sub-s. is applicable here, or that it could have been so intended, unless it be by reason of the words "or as to any other matter arising in the carrying out of the provisions of this Act * * *," not, the provisions of the Act incorporating the Loan Corpora-

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tion. This sub-s. seems to relate to loan companies having investments, and liabilities to the public, and the Superintendent is authorized to increase or diminish the assets or liabilities of the company to the true and correct amounts as ascertained by him, and he may require the company to dispose of unauthorized investments, all of which is hardly applicable to the Loan Corporation. The words "or to any other matter arising in the carrying out of the provisions of this Act" are of doubtful application here. It is arguable that there is no provision for an appeal from the Superintendent in a case of the kind under discussion, and if that should be so it would follow, I think, that the act of the Superintendent which is in question here would be unauthorized by the statute. It would be unthinkable that the power claimed and exercised by the Superintendent here would be bestowed by the statute without the right of an appeal by the person affected.

The issue here seems to narrow down to this: Does subparagraph (iii) of sub-s. (1) (*b*) of s. 5 authorize the charges disbursed to the Service Company, in connection with loans secured by chattel mortgage, and, in the state of facts here is the Superintendent empowered to say that they were not disbursements actually incurred by the Loan Corporation because they were made to the Service Company, and by reason of which he recommended a qualified or limited renewal of the Loan Corporation's licence?

It was agreed on behalf of the Superintendent that if the charges in question had been incurred through the employment of a solicitor retained for the purpose, the same would be permissible under the statute and would not have been put in question. I think the Loan Corporation might retain the services of any qualified person, a solicitor, or a trust company, to perform the identical services, and for the identical charges, and apparently no objection would or could be made to the same by the Superintendent. I cannot see how any objection can be made to the Service Company being set up and employed for that purpose; in that I see nothing unlawful, or anything contrary to the provisions of the Act of incorporation of the Loan Corporation, or the Loan Companies Act. It would be a matter of indifference to the borrower to whom the charge

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was disbursed providing it was a *bona fide* charge, and within the statutory amount. I cannot say, upon the facts before me, that the Service Company is "operated for the benefit indirectly of the owners of the majority shares of the Loan Corporation," or that it constitutes "a device for evading the restrictions of sub-paragraph (iii) aforesaid." The particular provision of the appellant's Act of incorporation in question is a fairly wide invitation to make or incur the maximum charge, and one cannot resist thinking that it is probable that it was in the mind of the legislature when the provision was enacted, that the maximum charge would on balance not be an unreasonable one to impose. Upon the facts before me I cannot say that this charge is an unreasonable or oppressive one, and in fact the Superintendent does not say that it is; he only asserts that in his belief the disbursement to the Service Company is not an actual "disbursement," because that company is in reality an employee or department of the Loan Corporation, and that it is operated for the benefit indirectly of the owners of the majority shares of the Loan Corporation. The Loan Corporation is "entitled to charge an additional sum," not for "legal expenses," but for "the legal and other actual expenses disbursed." It does not clearly appear from the agreed statement of facts what is the precise character or volume of the work or services, ordinarily incidental to a loan, or the renewal of a loan, secured by a mortgage on chattels. I can well imagine that in many cases at least the maximum charge might not be unreasonable. If the maximum charge might be incurred and disbursed by the Loan Corporation to a solicitor, retained specially for the purpose, without objection by the Superintendent, I cannot see on what principle the same charge becomes improper or unlawful, or an unauthorized one if such services are actually performed by any other person or organization on behalf of the Loan Corporation. If so, then the Superintendent is not empowered, in my opinion, to rule that the charges disbursed to the Service Company, and which are in question here, is a ground for refusing an unconditional renewal of the appellant's licence.

It was suggested that the paid employees of the Loan Corporation, or the Service Company, could or should

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perform the services in question without any additional charge to the borrower. How could that be determined by the Superintendent, or by a court, without hearing the evidence directly bearing upon the point? It is conceivable that some employee of the Service Company was being paid a certain salary or wage just because he was competent to perform the particular services incident to loans secured by a chattel mortgage, and which would relieve the Loan Corporation of the expense of employing specially the services of some one competent to perform the same services. The Loan Corporation is explicitly authorized to make an additional charge for expenses actually incurred in connection with loans so secured, and I do not apprehend it is prohibited from employing some one to perform such services, in this case the Service Company. Having been authorized to make a charge against the borrower for disbursements incurred for services connected with loans of the character in question, and such disbursements having been made to the Service Company, I do not think the Superintendent is empowered to say such disbursements were unauthorized, or that they might have been performed without charge by some person or persons in the employ of the Loan Corporation, or the Service Company. Any service performed implies an expense. Nor do I think that the Superintendent is empowered to say that the Service Company is in substance just an ordinary employee, or that its business is the business of the Loan Corporation; in fact and in law it is a separate entity, clothed with powers of its own. If the Loan Corporation exceeded in any way the authorized interest charges, or the authorized additional charges, the borrower may complain, or the Attorney-General of Canada, or the Minister, may proceed under sub-s. 4 of s. 5 of the Act; if any such excess is thus established then the Superintendent might be authorized to take the steps he has taken. While the duties pertaining to the office of the Superintendent are highly important, and while the present Superintendent is doubtless a vigilant and valuable public servant, yet, his powers are only those specifically granted by the statute, and it is not desirable that such powers be in any way exceeded.

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My conclusion is that the Superintendent in the facts and circumstances here, was not empowered to hold that the charges and disbursements in question, made by the Loan Corporation, were contrary to the provisions of s. 5 of its Acts of incorporation, or that he was empowered to refuse an unconditional licence, or to impose the qualification and limitation which he did, upon the grounds stated. It seems to me that this was not consistent with the provisions of the Loan Companies Act. Neither do I think that the Superintendent was authorized to determine and rule, as a matter of fact or law, that the Loan Corporation was acting contrary to the statute in employing the Service Company to perform the services mentioned in the agreement between them, and which is the subject of dispute here, or that the Service Company is merely an employee or department of the Loan Corporation and that the services which it performed should therefore be gratuitous to the Loan Corporation and the borrower, or that the disbursements made by the Loan Corporation to the Service Company are not actual expenses disbursed by the former. The matters here alleged to be contrary to the appellant's Act of incorporation are not, I think, of the character contemplated by the Loan Companies Act as a ground for refusing an unqualified licence. The powers delegated to the Superintendent under the Loan Companies Act, it will be found if closely examined, are to be exercised for reasons which are fairly demonstrable in point of fact, and do not involve questions requiring judicial determination.

The appeal is therefore allowed with costs.

Judgment accordingly.

1937 May 25 & 26. 1938 May 20.

BETWEEN:

HARRY C. HATCH ....APPELLANT;

AND

THE MINISTER OF NATIONAL REVENUE .... } RESPONDENT.

Revenue—Income tax—Income War Tax Act, secs. 2 (i), 2 (k), 10 and 21—" Taxpayer "—Personal corporation—Company engaging in more than one activity—Business of the company—Determination of income—Deductions—Expenses of business—Tax paid under protest not recoverable by appeal from decision of the Minister—Petition of right only procedure available.

Appellant included in his income tax return for the year 1931 a sum of money received by him from Trinity Securities, Limited, a private company incorporated, in 1925, under the laws of the Province of Ontario, of which appellant owned all the outstanding shares, except four qualification shares, and which he controlled. The principal objects for which Trinity Securities, Limited, was incorporated were to operate ranches or farms for live stock, dairying or agriculture; to breed, raise, keep, render marketable and deal in horses, cattle and live stock; to undertake, carry on and execute transactions as financial or commercial brokers or agents; to invest moneys of the company not immediately required for the purposes of the company in such investments as, from time to time, may be determined. Appellant transferred to it a large quantity of securities in exchange for shares of the company. During the first year of its existence and for some months in 1927, the company merely held investments and collected interest and dividends thereon. In the spring of 1927 it acquired a farm, the first horses were purchased and breeding operations commenced; the number of horses owned by it increased from 2 in 1927 to 70 in 1937. The company also, from time to time, disposed of some of its securities and purchased others.

Trinity Securities, Limited, is a personal corporation within the meaning of par. (1) of s. 2 of the Income War Tax Act, R.S.C., 1927, c. 97, as enacted by 23-24 Geo. V, c. 14, s. 1. The income tax return for Trinity Securities, Limited, for the year 1931 included *inter alia* in deductions therein set forth an item reading "farm and stable expenses, $85,492.38." The appellant's tax return for the year 1931 showed a taxable income of $83,517.48. The Commissioner of Income Tax refused to allow the deduction for farm and stable expenses from the gross income of Trinity Securities, Limited, and assessed appellant for this amount. The Minister of National Revenue confirmed the assessment and appellant appealed to this Court. The appeal deals with the income tax of appellant for the years 1931, 1932, 1933 and 1934.

Respondent contends that the chief occupation, trade or business of Trinity Securities, Limited, is that of an investment company, holding revenue bearing securities and its income shall be deemed to be not less than the income derived from such chief occupation, trade or business; that its operations were those of appellant and were performed by him, or, if by the company, then the company was the agent or instrument of appellant; that the expenses on account of the farm and stable were personal and living expenses of appellant and not deductible; that such expenses were not wholly, exclusively and necessarily laid out for the purpose of earning the income of appellant.

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Held: That Trinity Securities, Limited, being a personal corporation, is not a taxpayer within the meaning of the Income War Tax Act.

2. That Trinity Securities, Limited, carried on one business only, that of operating a breeding farm and a racing stable. The investment of its funds was not in itself a business.

3. That the disbursements and expenses laid out in connection with the business of Trinity Securities, Limited, must be deducted from the profits or gains realized therefrom and, if necessary, from the revenue derived from the investments in order to determine the amount liable to income tax.

4. That appellant cannot by an appeal from the decision of the Minister of National Revenue, claim a refund of taxes paid under protest.

APPEAL under the provisions of the Income War Tax Act from the decision of the Minister of National Revenue.

The appeal was heard before the Honourable Mr. Justice Angers, at Ottawa.

C. P. Fullerton, K.C. and *Peter Wright* for appellant.

F. P. Varcoe, K.C. and *J. R. Tolmie* for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

ANGERS J., now (May 20, 1938) delivered the following judgment:

The present case relates to four appeals from as many assessments for the taxing years 1931, 1932, 1933 and 1934 made by the Commissioner of Income Tax on July 24, 1936, and affirmed by the Minister of National Revenue, acting and represented by the Commissioner of Income Tax, on January 6, 1937. The appeals are brought under sections 58 and following of the Income War Tax Act (R.S.C., 1927, chap. 97). I shall deal with the appeal concerning the year 1931; the facts and questions of law with regard to the three other years are identical, the only difference being in the sums involved. The decision shall apply to the four taxing periods in question.

On April 30, 1932, the appellant, Harry C. Hatch, delivered to the Minister of National Revenue, in compliance with section 33 of the Act, a return showing an income for the year 1931 of $90,522.48. Included in this amount

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was a sum of $60,717.78 received from Trinity Securities, Limited.

Trinity Securities, Limited, was incorporated by letters patent issued on November 23, 1925, under the authority of The Ontario Companies Act, by the Provincial Secretary of the Province of Ontario; a copy of the letters patent was filed as exhibit 1. I may note that Trinity Securities, Limited, is a private company.

The purposes and objects of the company are, among others, the following:

(*a*) To operate ranches or farms for live stock, dairying or agriculture; to breed, raise, keep, render marketable and deal in horses, cattle and live stock of all kinds and to produce, buy, sell, manufacture and deal in all products and by-products thereof and all agricultural products;

(*e*) To undertake, carry on and execute transactions as financial or commercial brokers or agents;

(*g*) To acquire, lease, construct, improve, maintain, own, use, operate, sell, let and deal in dwelling houses, lodging houses and hotels; to operate ranches or farms for live stock, dairying or agriculture; to breed, raise, keep, render marketable and deal in horses, cattle and live stock of all kinds and to produce, buy, sell, manufacture and deal in all products and by-products thereof and all agricultural products;

(*i*) To invest the moneys of the company not immediately required for the purposes of the company in such investments as, from time to time, may be determined.

The capital of the company is fixed at $100,000, divided into 1,000 shares of $100 each. The head office of the company is said to be situate at the City of Toronto, in the Province of Ontario.

Trinity Securities, Limited, was at all times material herein controlled by the appellant; he owned all the outstanding shares, with the exception of four which were merely qualification shares.

Trinity Securities, Limited, is, and was in 1931, a personal corporation within the meaning of paragraph (i) of section 2 of the Act, as enacted by 23-24 George V, chapter 14, section 1, and made retroactive to the 15th of June, 1926, by section 10 of the said statute:

(*i*) "personal corporation" means a corporation or joint stock company, irrespective of when or where created, whether in Canada or elsewhere, and irrespective of where it carries on its business or where its assets are situate, controlled, directly or indirectly, by one individual who resides in Canada, or by one such individual and his wife or any member of his family, or by any combination of them or by any other person or corporation or any combination of them on his or their behalf, and whether through holding a majority of the stock of such corporation or in any other manner whatsoever, the gross revenue of which is to the extent of one-quarter or more derived from one or more of the following sources, namely:—

(i) From the ownership of or the trading or dealing in bonds, stocks or shares, debentures, mortgages, hypothecs, bills, notes or other similar property.

(ii) From the lending of money with or without security, or by way of rent, annuity, royalty, interest or dividend, or

(iii) From or by virtue of any right, title or interest in or to any estate or trust.

The income tax return of Trinity Securities, Limited, for the year 1931, a copy whereof was filed as exhibit 2, contains in brief the following statement:

Total income	$153,150 65
Total deductions	92,432 87
Net income	60,717 78
Statutory exemption	2,000 00
Amount of income subject to tax	$ 58,717 78

No amount is set down opposite the words "Amount of tax at 10 p.c.", because Trinity Securities, Limited, is a personal corporation and personal corporations are not assessable for income tax save with respect to the portion of their income deemed to be distributed to non-residents: see sections 21 of the Act.

The sum of $153,150.65, representing the gross income, is made up as follows:

Interest on call loans	$ 1,488 82	
Interest on mortgages	6,267 03	
Interest on bonds	2,000 10	
		$ 9,755 95
Dividends from Canadian corporations (specified in schedule attached)		92,082 95
Dividends from British and foreign corporations (specified in schedule attached)		51,311 75
		$153,150 65

The sum of $92,432.87, representing the deductions, comprises the following items:

General expenses	$ 346 78	
Farm and stable expenses	85,492 38	
Expenses *re* mortgage collections	188 01	
Salaries	3,600 00	
		$ 89,627 17

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Depreciation

Office furniture and fixtures—

Cost	Rate per cent per annum	Amount in previous years	Amount this year	
$913 26	10%	$197 46	$91 33	91 33

Allowance on account of dividends (specified in schedule)	2,714 37
	$92,432 87

On April 30, 1932, the appellant sent his income tax return for the year 1931 and included in his income the sum of $60,717.78 as income derived from Trinity Securities, Limited.

The computation of the tax in the appellant's return, which forms part of the documents transmitted to the Registrar of this Court in compliance with section 63 of the Act, is made up as follows:

Gross income		$90,522 48	
Deductions		3,105 00	
		$87,417 48	
Less statutory exemption......	$2,400		
Allowance for 3 dependent children under 21 years of age at $500 each	1,500		
		3,900 00	
Income subject to tax		$83,517 48	
Tax			$ 19,170 77
5% additional where net income in excess of $5,000.			958 54
			$ 20,129 31

The appellant paid this sum of $20,129.31 in due course.

On February 18, 1935, the Commissioner of Income Tax sent to the appellant a notice of assessment for the year 1931 altering the amount of the tax; the statement included in the notice is made up as follows:

Total income		$112,750 76	
Deductions		3,105 00	
		109,645 76	
Statutory exemption	$2,400		
Dependents	1,500		
		3,900 00	
		$105,745 76	
Tax			$ 27,035 93
Additional 5% tax			1,351 79
			$ 28,387 72

Then comes a summary which reads thus:

	Tax	Interest	Total
Amount levied	$28,387 72	$ 1,428 09	$29,815 81
Amount paid on account..	20,129 31	......	20,129 31
Balance due	$ 8,258 41	$ 1,428 09	$ 9,686 50

On February 26, 1935, the appellant's solicitor wrote to the Commissioner of Income Tax in part as follows:

I have just received from Mr. Hatch's office an amended notice of assessment in regard to his income tax for 1931, dated February 18th, 1935.

In effect the reassessment has disallowed $21,243 91 of the loss incurred by Trinity Securities, Limited, in the operation of the farm and racing stable.

It is my recollection that this matter was settled without a reassessment down to the end of the taxation period of 1931, but it was understood that you would make a readjustment in the year 1932, and Mr. Hatch could appeal if he saw fit. In connection with this I am enclosing herewith copy of letter from the Inspector of Taxation at Toronto, dated October 4th, 1932, which refers to these expenses for the year 1932 and subsequently.

I wish you would advise whether or not the reassessment for 1931 was issued in error.

On March 15, 1935, the Commissioner replied as follows:

With reference to your letter of the 26th ultimo, the matter is under consideration and you will be advised further in due course. Meanwhile you may wish to preserve your client's rights by the filing of an appeal.

On March 16, 1935, the appellant caused a notice of appeal to be served upon the Minister by his solicitors.

On March 23, 1935, the Commissioner wrote to the appellant's solicitors acknowledging receipt of the notice of appeal and adding:

An investigation is being made into this matter and you will be advised further in due course. Meanwhile, it is suggested that the assessment as levied be paid in order to avoid the accrual of interest under the provisions of the Income War Tax Act, subject to a refund at a later date should an adjustment reducing the assessment be subsequently made.

On May 14, 1936, the Minister rendered his decision affirming the assessment.

On or about June 12, 1936, the appellant mailed a notice of dissatisfaction in accordance with the provisions of section 60 and duly filed security for costs as required by section 61.

This appeal has since remained in abeyance; I may note that we are not concerned with it in the present instance.

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On July 24, 1936, the Commissioner of Income Tax sent to the appellant another notice of assessment for the year 1931; it contains in substance the following items:

Total income	$176,499 23	
Deductions	3,105 00	
	$173,394 23	
Statutory exemption and dependents ..	3,900 00	
	$169,494 23	
Tax		$ 52,597 57
Additional 5% tax		2,629 88
		$ 55,227 45

There follows a summary which reads as follows:

	Tax	Interest	Total
Amount levied	$55,227 45	$ 9,092 71	$64,320 16
Amount paid on account..	20,129 31	....	20,129 31
Balance due	$35,098 14	$ 9,092 71	$44,190 85
Amount payable as at August 24th, 1936............			$44,190 85

The difference between the amount of the total income in the notice of assessment of the 24th of July, 1936, and the amount of the total income in the appellant's return of the 30th of April, 1932, consists almost entirely of the farm and stable expenses of Trinity Securities, Limited, for the year 1931, amounting to $85,492.38, which the Commissioner of Income Tax declined to allow as deduction from the gross income of the company for that year.

On or about August 18, 1936, Hatch served a notice of appeal upon the Minister, in accordance with the provisions of section 58 of the Act.

On January 6, 1937, after several letters from the appellant's solicitors to the Commissioner of Income Tax, dated September 11 and 29, October 9 and December 29, 1936, and January 4, 1937, respectively, all of which form part of exhibit 10, the Minister, acting by the Commissioner of Income Tax, rendered his decision confirming the assessment and notified the appellant accordingly.

On or about January 20, 1937, the appellant sent to the Minister a notice of dissatisfaction, in accordance with the requirements of section 60 of the Act.

On March 31, 1937, the Minister mailed his reply denying the allegations contained in the notice of dissatisfaction and confirming the assessment under appeal for the reasons set forth in his decision.

Pleadings were filed pursuant to an order of the Court dated the 21st of April, 1937.

[The learned Judge referred to the pleadings and continued.]

The proof establishes beyond doubt that Trinity Securities, Limited, is a personal corporation within the meaning of paragraph (i) of section 2 of the Act. It is a corporation created, as we have seen, by letters patent issued by the Provincial Secretary of the Province of Ontario and is controlled by the appellant, Harry C. Hatch, who resides in the City of Toronto, through holding a majority of the stock of the corporation, the gross revenue of which is, to the extent of more than one-quarter, derived from the ownership of bonds, stocks and mortgages.

The respondent submits that Trinity Securities, Limited, has income from more than one source by reason of exercising two trades or businesses: (*a*) the holding of bonds, stocks and mortgages; (*b*) the operation of a breeding farm and racing stable. The respondent contends that, in the circumstances, Trinity Securities, Limited, is subject to the provisions of section 10 of the Act, which reads as follows:

10. In any case the income of a taxpayer shall be deemed to be not less than the income derived from his chief position, occupation, trade, business or calling.

2. Where a taxpayer has income from more than one source by virtue of filling or exercising more than one position, occupation, trade, business or calling, the Minister shall have full power to determine which one or more, or which combination thereof shall, for the purpose of this Act, constitute the taxpayer's chief position, occupation, trade, business or calling, and the income therefrom shall be taxed accordingly.

3. The determination of the Minister exercised pursuant hereto shall be final and conclusive.

It was urged on behalf of the appellant that section 10 does not apply to Trinity Securities, Limited, because the company is not a taxpayer.

Prior to the coming into force of the statute 24-25 George V, chapter 55, assented to on the 3rd of July, 1934, personal corporations paid no income tax whatever; their income was deemed to be distributed on the last day of each year to their shareholders and the latter were taxable each year as if the income had been effectively distributed. Section 21 of the Income War Tax Act, as contained in chapter 97 of the Revised Statutes of Canada, 1927, governing personal corporations, comprised six subsec-

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tions; three of these only are material in the present instance; they read as follows:

21. The income of a personal corporation, in lieu of being assessed the tax prescribed by section nine of this Act, shall on the last day of each year be deemed to be distributed as a dividend to the shareholders thereof and shall in their hands constitute taxable income for each year in the proportion hereinafter mentioned, whether actually distributed by way of dividend or not

2. Each shareholder's taxable portion of the income of the corporation, deemed to be distributed to him as above provided for, shall be such percentage of the income of the corporation, as the value of all property transferred or loaned by such shareholder or his predecessor in title to the corporation is of the total value of all property of the corporation acquired from the shareholders.

3. The value of the property transferred by each shareholder or his predecessor in title shall be the fair value as at the date of the transfer of such property to the corporation, and the total value of the property of the corporation acquired from its shareholders shall, for the purpose of determining the percentage referred to in the last preceding subsection, be taken as at the date of acquisition thereof by the corporation; and in ascertaining values under this subsection, regard shall be had to all the facts and circumstances, and the decision of the Minister in that respect shall be final and conclusive.

In virtue of section 3 of chapter 14 of 23-24 George V, subsection 1 of section 21 was repealed and the following substituted therefor:

21. (1) The income of a personal corporation, whether the same is actually distributed or not, shall be deemed to be distributed on the last day of each year as a dividend to the shareholders, and the said shareholders shall be taxable each year as if the same had been distributed in the proportions hereinafter mentioned.

By section 10 of said chapter 14 it is declared that the provisions of the Income War Tax Act shall be read and construed as if the amendments enacted by, among others, said section 3, had been contained therein since the 15th of June, 1926, and that the Income War Tax Act as amended shall apply to the income of the 1925 taxation period, the fiscal periods ending in 1925 and all subsequent periods.

In virtue of section 4 of said chapter 14, subsections 7, 8 and 9 were added to section 21; these subsections read as follows:

(7) The shareholder of a personal corporation who controls such corporation shall file with his income tax return a statement of the assets, liabilities and income of the personal corporation.

(8) Any such shareholder who fails to file the statement required by the last preceding subsection at the time and in the manner prescribed, shall be taxed on double the amount of his proportion of the income of such personal corporation.

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(9) The rates of tax applicable to corporations, as in this Act provided, shall not be imposed on any personal corporation.

By section 10 it is enacted that section 4 shall apply to the income of the 1932 taxation period, the fiscal periods ending in 1932 and all subsequent periods.

In virtue of section 11 of chapter 55 of 24-25 George V, subsection 9 of section 21 of the Income War Tax Act, as enacted by section 4 of chapter 14 of 23-24 George V, was repealed and the following subsection substituted therefor:

9. The rates of tax applicable to corporations as in this Act provided shall be payable by a personal corporation on that portion only of its income which is deemed to be distributed to non-residents.

By section 18 of said chapter 55 it is enacted that section 11 shall be applicable to income of the 1933 taxation period, the fiscal periods ending therein and all subsequent periods.

The evidence shows that Trinity Securities, Limited, never had non-resident shareholders; consequently it never was liable to pay income tax.

The definition of "taxpayer" in paragraph (*k*) of section 2 of the Act reads thus:

"taxpayer" means any person paying, liable to pay, or believed by the Minister to be liable to pay, any tax imposed by this Act.

A personal corporation does not, in my opinion, come within the ambit of that definition.

The object of subsection 9 of section 21, as enacted by 24-25 George V, chapter 55, section 11, is to tax at the source income payable to non-residents; it does not make a personal corporation a taxpayer in the sense of the above definition; the personal corporation merely collects the tax for the Minister and remits it to him.

A taxing act is not to be interpreted differently from any other act, but it must be construed strictly: effect must be given to the intention of the legislature. The subject is not taxable by inference or analogy; the tax must be imposed in categorical and unambiguous terms; in case of doubt the construction of the act must be resolved in favour of the taxpayer: *Cox* v. *Rabbits* (1); *Partington* v. *Attorney-General* (2); *Tennant* v. *Smith* (3); *Commissioners of Inland Revenue* v. *The Duke of Westminster* (4); Maxwell on the Interpretation of Statutes, 7th ed.

(1) (1878) 3 A.C. 473, at 478.
(2) (1869) L.R. 4 H.L. 100 at 122.
(3) (1892) A.C. 150 at 154.
(4) (1936) A.C. 1 at 24.

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p. 246. I deem it apposite to quote an extract from the judgment of Lord Russell of Killowen in the case of *Commissioners of Inland Revenue* v. *The Duke of Westminster* (*ubi supra*, at p. 24):

> I confess that I view with disfavour the doctrine that in taxation cases the subject is to be taxed if, in accordance with a Court's view of what it considers the substance of the transaction, the Court thinks that the case falls within the contemplation or spirit of the statute. The subject is not taxable by inference or by analogy, but only by the plain words of a statute applicable to the facts and circumstances of his case. As Lord Cairns said many years ago in *Partington* v. *Attorney-General* (1869) L.R. 4 H.L. 100, 122): "As I understand the principle of all fiscal legislation it is this: If the person sought to be taxed comes within the letter of the law he must be taxed, however great the hardship may appear to the judicial mind to be. On the other hand, if the Crown, seeking to recover the tax, cannot bring the subject within the letter of the law, the subject is free, however apparently within the spirit of the law the case might otherwise appear to be." If all that is meant by the doctrine is that having once ascertained the legal rights of the parties you may disregard mere nomenclature and decide the question of taxability or non-taxability in accordance with the legal rights, well and good. That is what this House did in the case of *Secretary of State in Council of India* v. *Scoble* ([1903] A.C. 299); that and no more. If, on the other hand, the doctrine means that you may brush aside deeds, disregard the legal rights and liabilities arising under a contract between parties, and decide the question of taxability or non-taxability upon the footing of the rights and liabilities of the parties being different from what in law they are, then I entirely dissent from such a doctrine.

I do not think that Trinity Securities, Limited, was a taxpayer within the meaning of the Act.

The appellant's contention that Trinity Securities, Limited carried on only one business seems to me well founded. The evidence discloses that, during the first year of its existence, i.e., 1926, and the first few months of 1927, the corporation merely held investments and collected the interest and dividends thereon. The appellant transferred to the company a large quantity of securities and in exchange received shares of the company. In the spring of 1927 the farm was acquired, the first horses were purchased and the breeding operations were commenced.

The company from time to time disposed of some of its securities and purchased others presumably with the object of improving its investments and augmenting its income. From the day it started to operate its farm and racing stable, the company gradually increased the number of its horses; it had three in 1927 and in 1937 it owned about seventy.

In his examination for discovery, put in evidence, the appellant, speaking of the activities of Trinity Securities, Limited, says:

A. It holds a goodly number of investments and it operates that farm out there and the racing stables; that is about the extent of its activities

Q. And its securities are one hundred per cent securities of yours; that is, they were securities transferred—

A. Are you asking about mine or the company's now?

Q. Well, they are securities that reached the company through you. Is that correct?

A. Through me. Yes.

Q. When the company was first brought into existence you transferred to the company—

A. Some securities in exchange for its shares.

Q. In exchange for its shares?

A. Yes.

Q. And then from time to time, I suppose, the company acquired other securities?

A. Well only through the sale of some it had and changing investments.

Further on in his testimony Hatch deals with the farm and racing stable; it seems to me expedient to quote therefrom the following extracts:

Q. Now, when did you acquire the farm and racing establishment?

A Just about the same time—around 1926 or 1927. I guess maybe 1927, I think I started the racing business.

Q. Well, the farm, was that farm registered in your name for a time?

A. I think it is yet perhaps.

Q. It is still in your name; the corporation is simply—

A. They paid for it and I have it in trust for them.

The witness was later examined about the financial aspect of the operations of the farm and racing stable; I may perhaps cite a passage from his deposition on the subject:

Q. You were closely in touch with the operations of the stable from a financial point of view?

A. Very closely.

Q. And you arranged for the meeting of the losses or the payment of the expenses from time to time; I mean you were called on to do that, I suppose?

A. I supervised them. I should know what they were.

Q. Trinity Corporation paid for this farm and I suppose paid for the extensions and improvements that you have made from time to time. Is that so, Mr. Hatch?

A. That is right.

Q. Then how was that financed? What was the financial—

A. Trinity Securities had a fairly decent income and they paid for that out of their income.

Q. It paid for the farm out of income, did it?

A. Well, the records will show that. I expect they did. I don't know.

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Ward Wright, examined *de bene esse* on behalf of appellant, stated that he had been solicitor for Hatch since about 1924 and that he had been intimately connected with his affairs for the last ten years. He is a director and vice-president of Trinity Securities, Limited. He did not incorporate the company but, immediately after its organization, he got into it; he was elected a director in August, 1927, and he has held that position ever since; he was made vice-president in 1932.

Asked what the business of Trinity Securities, Limited, involved, the witness replied:

A. Well, the chief business that we do is operating the breeding farm; that is where the loss, as far as there is any loss, really comes in, I think. We had certain very definite ideas about the class of horse that we wanted to breed in Canada; the farm has gradually developed, the establishment has gradually developed and as it has developed the racing stable has also developed. The racing stable is a necessary adjunct to the breeding farm; you have got to—just like showing stock—you have to demonstrate what you have and in the thoroughbred business the demonstration takes place on a race track.

After stating that the company employed twenty-two men in 1931 and that it probably had the same number in 1937, Wright added:

A. They are all engaged in connection with the operations of the farm at Sullivan's Corners and with branches of the racing stable, wherever they are. Of course, at the present time we will have some men in other places; we have four—(when I use the term "horses" it means horses, mares and foals)—we have four horses in Kentucky and twenty-three in California and we have twenty-three at Woodbine Park at the moment and eighteen at the farm. We have about sixty-eight or seventy horses now all together

Referred then to the subject of investments, the witness gave the following version:

A. Well, we have a very large portfolio which we invested and it stays invested; there is no business except we now and again make up our minds to change investments, as, for instance, in 1933 we decided to get out of United States investments and we did We had about a million and a half in United States at that time and we sold that and reinvested in Canada. We try to keep our surplus funds invested in as well paying companies as we can and we have gradually got them into things that we are largely interested in ourselves, other companies.

Q. Does it buy and sell stocks frequently?

A. Oh, no, we have never done any buying and selling of stock except when necessary changes had to be made in the investment portfolio.

Q. Has it ever bought and sold for others?

A. Oh, no, we have never done anything like that.

* * * * * * * *

Q. Has the company ever received any commissions for the sale or purchase of stock?

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A. No, the company's whole income is limited to the income from the breeding farm and racing stable and income from our investments; the investments are very diversified; they include stocks and mortgages and sometimes if we have surplus money we have made call loans.

It was argued on behalf of the respondent that the operations of the breeding farm and racing stable were not business operations but were recreational operations carried on by the appellant himself, the corporation being merely a screen or device to shield the appellant. In support of this proposition counsel cited: *Thacker* v. *Lowe* (1); *Deering* v. *Blair* (2); *Fisher* v. *Commissioner of Internal Revenue* (3); *Commissioner of Internal Revenue* v. *Field* (4).

In the last mentioned case, Manton J., delivering the judgment of the Circuit Court of Appeals, which affirmed the decision of the Board of Tax Appeals, said (p. 877):

The Board of Tax Appeals found that both the farm and racing stable were conducted as businesses for profit and that the losses in connection therewith were deductible in computing his net income.

If the findings of the Board have evidence to sustain them, we may conclude that the enterprises were conducted as businesses for profit and therefore the losses were properly deducted. *Comm'r* v. *Widener,* 33 F. (2d) 833 C.C. A. 3; *Wilson* v. *Eisner,* 282 F. 38 (C C. A. 2). In *Flint* v. *Stone Tracy Co.,* 220 U.S. 107, 171, 31 S. Ct. 342, 357, 55 L. Ed. 389, Ann. Cas. 1912B, 1312, the court repeated a definition of business as "That which occupies the time, attention and labour of men for the purpose of a livelihood or profit." It is not essential that the taxpayer be engaged solely in one business. He may have interests in several enterprises among which he divides his time. His intention is important. *Thacher* v. *Lowe* (D C.) 288 F. 994.

* * * * * * * *

In the instant case, there is substantial evidence that the enterprises were conducted as a business for profit and with an expectation of ultimate profits. We cannot say that the expectation of profits is unreasonable or forecast continuous losses in the light of experience in cattle or horse breeding and racing If the right to deduct losses under the statute required that profit appear to the court to be possible, that requirement would be quite general and would be applicable to any enterprise, whether it was farming, manufacturing, or promotion of any character. We may not, in this way, foredoom any business venture. Cattle breeding and horse racing projects are old. Some have been profitable; others have not. It is a matter of intention and good faith, and all the circumstances in the particular case must be our guide. In this case we think the respondent embarked in these enterprises with the expectation of making profits; at least he did so with an earnest and honest intention.

(1) (1922) 288 Fed 994.
(2) (1927) 23 Fed. (2nd) 975.
(3) (1934) 29 U.S. Board of Tax Appeals Rep 1041; 74 Fed (2nd), 1014.
(4) (1932) 26 U S Board of Tax Appeals Rep 116; 67 Fed. (2nd) 876.

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The testimonies of the appellant and of Ward Wright satisfy me that the farm and stable were operated in good faith for profit and constituted a business.

In support of his contention that Trinity Securities, Limited, was engaged in the business of investment, counsel for respondent cited the case of *Commissioners of Inland Revenue* v. *Korean Syndicate Ltd.* (1) and referred to the judgment of the Master of the Rolls, Lord Sterndale, at page 272, quoting therefrom the following observations:

> The word "business" as defined in that section is therefore the governing word here, and it has the widest possible meaning. It is a trade or business of any description owned or carried on in any other place than the United Kingdom by persons ordinarily resident in the United Kingdom. It seems to me that if a company comes into existence for the very purpose of acquiring concessions and turning them to account, it is impossible to say that that is not such a business as is contemplated by and referred to in s 39 of the Act.

The remarks of the Master of the Rolls particularly in point are included in the preceding paragraph on the same page and read thus:

> In my opinion the effect of that agreement is that it is a carrying out of the object which the Syndicate undertook to attain, and which is mentioned in sub-clause 1 of clause 3 of memorandum which I have already read, of acquiring a concession and working, exploiting and turning the same to account, the same words as are used in the agreement of February 7, 1905. That is not in any way like the case of a person who holds certain investments and merely draws the interest from them, or of an owner of mines who simply leases them in consideration of the payment to him of royalties. It is nothing in the least like either of those cases, but it is a carrying out of that object mentioned in the memorandum, and which the Syndicate hopes to attain.

Counsel also referred to the judgment of Lord Atkin at page 276, where the latter makes certain comments on the definition of the word "business" given by Rowlatt J. in the case of *Commissioners of Inland Revenue* v. *Marine Steam Turbine Company Limited* (2).

I do not think that the case of *Commissioners of Inland Revenue* v. *Korean Syndicate Ltd* supports the contention expressed by counsel for respondent; I feel inclined to believe that it is rather the contrary.

On the other hand, counsel for appellant relied on the following decisions: *Smith* v. *Anderson* (3) and *Liverpool and London and Globe Insurance Co.* v. *Bennett* (4). It

(1) (1921) 3 K.B. 258.
(2) (1920) K.B. 193 at 203.
(3) (1880) 15 Ch. D. 247.
(4) (1911) 2 K.B. 577, at 589; (1912) 2 K.B. 41 at 52; (1915) A.C. 610 at 616

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seems convenient to quote a brief extract from the judgment of the Master of the Rolls, Sir George Jessel, in the case of *Smith* v. *Anderson* (p. 260):

You cannot acquire gain by means of a company except by carrying on some business or other, and I have no doubt if any one formed a company or association for the purpose of acquiring gain, he must form it for the purpose of carrying on a business by which gain is to be obtained. But whether that be so or not, I am clearly of opinion that where investment is made a business, or where the dealing in securities is made a business, it is a business within the purview of this Act. There are many things which in common colloquial English would not be called a business, even when carried on by a single person, which would be so called when carried on by a number of persons. That is a distinction not to be forgotten, even if we were trying the question by the ordinary use of the English language.

* * * * * * * *

When you come to an association or company formed for a purpose, you say at once that it is a business, because there you have that from which you would infer continuity; it is formed to do that and nothing else, and, therefore, at once you would say that the company carried on a business. So in the ordinary case of investments, a man who has money to invest, invests his money and he may occasionally sell the investments and buy others, but he is not carrying on a business. But when you have an association formed, or where an individual makes it his continuous occupation—the business of his life to buy and sell securities—he is called a stock-jobber or share-jobber, and nobody doubts for a moment that he is carrying on business. So, if a company is formed for doing the very same thing, that is, for investing money belonging to persons in the purchase of stocks and shares, and changing them from time to time, either with limited or unlimited powers, I should say there can be no question that they are carrying on a business, whether you call it a business of investment or a business of dealing in securities, or, as in the case before me, both the business of investment and the business of dealing in securities.

I am satisfied that Trinity Securities, Limited, did not carry on two separate businesses and that the investment of its funds was not in itself a business. The only business exercised by the company was the operation of its breeding farm and, as an adjunct, its racing stable. Mere investment for investment's sake is not a business.

In its income tax return for 1931, Trinity Securities, Limited, indicated the nature of its business as "Racing and Stud Farm"; in its returns for 1932, 1933 and 1934 it mentioned "Investments." I do not think that we need attach much importance to this indication; the nature of the business of Trinity Securities, Limited, must be determined according to the facts disclosed in the evidence.

After a minute perusal of the evidence, documentary and oral, and a careful review of the precedents, I have reached

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the conclusion that Trinity Securities, Limited, carried on, during the period with which we have to deal, only one business, to wit, that of operating a breeding farm and a racing stable; the disbursements and expenses laid out in connection with the said business must be deducted from the profits or gains realized therefrom and, if necessary, from the revenues derived from the investments in order to determine the amount liable to income tax.

It was urged on behalf of the appellant that an arrangement had been arrived at between the appellant and the respondent whereby the full expenses of Trinity Securities, Limited, for the years 1930 and 1931 were to be allowed. I may say that I am not satisfied that such an arrangement was made; however, seeing the conclusion which I have reached on the main issue, this question offers no interest.

For the reasons aforesaid I believe that the appeal in connection with the year 1931 must be maintained and that the assessment of the 24th of July, 1936, must be set aside. For the same reasons, a similar decision, *mutatis mutandis,* applies to the years 1932, 1933 and 1934; the amendments made by 23-24 George V, chapter 14, and 24-25 George V, chapter 55, do not give rise to a different conclusion.

The appellant is claiming a refund of the sum of $27,314.60, which he paid under protest; I do not think that a refund can be sought by an appeal against the decision of the Minister; the only procedure available is the petition of right; *Lovibond* v. *Grand Trunk Railway Company et al.* (1); *Attorney-General for Ontario et al.* v. *McLean Gold Mines Ltd.* (2).

The appellant will have his costs against the respondent.

Judgment accordingly.

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(1) (1936) 3 D.L.R., 449. (2) (1927) A.C. 185

BETWEEN:

1937 Sept. 29. — 1938 July 27.

WILLIAM HAROLD MALKIN ....APPELLANT;

AND

THE MINISTER OF NATIONAL REVENUE .... RESPONDENT.

Revenue—Income tax—Income War Tax Act, R.S.C., 1927, c. 97, s. 3 (e) and s. 11—Income of trust not to be taxed as income of the settlor of the trust when the beneficiaries are ascertained—Occupancy of real property rent free—No liability for tax.

Appellant entered into a trust agreement with his four children and a trustee pursuant to the terms of which he transferred to the trustee his interest in a parcel of real estate known as "Southlands" which had been owned by appellant's wife in her lifetime, and on her death had devolved to the appellant as to an undivided one-third interest, and to the children as to the remaining two-thirds; certain shares in the Malkin Company; certain life insurance policies on appellant's life in existence at the date of the agreement, and certain new insurance taken out on appellant's life, subsequent to the date of the agreement. The children joined with appellant in transferring Southlands to the trustee, the upkeep to be provided by the trustee who was to sell it as soon as a reasonable price could be obtained for it. By permission of the children the appellant lived in Southlands without paying rent therefor during the taxation period in question.

The trust agreement provided *inter alia* for the payment of the premiums on the insurance policies, the upkeep of Southlands, the giving to the appellant of an irrevocable proxy to vote the shares in the Malkin Company, the sale of such shares subject to certain conditions, the investment of the trust moneys, the appointment by appellant of a new trustee and the division of the trust estate at the termination of the trust.

The only income received by the trustee during the taxation period in question was the sum of $6,400 as dividends from the shares of the Malkin Company. The Commissioner of Income Tax assessed the appellant on this income and that assessment was confirmed by the Minister of National Revenue from whose decision the appellant appealed.

Held: That appellant is not taxable for his occupancy of Southlands during the taxation period in question.

2. That a statute levying a tax cannot be extended by implication beyond the clear import of its terms.

3. That the appellant is not a beneficiary of the trust within the meaning of s. 11 of the Income War Tax Act.

4. That s. 11 of the Income War Tax Act does not tax the income of a trust as part of the income of the settlor of the trust when there are ascertained beneficiaries.

APPEAL under the provisions of the Income War Tax Act from the decision of the Minister of National Revenue.

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The appeal was heard before the Honourable Mr. Justice Maclean, President of the Court, at Vancouver, B.C.

W. Martin Griffin, K.C. for appellant.

A. R. Creagh and *J. R. Tolmie* for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT, now (July 27, 1938) delivered the following judgment:—

This is an appeal under the provisions of the Income War Tax Act from the decision of the Minister of National Revenue in respect of an assessment for income tax, in the sum of $2,272.54, levied against the appellant. The appellant resides in the City of Vancouver, and is a shareholder in The W. H. Malkin Company Ld. (hereafter referred to as " the Malkin Company ") which carries on the business of wholesale grocers in the same city.

The appellant, as Settlor, on November 29, 1934, entered into a trust agreement with his four children (as the next-of-kin of the Settlor's deceased wife) and the Toronto General Trusts Corporation as trustee. The trust agreement provided:—

(1) That certain real estate known as " Southlands," which at the date of the agreement was owned by the appellant as to one-third, the remaining two-thirds interest being owned by the four children of the appellant, should be conveyed to the trustee upon the trusts of the agreement. The realty Southlands was the property of the wife of the appellant and upon her death intestate it devolved to the appellant and his children in the respective shares mentioned. It was transferred by the appellant and his four children to the trustee which undertook to provide for its upkeep and to sell the same as soon as a reasonable price, in the opinion of the trustee, could be obtained therefor. By a letter dated April 5, 1935, the children authorized the trustee to permit the appellant to have the use of Southlands until it was sold, and the appellant did live therein without paying rent, during the taxation period in question.

(2) That the appellant was to transfer to the trustee sixteen hundred (1,600) second preference shares in the Malkin Company. This transfer, which was duly made,

was subject to the condition that the trustee should execute an agreement which had been made in 1934 between the appellant and two of his brothers who were shareholders in the Malkin Company, and which was a share pooling agreement. The trustee was to become bound by that agreement with respect to the second preference shares transferred by the appellant.

(3) That certain named life insurance policies, six in number, on appellant's life, in the total amount of $43,394 and which were in existence at the date of the trust agreement, should be assigned to and held by the trustee upon the trusts of the agreement; the policies were accordingly assigned by the appellant to the trustee.

(4) That the appellant was to borrow on the security of two of such insurance policies issued by the Great West Life Assurance Company, such sum or sums of money as that company might be willing to lend, and to pay to the trustee the moneys so borrowed with such further moneys of the appellant as would enable the trustee to pay the single premiums necessary to enable the trustee to acquire further fully paid insurance for $50,000 on the life of the appellant, such insurance to be applied for either by the appellant or by the trustee as might be found convenient. This covenant of the appellant was duly carried out. The other life insurance policies were left intact.

(5) That the appellant was to apply for insurance on his life in the further amount of $65,000, making the same payable to the trustee, or making the trustee a preferred beneficiary thereunder as trustee for the children of the appellant. The appellant took out this further insurance of $65,000 and assigned the same to the trustee, the latter paying the premiums thereon.

All the property and assets above mentioned constitute what is called the Trust Estate, and the trust agreement provides for the distribution of the estate among the four children of the appellant, after his death. From the income of the trust estate the trustee was to pay the insurance premiums, and the expenses incidental to the upkeep of Southlands, it being empowered to borrow money if necessary to do so, should the trust income be insufficient. The trust agreement further provided that the trustee as registered holder of the second preference shares, should

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give to the appellant an irrevocable proxy entitling him to vote upon the said shares in the Malkin Company during his lifetime, at any and all meetings of that company; in the event of the income of the trust estate exceeding the outlay required in the execution of the trust the trustee was to accumulate so much thereof as it thought expedient as a reserve against possible diminution of revenue in following years and after making such reserve from time to time should pay the balance of the revenue in equal shares to the appellant's four children, annually, semi-annually, or quarterly as the trustee might decide; the trustee if requested in writing at any time by the appellant was required to pay or transfer the trust estate, or any part thereof, to the four children of the appellant, in equal shares; the trustee was to be at liberty if it thought fit so to do (but only with the appellant's consent during his life) to join with other shareholders of the Malkin Company in any sale either of the business and assets of that company or of the shares hereinbefore mentioned or some of them, for such price and upon such terms as the trustee thought wise, the proceeds of any such sale to become a part of the trust estate; the trustee was empowered to enter into any pooling arrangement, for certain defined purposes, with any or all of the shareholders of the Malkin Company, and any such pooling arrangement which the appellant might propose and which he might himself agree to join in, the appellant still being the holder of shares in the Malkin Company other than those transferred to the trustee; the trustee was to invest such money as it had in hand from time to time, in such investments as should be designated by the appellant during his life, and so far as the appellant did not designate investments, in any investments authorized by law for trustees; the appellant was empowered from time to time during his life to appoint a new trustee, other than himself, by instrument in writing or by will; and upon and after the death of the appellant the trustee was to divide the trust estate into four equal shares and pay or transfer the same to or amongst the appellant's four children, or their representatives.

There was no accumulation of income from the trust and the point in issue is solely whether the income of the trust was properly assessed against the appellant. The only income received by the trustee during the taxation period in question was the dividends from the second preference shares of the Malkin Company registered in the name of the trustee, amounting to $6,400, the whole of which was assessed against the appellant. The disbursements made by the trustee altogether amounted to $8,586.27 of which $5,560.18 was disbursed on account of the life insurance premiums, and $3,026.09 on account of taxes, water rates, and the maintenance and repairs of Southlands. The disbursements therefore exceeded the trust income by over $2,000.

It was contended on behalf of the Minister that the trustee is required to apply the trust income in payment of what were essentially the personal and living expenses of the appellant. It was urged that there was no effective alienation of the second preference shares in the Malkin Company to the trustee and that the income therefrom was really the appellant's income and was expended for his benefit, and, in support of this view, attention was directed, *inter alia,* to those provisions of the trust instrument which state that the shares in the Malkin Company, transferred to the trustee, are subject to a pooling agreement made between the appellant and two of his brothers who were also shareholders in the Malkin Company, that the appellant retains by an irrevocable proxy the voting power of the said shares during his life, and that the said shares can be sold only with the appellant's consent during his life. Then, it was pointed out that the trustee may make investments only in such investments as are designated by the appellant during his life, that the trustee on the request of the appellant shall pay or transfer the whole or any part of the trust estate to the children of the appellant in equal shares, and that the appellant retains the right to appoint by instrument in writing, or by will, a new trustee, in place of the trustee appointed under the trust agreement or in addition thereto.

Substantially, the contention advanced on behalf of the appellant is that the trust is absolutely irrevocable and that he can never recover back his property, nor is there any provision for his receiving any income therefrom; that the appellant occupied Southlands only under the revocable permission of the trustee and his children, and that the

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upkeep of Southlands is not a personal and living expense of the appellant under s. 3 (*e*) of the Act; that the proxy gives the appellant no control over the trust and merely gives him the right to vote on the shares, with his brothers, for the mutual benefit of the whole Malkin family including the beneficiaries of the trust; that any power or control given the appellant by the trust agreement is not ownership and does not alter the position of the property, nor does it divert the income from one person to another; that the power to change the trustee, or to add a further trustee, does not make the trust property the property of the appellant; that the right to designate the form of any investment of the trust income is not in substance a control of the trust estate, and is not such a control as would give the appellant ownership or possession of the trust estate; and that the income received in respect of the Malkin Company shares is received not for the benefit of the appellant but for his four children.

The provisions of the Income War Tax Act relied upon to sustain the assessment in question are sections 3 (*e*) and 11. The former provides:—

For the purposes of this Act, "income" means the annual net profit or gain or gratuity, whether ascertained and capable of computation as being wages, salary, or other fixed amount, or unascertained as being fees or emoluments, or as being profits from a trade or commercial or financial or other business or calling, directly or indirectly received by a person from any office or employment, or from any profession or calling, or from any trade, manufacture or business, as the case may be whether derived from sources within Canada or elsewhere; and shall include the interest, dividends or profits directly or indirectly received from money at interest upon any security or without security, or from stocks, or from any other investment, and, whether such gains or profits are divided or distributed or not, and also the annual profit or gain from any other source including (*e*) personal and living expenses when such form part of the profit, gain or remuneration of the taxpayer.

Sec. 11 reads:—

The income, for any taxation period, of a beneficiary of any estate or trust of whatsoever nature shall be deemed to include all income accruing to the credit of the taxpayer whether received by him or not during such taxation period.

On behalf of the appellant it was argued that his occupancy of Southlands was not related to any "personal and living expenses" incident to any salary, wages, emoluments, profit or gain, earned or received by the appellant, and that the appellant is not in fact or in law a "beneficiary" under the trust instrument, or within the meaning of s. 11 of the Act.

It seems to me that this appeal resolves itself into the question whether the whole income of the trust is taxable against the appellant, and that the matter of the occupancy of Southlands by the appellant may be entirely dismissed from consideration. If the appellant is not liable for the tax upon the income in question it is, of course, unnecessary to decide if any other person is liable therefor. It seems quite clear that s. 3(*e*) of the Act contemplates a situation where the taxpayer, for services rendered, receives as salary or remuneration (1) money, and (2) something in addition to the money by way of either (*a*) a living allowance in money, or (*b*) the free use of premises for living purposes, or (*c*) some other allowance or perquisite, all or any of which may as a matter of sense and right be considered as part of the gain, salary or remuneration of the taxpayer. Southlands was owned only in part by the appellant before the trust deed was entered into. His use of it thereafter was permissive; he had no legal right to demand occupation of it and it could be sold or rented over his head at any time by the trustee and he would have no legal right to register an objection; nor was the trustee bound to furnish the appellant with another residence, or a sum of money in lieu of Southlands. We must assume that Southlands had been owned by Mrs. Malkin for some time before her death—there is no evidence of how long—and there is no evidence that she had acquired it in any way other than by the expenditure of her own money; and there is no evidence that the appellant ever owned it. Because of the law of devolution of estates, the appellant, on the death of his wife, intestate, became the owner of an undivided one-third interest only in the property. There is nothing to show that he got possession of Southlands, or was allowed to live in it, because he was a salaried employee, manager or officer of the Malkin Company, or that, after the date of the trust deed, he got possession for any reason other than the good will of his children and the accession thereto of the trustee. I was referred to certain English cases such as *Sutton* v. *The Commissioners* (1), and *Tollemache* v. *The Commissioners* (2). I have carefully considered these cases but I do not think they are of any assistance here. The corre-

(1) (1929) 14 Tax Cases 662. (2) (1926) 11 Tax Cases 277.

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sponding English Act specifically imposes the tax upon property in, and the occupation of, all lands, tenements, hereditaments and heritages, in the United Kingdom. The scheme of the English Act is to tax occupiers as well as owners of land, and as Russell L.J. said in *Shanks* v. *The Commissioners* (1). "According to the provisions of the Income Tax Act, a person in returning his total income from all sources ought, in my opinion, to include as part thereof something in respect of land the annual value of which he has enjoyed during the year in question." I do not think the appellant is taxable under s. 3 (*e*) for his occupancy of Southlands during the taxation period in question. If justification to tax the appellant is sought in the word "emoluments" in the general definition of "income," it cannot be said that such "emolument," namely, the occupation of Southlands, is one "directly or indirectly received by any person from any office or employment, or from any profession or calling, or from any trade, manufacture or business." The dictionaries define "emoluments" as fees, salary, reward, remuneration, perquisites, profit or gain, arising from station, office, employment or labour. Nowhere does the Canadian Act attempt to tax the property in, and the occupation of, land. And so I think all the debate arising from the occupancy of Southlands, and s. 3 (*e*) of the Act, may be dismissed. I am not overlooking s.s. 5 of s. 11 of the Act, as enacted by Chap. 55 of the Statutes of Canada, 1934. But there is no question here of a tenancy for life in respect of Southlands, and, in any event, the Minister has not, I think, put himself in a position to avail himself of this provision of the Act, and in fact it was not advanced by counsel for the Minister.

It will be convenient to add just here that I was referred to the judgment of the Supreme Court of the United States in the case of *Commissioner of Inland Revenue (Burnet)* v. *Wells* (2). A careful examination of this case will show that it is not of any relevancy here. There the settlor assigned to the trustee certain shares of stock, and the trust income was to be used to pay the annual premiums upon policies of insurance on the life of the settlor for

(1) (1928) 14 Tax Cases 249 at p. 269.
(2) (1933) 289 U.S.R. 670.

named beneficiaries. But there the United States Revenue Act provided that when an irrevocable trust was established to pay for insurance on the settlor's life, collect the policy upon his death, and hold or apply the proceeds, under the trust, for the benefit of his dependents, income of the trust fund used by the trustee in paying the premiums, was taxable to the settlor as part of his income. There is therefore no similarity between that case and the one under discussion.

It was urged upon me that the various provisions of the trust agreement indicated that the trust estate was in reality created for the benefit of the appellant and that the settlement was nothing more or less than an ingenious attempt on the part of the appellant to avoid taxation. This contention was not in terms mentioned in the decision of the Minister, or in the statement of defence filed on his behalf, and it is purely an inference drawn from particular provisions of the trust instrument itself, and which I have already mentioned. But even if the purpose and effect of the trust settlement were to avoid some of the burden of taxation, the appellant being assessed over $10,000 on other income for the same period, that would not sustain the assessment in question if it were not clearly authorized by the taxing statute. A statute levying a tax cannot be extended by implication beyond the clear import of its terms, and the terms of a taxing statute cannot be extended to frustrate the efforts of a taxpayer to avoid taxation, for example, by a trust settlement. In the case of *Commissioners* v. *Fisher's Executors* (1), Lord Sumner said:—

My Lords, the highest authorities have always recognized that the subject is entitled so to arrange his affairs as not to attract taxes imposed by the Crown, so far as he can do so within the law, and that he may legitimately claim the advantage of any express terms or any omissions that he can find in his favour in taxing Acts. In so doing he neither comes under the liability nor incurs blame.

In *Duke of Westminster* v. *Commissioners* (2), Lord Atkin said:—

It was not, I think, denied—at any rate it is incontrovertible—that the deeds were brought into existence as a device by which the respondent might avoid some of the burden of surtax. I do not use the word device in any sinister sense, for it has to be recognized that the subject, whether poor and humble or wealthy and noble, has the legal right so to

(1) (1926) A.C. 395 at 412 and 10 Tax Cases 302 at 327 and 340.
(2) (1936) A.C. 1 at 7 and 8.

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dispose of his capital and income as to attract upon himself the least amount of tax.

In the course of the same case, Lord Tomlin said:—

Every man is entitled if he can to order his affairs so that the tax attaching under the appropriate Acts is less than it otherwise would be. If he succeeds in ordering them so as to secure this result, then, however unappreciative the Commissioners of Inland Revenue or his fellow taxpayers may be of his ingenuity, he cannot be compelled to pay an increased tax.

The late Mr. Justice Holmes, discussing the same point, in *Bullen* v. *Wisconsin* (1) said:—

We do not speak of evasion, because, when the law draws a line, the case is on one side of it or the other, and if on the safe side, it is none the worse legally that a party has availed himself to the full of what the law permits. When an act is condemned as an evasion, what is meant is that it is on the wrong side of the line indicated by the policy if not by the mere letter of the law.

In *Ayrshire Pullman Motor Service* v. *Commissioners* (2), the Lord President of the Scottish Court of Sessions said:—

. . . . No man in this country is under the smallest obligation, moral or other, so to arrange his legal relations to his business or to his property as to enable the Inland Revenue to put the largest possible shovel into his stores. The Inland Revenue is not slow—and quite rightly—to take every advantage which is open to it under the taxing statutes for the purpose of depleting the taxpayer's pocket. And the taxpayer is, in like manner, entitled to be astute to prevent, so far as he honestly can, the depletion of his means by the Revenue . . .

To say that the appellant by the trust settlement sought to avoid taxation does not by itself afford an answer to the appellant's case. It is hardly necessary to say, using the precise language of Lord Cairns in the case of *Partington* v. *Attorney-General* (3), that if the Crown, seeking to recover the tax, cannot bring the subject within the letter of the law, the subject is free, however apparently within the spirit of the law the case might otherwise appear to be. In other words, if there be admissible in any statute, what is called an equitable construction, certainly such a construction is not admissible in a taxing statute, where you can simply adhere to the words of the statute. The language of the Income War Tax Act is so exact, expressed with such particularity, that it negatives the suggestion of any intent on the part of the legislature to go outside the field described.

(1) (1916) 240 U.S.R. 625 at 630 and 631.

(2) (1929) 14 Tax Cases 754 at 763.

(3) (1869) L.R. 4 H.L. 100 at 122.

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There then remains the question whether the appellant is taxable upon the trust income under any provision of the Act, other than s. 3 (*e*). If the appellant is taxable it must be under the first part of s. 11 of the Act. A "beneficiary" is one for whose benefit property is held by trustees or executors, and I do not think it can be successfully urged that the appellant is a "beneficiary" in the sense intended by s. 11. The beneficiaries under the trust here are ascertained persons, the children of the settlor. I do not think that s. 11 is to be construed as authority to tax the income of a trust as part of the income of the settlor of the trust, where there are beneficiaries and they are ascertained. It seems to me impossible to hold that the appellant is a "beneficiary" under the trust and within the meaning and intention of the Act. The real purpose for enacting s. 11 ss. 1 was to make "income" include "all income" accruing to the credit of a beneficiary of an estate or trust whether received by him or not, for any taxation period. My conclusion is that in the facts and circumstances here the statute does not authorize the tax levied against the appellant.

The appeal is therefore allowed with costs.

Judgment accordingly.

1937 Sept. 20.

1938 Aug. 27.

BETWEEN:

CLARENCE E. SNYDER................APPELLANT;

AND

MINISTER OF NATIONAL REVENUE..RESPONDENT.

AND

WILLIAM E. APPLEGATE..............APPELLANT;

AND

MINISTER OF NATIONAL REVENUE..RESPONDENT.

Revenue—Income tax—Proceeds from production of oil well charged with payment of cost of drilling paid to contractor upon instructions of person entitled to proceeds—Income—Liability for tax.

Appellants, sub-lessees of Sterling Pacific Oil Company Ltd., were granted a licence, subject to certain conditions, to drill an oil well on certain land in the Province of Alberta, and to operate the same. Appellants assigned this lease to Sterling Royalties, Ltd., which undertook to perform the conditions of the original lease and to drill the well,

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paying therefor by the sale of units of production to the public, and to transfer to appellants the remaining units of production. In pursuance of this agreement, Sterling Royalties, Ltd., entered into an agreement with one, Head, to drill the well, and to pay him therefor in accordance with the terms of the agreement.

Sterling Royalties, Ltd., failed to sell sufficient units of production to pay the full contract price to Head for completion of the well. The remaining units of production were transferred to appellants who agreed that those units of production should be charged with the payment of the balance of Head's contract price, contingent upon the well being a producing one, and which units of production were pooled by appellants for that purpose. The well was completed and the sum of $16,333 50 paid by Sterling Royalties, Ltd., to Head. The amount was deducted from the proceeds derived from the pooled units of production.

The Commissioner of Income Tax assessed this amount of $16,333.50 for income tax purposes, the assessment being confirmed by the Minister of National Revenue. The appellants appealed.

Held: That the payment to Head by Sterling Royalties, Ltd., on instructions of appellants, was a payment made at the request of appellants out of income, and appellants are liable for the tax.

APPEALS, under the provisions of the Income War Tax Act, from the decision of the Minister of National Revenue.

The appeals were heard before the Honourable Mr. Justice Maclean, President of the Court, at Calgary, Alberta.

H. S. Patterson, K.C. and *A. W. Hobbs* for appellants.

C. J. Ford, K.C. and *J. R. Tolmie* for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT, now (August 27, 1938) delivered the following judgment:

These appeals from the decision of the Minister of National Revenue affirming assessments for income tax levied against the appellants, for the year 1934, were heard together, but evidence was heard in the case of the appellant Snyder only. Paragraphs 3, 4, 5 and 7 of the statement of claim were abandoned at the trial.

On June 1, 1933, the appellants Snyder and Applegate, and one Wilkinson (hereafter referred to as "the appellants"), entered into an agreement with Sterling Pacific Oil Company Ld. (hereafter to be called "Pacific Oil Company") whereby the former were granted a licence, which I shall refer to as a "lease," to drill one oil well on certain lands in the Province of Alberta, to operate the

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same, and to dispose of any petroleum products and gas if recovered therefrom in commercial quantities, upon the covenants, conditions and stipulations, in said agreement set forth. I might here add that one Elves later became associated with the appellants in the undertaking. The Pacific Oil Company leased the said lands from The Calgary & Edmonton Corporation Ld., here called "the Head Lessor," the latter corporation being the successor in title, by lease, to The Calgary & Edmonton Land Company Ld., and which lease is hereinafter referred to as "the Head Lease." It was a term of the lease from Pacific Oil Company to the appellants that the latter should pay to the former "a royalty in cash" of one-eighth of the current market value at the time and place of production of all the oil and gas produced and saved from the leasehold, this being the royalty payable by Pacific Oil Company to the Head Lessor, and similarly a royalty in cash of one-tenth of all the oil and gas produced and saved, to Pacific Oil Company. The first mentioned royalty was to be paid to the designated agents of the Head Lessor, and the second mentioned royalty to Pacific Oil Company.

In several agreements put in evidence, the terms "royalties" and "units of production" seem to be employed synonymously as denoting a share in the production of the oil well to be drilled, each unit being one per cent of production. I do not think it is correct here to use interchangeably the words "royalties" and "units of production." In the lease from Pacific Oil Company to the appellants the latter obligated themselves to pay to the former, and the Head Lessor, a "royalty in cash" representing certain proportions of the market value of "all" the oil or gas produced or saved from the leased area, and that means the gross amount of oil or gas produced or saved. There, the term "royalty" is, I think, appropriately used and it means that fixed proportions of the value of the gross production were to go to Pacific Oil Company, and the Head Lessor, and they are the equivalent of rents for the leased area. In another agreement, to which I shall presently refer in some detail, between the appellants and Sterling Royalties Ld., reference is made to the sale of "royalties or units of production." In practice, I should think that when one speaks of the sale of "units of pro-

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duction" it means the sale of a right to participate in the production of an oil well, after the distribution of any royalties payable out of gross production; and, I assume, after payment of all costs of production; in reality it means the right of unit-holders to participate in the net production of an operating company, in the proportion in which they each hold units of production in the operating company, or otherwise as determined. In such cases the obligation of the operating company might be fulfilled by delivery over of oil itself, in barrels or in the unit of measure in which it is quoted, sold and delivered, in the market. Now that, I think, is something different from a "royalty." In practice, I assume the production is sold at the current market price, and what is paid over or divided is the proceeds of such sales. I think there is a distinction between a "royalty" and a "unit of production," in this case at least, and while possibly this distinction is not of very great consequence yet it will perhaps assist in a correct understanding of the exact state of facts here.

The lease from Pacific Oil Company to the appellants was, on June 1, 1933, with the consent of Pacific Oil Company, assigned by the appellants to Sterling Royalties Ld., which company agreed to assume and carry out all the covenants and obligations of the appellants under their agreement with Pacific Oil Company, and in consideration of such assignment the appellants were to receive 3,450 fully paid shares in the capital stock of Sterling Royalties Ld. to be divided among Wilkinson, Snyder, Applegate and Elves, in the proportions mentioned in the written instrument assigning the lease. This agreement provided:

It is understood that the Party of the Second Part (Sterling Royalties Ld) will proceed forthwith to sell sufficient royalties or units of production for such an amount and in such manner and on such terms and conditions as will secure the drilling of a well on the property hereinbefore mentioned, according to the terms of the said agreement. It being agreed between the parties hereto and the Parties of the First Part as between themselves hereby agreeing, that after the sale of sufficient royalties or units of production as aforesaid, the royalties or percentages of production remaining shall be divided among the Parties of the First Part and Fred. Elves in the proportion to the shares held by each in the Company as hereinbefore set out; said royalties to be considered as part of the consideration for the sale, transfer and assignment of the said contract as hereinbefore set out. The Company holding the lease, drilling the well and operating the same for such consideration as may be agreed upon between the Company and a Trustee for the unit holders.

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It is further understood and agreed that the remaining royalties above mentioned and hereby agreed to be transferred to the Parties of the First Part and Fred. Elves, or the proceeds therefrom shall bear certain costs and charges mutually agreed upon between the Parties of the First Part and Fred. Elves, including the sum of Fifteen thousand ($15,000) Dollars, part of the price of drilling the well which it is proposed to pay to Hilary H. Head, drilling contractor, from production in an agreement now being negotiated with him.

From the last recited paragraph of the agreement, it will be seen that after selling such units of production as would secure the drilling of the well—and after payment of the "royalties" of course—the remaining units of production were to be transferred to the appellants, and that the remaining units of production so transferred, or the proceeds therefrom, should bear certain "costs and charges," including that part of the cost of drilling the well which was to be paid from production. At the date of this agreement negotiations were under way with one Hilary H. Head to drill the well, and, as will shortly appear, a portion of the cost of drilling the well was to be paid from production.

An agreement between Head and Sterling Royalties Ld. was subsequently entered into, wherein Head agreed to drill the well according to the terms and conditions therein set forth, for which he was to receive as consideration therefor the sum of $30,000, one-half of which, $15,000, was to be paid in cash in monthly instalments, and as to the balance the agreement provided:

The remaining balance, namely, Fifteen thousand ($15,000) Dollars, is to be paid out of the sale of production at the rate of Two thousand ($2,000) Dollars per month, but not to exceed forty per cent (40%) of the net production coming to the Owner after the payment of all royalties in connection with the said wells.

In passing I might observe that in this recited paragraph a distinction is apparently made between the sale of "production" and the payment of "royalties." The agreement also provided that if Head were successful in placing eight-inch casing at the depth of five thousand feet, as in the agreement specified, he should receive a bonus of $2,500, also payable from production. This is not, I think, of any special significance in respect of the issue to be determined.

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The Trusts and Guarantee Company Ld. was selected as a Trustee, and in an agreement between Sterling Royalties Ld. and the Trustee, dated June 24, 1933, the former agreed to pay to the Trustee for the holders or purchasers of royalties or percentages or units of production, a royalty in cash at the current market value at the time and place of production of all the petroleum, natural gas, gasoline gas and petroleum products, recovered from the well during the unexpired residue of the term of years of the lease, and every renewal thereof, and the agreement states that the same were to be " . . . subject to the payment of Twelve and one-half (12½%) per cent. of the gross production to The Calgary and Edmonton Land Corporation Ld.; Twelve and one-half (12½%) per cent. of the gross production to the Sterling Pacific Oil Company Ld.; Eight (8%) per cent. of the gross production to the Northwest Company Ld. and all costs and expenses necessary for taking care of the production obtained from the said well, such payments to be made on or before the 20th day of the month next following the month for which the said royalty or production is payable. Such payment to represent Sixty-seven (67%) per cent. of production after deducting expenses and costs of producing the well." I am unable to explain the introduction of the Northwest Company Ld. but I assume that is capable of easy explanation.

In February, 1934, an agreement was entered into between the appellants, the Parties of the First Part, and Sterling Royalties Ld. the Party of the Second Part. At this date it appears that the well had been brought into production, certain units of production had been sold from which Head had been paid the first instalment of his contract price, and the remaining units or percentages of production had been transferred to the appellants. This agreement recites that under the agreement of June 1, 1933, between the same parties, it was agreed that after the sale of sufficient royalties to secure the drilling of the well, the remaining royalties or units of production were to be divided among the appellants as part of the consideration for their assignment of the lease to Sterling Royalties Ld.; and that it was agreed that certain costs and charges now amounting to approximately $20,000—but which turned

;o be $16,333.50—should be borne by the appellants, ɔich was included the sum of $15,000 which was to be to Head out of production. The agreement then pro- ;:

The Parties of the First Part hereby agree to pool their royalties :centages of production for the purpose of paying all costs, charges xpenses agreed to be paid by them and amounting to approximately ty thousand ($20,000) Dollars, the details and items of which said nt are well known to each of the Parties of the First Part, and .e the bonus of Fifteen thousand ($15,000) Dollars payable to Hilary ɘad under a drilling agreement with him dated 7th June, 1933

. The Parties of the First Part further agree to pool the proceeds ɘ said royalties or percentages of production for the purpose of pay- ıe said costs and charges.

. That the proceeds derived from the said royalties be paid to the of the Second Part for the purpose of paying the said costs and ɘs as hereinbefore set out

. That the production of this agreement, or a copy thereof, to The s and Guarantee Company Limited, shall be sufficient warrant and ·rity for that company to pay to the Party of the Second Part the eds of the said royalties held by the Parties of the First Part as ıbefore agreed, and for the purpose herein set forth; this agreement nain in full force and effect until all the said costs and charges afore- have been paid in full and until this agreement is determined and ırged by a majority vote of the shares held by the Parties of the Part in the Party of the Second Part.

his agreement, it will be perceived, provides for a pool- ɔf the remaining units of production, which, it is agreed, been allotted and transferred to the appellants, for the ɔose of liquidating the indebtedness due Head for drill- namely, $16,333.50, and which amount was a charge ı such "remaining units or percentages of production" ɔh came, or were coming, to the appellants; and the ement authorized the Trustee to pay to Sterling Royal- Ld., from the proceeds of such pooled units of produc- , sufficient to liquidate the indebtedness to Head, that he "costs, charges and expenses" which the appel- s had agreed to pay. Whether the full amount of 333.50 was payable to Head, or whether a portion of ɾas payable to other creditors, is not clear, but appar- y nothing turns upon that.

ow what emerges from all this? The appellants ac- ed the leased area from Pacific Oil Company. They gated themselves to drill a well thereon. Then the ɘllants assigned the lease to Sterling Royalties Ld. latter undertook to drill the well, to sell sufficient units ɾoduction for securing the necessary amount of capital

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to pay for the drilling of the well, to pay over to the Head Lessor and others certain stated royalties, and to transfer to the appellants the remaining units of production. The undertaking was to be financed from the sale of units of production and not from the sale of shares in Sterling Royalties Ld., and any profits and gains derived from the undertaking were to be distributed among the holders of units of production as their several interests would appear. Sterling Royalties Ld., which was controlled if not wholly owned by the appellants, did not sell the requisite number of units of production wherefrom to pay Head his full contract price for drilling the well. It is to be inferred from the evidence that, after Head was paid in cash the first instalment of his contract price, from sales of units of production to the public I assume, the remaining units were transferred to the appellants, amounting it appears to $30\frac{1}{2}$ per cent of the entire units of production. But those units of production were charged with the payment of the second instalment of Head's contract price, the appellants having agreed to pay the same, and which payment was contingent upon production. As payment of the last instalment of Head's contract price was contingent upon production, the transfer of the remaining units to the appellants, subject to a charge for the payment of the said instalment, would seem a convenient arrangement to adopt in the circumstances, in fact some such arrangement was imperative on account of sufficient units of production not having been sold to the public, prior to the transfer of the remaining units to the appellants. After the said transfer Sterling Royalties was without any source of income. But it was only the units of production transferred to the appellants that were made liable for this charge. The appellants were under covenant to Pacific Oil Company to drill the well, and, as the real promoters of the undertaking, they were interested in establishing whether or not the leased area was likely to produce oil or gas in commercial quantities, and if successful in that regard, in making provision for the payment of the second instalment of Head's contract price. Accordingly they agreed that their units of production should be charged with the payment of that portion of Head's contract price. This has every appearance of saying that if the well came into production

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the payment of the last instalment of Head's contract price was to be taken from the proceeds derived from the appellants' units of production, that is, from the proceeds or income distributable among the appellants from the sale of any production belonging to them. The appellants therefore having agreed to pay any "costs and charges" becoming due and owing to Head, then believed to be approximately $20,000, they later agreed with Sterling Royalties Ld. that their individual units of production so charged should be pooled for the purpose of paying from any proceeds or income therefrom any costs and charges owing Head; and the Trustee was authorized to pay to Sterling Royalties Ld., from such source, such sum as would liquidate the indebtedness to Head on account of his drilling contract. Such proceeds would therefore come from any net production credited to or distributable among the appellants from the units of production held by them. In the result, the proceeds of the units of production transferred to the appellants, and pooled, were diminished by such an amount as was necessary to pay the balance of Head's claim, and while that portion of such proceeds, amounting to $16,333.50, never came into the hands of the appellants, yet the same was paid over to Head by Sterling Royalties Ld., upon the direction of the appellants. Virtually it was a payment made by the appellants. The claim now made on behalf of the Crown is that the appellants are liable for the income tax upon that portion of the proceeds derived from their pooled units of production which was applied in settlement of Head's claim, and which it is asserted was income received by the appellants. The appellants contend that they did not receive all the proceeds of such pooled units of production, but only in a diminished amount, the difference being expressed by the sum of $16,333.50 paid to Head, and that they should not be taxed therefore on something which they never received.

The point for determination is not free entirely from difficulties, but the contention of the Crown must, I think, prevail. The appellants were the holders of the remaining units of production, and having undertaken that their units of production should bear the "costs and charges" in question they agreed that there should be taken from the proceeds of their pooled production units sufficient to

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pay the claim of Head, which was, I think, a payment made at the request of the appellants out of income coming to them as the holders of their units of production. This was merely saying: "You, Sterling Royalties Ld., pay out of any proceeds coming to us from our pooled units of production sufficient to pay the balance of Head's contract price for drilling the well." The second instalment of the drilling contract price could only come from the proceeds of the units of production held by the appellants, and not from the units of production held by others, because, as already stated, no further units then remained in the hands of Sterling Royalties Ld. or the Trustee. It was a part of the consideration for the assignment of the lease to Sterling Royalties Ld. that the units of production transferred to the appellants should be charged with the payment of the second instalment of Head's contract price, if the well came into production. The source of the payment to Head was in the nature of a dividend, or a profit or gain, earned and distributable to the appellants from their production units, in the proportions in which each held shares in Sterling Royalties Ld. The payment to Head might be regarded as being in the nature of a capital investment made by the appellants from income derived from their units of production, and which investment the appellants had agreed to make if the well came into production. In effect it increased the equity of the appellants in the undertaking which otherwise would have been less by that number of units of production represented by $16,333.50. It is not correct therefore, I think, to say that the appellants never received consideration for that which was paid to Head; they received, or there was available for distribution among them, $16,333.50, as part of their share in earned proceeds of production; but, upon their order that sum was paid over to Head to liquidate a debt due him which increased their equity in the net proceeds of production available for future distribution among unit holders; it, at least, released the charge or encumbrance recorded against their holdings of units of production in the books of the Trustee and restored the full face value of the same, and this was done by the application of their own income received from production. If the requisite number of units to produce $16,333.50 had been subscribed for by members of the public any payments made thereon by subscribers could not have been claimed as an allowable deduction in assessing income tax. And the situation is, I think, analogous so far as the appellants are concerned; because they directed that so much of the income payable or distributable to them from their units of production be diverted to Sterling Royalties Ld. by the Trustee, to liquidate a debt owing to Head by Sterling Royalties Ld., and which was incurred for capital purposes. The transaction might also be regarded as the purchase from income of Head's right to the proceeds of a certain amount of production. The appellants purchased from Head, his right to certain proceeds of production, from their own income, so as to avoid the sale of any of their units of production to the public. The amount owing Head on the second instalment of his contract price was to come from the sale of production, it was payable contingent upon production, and the appellants agreed from the first that, if production came, their units of production, that means any proceeds or income derived therefrom, would stand charged with the payment of that amount. If payment of that portion of Head's contract price is not to be treated as purely an obligation of the appellants then, it seems to me, the public which had purchased other units would be unfairly treated because it was not their obligation to pay any part of this debt from the proceeds of their production units; this, I think, the appellants never contemplated because they plainly agreed that any amount owing Head on account of the second instalment of his contract price would be charged only against their right to any income distributable from production.

The income from which Head's claim was paid came directly from the sale of production belonging to the appellants, which, it seems to me, is just the same as if it came from any other income which they might have received and possessed. Whatever the form which the payment to Head took, the source of the payment must, I think, be treated as the income of the appellants, as in substance, I think it was. That being so I do not think it was a disbursement for which any deduction may properly be claimed. The appeal is therefore dismissed. In all the circumstances here I do not think there should be any order as to costs.

Judgment accordingly.

1937 BETWEEN:

Sept. 27 & 28. W. R. WILSON ....APPELLANT;

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MINISTER OF NATIONAL REVENUE...RESPONDENT.

Revenue—Income—Income War Tax Act, s. 1 (i), s. 2 (e), s. 5 (a), s. 6 (a), s. 21 (1, 2 & 3), s. 35 (3)—Premiums received on dividends paid in U.S. funds by mining company constitute "income derived from mining"—Personal corporation—"Disbursements or expenses not wholly exclusively and necessarily laid out or expended for the purpose of earning the income"—Consolidated return—Subsidiary company—Companies not carrying on same class of business—Liability for tax.

Appellant was the principal shareholder in Wilson Mining & Investment Company Ltd., a personal corporation within the meaning of the Income War Tax Act. The company was incorporated in 1929 to acquire the interest of appellant and members of his family in mines, mining lands, companies and ventures, and investments generally in Canada and foreign countries; to carry on *inter alia* the business of a mining and investment company. For the taxation period in question the investments returned by the company had been transferred to it by appellant pursuant to an agreement entered into on September 8, 1931, for a consideration of 45,000 fully paid shares in the company. The income of the company for the same period was derived principally from bonds, dividends paid by Premier Gold Mining Company and premiums upon dividends paid by that company in United States funds.

The appeal is from the decision of the Minister of National Revenue affirming an assessment for income tax levied against the appellant for the 1932 taxation period. There are three grounds of appeal: (1) the disallowance of an operating loss sustained by Pleasant Valley Mining Company, all the shares of which (less directors' qualifying shares) were owned by Wilson Mining & Investment Company Ltd. and which carried on the business of mining coal only; (2) disallowance of a certain sum of money claimed as expenses incurred by the Wilson Mining & Investment Company Ltd. in exploration, prospecting and development work in connection with various mining properties, claims or prospects; (3) the refusal to allow an exemption or deduction for depreciation, authorized in the case of income derived from mining by s. 5 (*a*) of the Act, from the amount received as premiums on the dividends paid by Premier Gold Mining Company.

Held: That the premium received from the dividends paid in United States funds is income derived from mining and the depreciation authorized by s. 5 (*a*) of the Act should be deducted therefrom.

2. That the expenses incurred by the Wilson Mining & Investment Company Ltd., in prospecting, exploration and assessment work were not expenses incurred for the purpose of earning the income in question and consequently were not deductible for taxation purposes.

3. That the Wilson Mining & Investment Company Ltd. and the Pleasant Valley Mining Company Ltd. were not carrying on the same class of business within the meaning of s. 35 (3) of the Act, and, conse-

quently it was not permissible for the Wilson Mining & Investment Company Ltd. to file a consolidated profit and loss statement covering both companies.

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APPEAL, under the provisions of the Income War Tax Act, from the decision of the Minister of National Revenue.

The appeal was heard before the Honourable Mr. Justice Maclean, President of the Court, at Vancouver, B.C.

A. R. MacDougall for appellant.

Dugald Donaghy, K.C. and *J. R. Tolmie* for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT, now (September 8, 1938) delivered the following judgment:

This is an appeal from the decision of the Minister of National Revenue, affirming an assessment for income tax levied against W. R. Wilson, the appellant, for the 1932 taxation period. The appellant died in 1937 and the appeal is carried on by the executors of his will. The appellant was assessed for the tax in respect of the income of Wilson Mining & Investment Company Ltd., which company, it was agreed by counsel, is a "personal corporation" within the meaning of the Income War Tax Act. Sec. 21 of the Act provides that the income of a "personal corporation," whether actually distributed or not, shall be deemed to be distributed each year as a dividend to the shareholders. Prior to the date of his death Wilson was the principal shareholder in Wilson Mining & Investment Company Ltd. (referred to hereafter as "the Wilson Company") which had its head office at Vancouver, B.C.

Sec. 1 (*i*) of the Act defines a "personal corporation" as follows:

(*i*) "personal corporation" means a corporation or joint stock company irrespective of when or where created, whether in Canada or elsewhere, and irrespective of where it carries on its business or where its assets are situate, controlled, directly or indirectly, by one individual who resides in Canada, or by one such individual and his wife or any member of his family, or by any combination of them or by any other person or corporation or any combination of them on his or their behalf, and whether through holding a majority of the stock of such corporation or in any other manner whatsoever, the gross revenue of which is to the

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extent of one-quarter or more derived from one or more of the following sources, namely:—

(i) From the ownership of or the trading or dealing in bonds, stocks shares, debentures, mortgages, hypothecs, bills, notes or other similar property,

(ii) From the lending of money with or without security, or by way of rent, annuity, royalty, interest or dividend, or

(iii) From or by virtue of any right, title or interest in or to any estate or trust.

It will be seen that a "personal corporation" is one controlled, directly or indirectly, by a single individual, or by such individual and members of his family, the gross revenue of which is to the extent of twenty-five per cent derived from the sources mentioned in sub-clauses (i), (ii) and (iii). Sec. 2 (*e*) defines "gross revenue," where a personal corporation has revenue from more than one source, as the sum of the net profits from each source. Sec. 21 comprises several provisions in respect of "personal corporations" and subs. 1, 2 and 3 are as follows:

21. The income of a personal corporation, whether the same is actually distributed or not, shall be deemed to be distributed on the last day of each year as a dividend to the shareholders, and the said shareholders shall be taxable each year as if the same had been distributed in the proportions hereinafter mentioned

2. Each shareholder's taxable portion of the income of the corporation deemed to be distributed to him as above provided for, shall be such percentage of the income of the corporation, as the value of all property transferred or loaned by such shareholder or his predecessor in title to the corporation is of the total value of all property of the corporation acquired from the shareholders.

3. The value of the property transferred by each shareholder or his predecessor in title shall be the fair value as at the date of the transfer of such property to the corporation, and the total value of the property of the corporation, acquired from its shareholders shall, for the purpose of determining the percentage referred to in the last preceding subsection, be taken as at the date of acquisition thereof by the corporation; and in ascertaining values under this subsection, regard shall be had to all the facts and circumstances, and the decision of the Minister in that respect shall be final and conclusive.

It may be assumed that the intended purpose of the provisions of the Act regarding "personal corporations" was to overcome the effect of the decisions in cases such as *Salomon* v. *Salomon* (1), and to preserve the personal liability, for the income tax, of the taxpayer who has transferred, wholly or partially, his assets to a corporation which he intends to control. S. 21 provides that the income of a personal corporation shall be deemed to be a dividend to

(1) (1897) A.C. 22.

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the shareholders, whether the same has been distributed or not, and subsections 2 and 3 define how each shareholder's taxable portion of the income of the corporation is to be determined. In this way the liability of the owner of assets transferred to a "personal corporation," and the value of the assets as of the date of transfer, are preserved for the purposes of the income tax, even though the owner's title of the assets has passed to the corporation, and thereafter his interest therein is represented by shares in the personal corporation. What the provisions of the Act respecting "personal corporations" seek to accomplish seems to be quite plain.

The Wilson Company was incorporated in 1929 for various purposes and objects, among them being:

(*a*) To acquire the interest of William Ritson Wilson, of the members of his family and others, in mines, mining lands, mining companies and mining ventures, and investments generally as well in Canada as in foreign countries.

(*b*) 1. To carry on the business of a mining and investment company in all its branches, to acquire by purchase, lease, hire, discovery, location or otherwise, and to hold, work and develop mines, mineral claims, mineral leases, mining lands, prospects, licences and mining rights of every description, and to render the products thereof merchantable, and to buy, sell and deal in the same or any product thereof

The Wilson Company was also empowered to acquire and operate timberlands, to acquire water rights and privileges, patents, patent rights and concessions, to establish and operate stores and hotels and to carry on a general mercantile business, to acquire and operate boats, ships and other vessels, to manufacture fire and building bricks, to take contracts for mining work of all kinds and to accept as the consideration shares, stocks or other securities of any company, to acquire and operate farming lands, and to acquire, hold, sell and dispose of any securities or investments of all classes and description of any company, corporation or trust.

In the taxation period in question the Wilson Company returned as investments Dominion of Canada Bonds, Great Northern Railway Equipment Bonds, Grand Trunk Pacific Railway Bonds, and Province of Saskatchewan Bonds, all of the value of $139,972.40; shares in the Premier Gold Mining Company of the value of $114,769.50, shares in Pleasant Valley Mining Company Ld., a coal mining company, of the value of $409,526, and shares in other mining

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companies; and certain real estate, and mining prospects or equities therein. The total value of all such investments is shown in the return as being $980,929.56. These investments were assigned and transferred by the appellant Wilson to the Wilson Company by agreement dated September 8, 1931, the consideration therefor being the allotment to Wilson of 45,000 fully paid shares in the Wilson Company.

For the same period the total income returned by the Wilson Company was $65.214.93, of which $11,265.73 was derived from the Bonds which I have already described, $45,303.75 as dividends from Premier Gold Mining Company, and $5,675.76 from premiums upon dividends paid by Premier Gold Mining Company in United States funds. The head office of the Premier Gold Mining Company is in New York. The balance of the income was $315.98 received as interest upon moneys deposited in some bank on savings account, and $2,653.71 being the profit on the sale of shares in the McDonnell Coal Company. Whether the latter was in the end treated as an accretion of capital or as income, is not clear. The amount and source of the income is therefore definitely ascertained. The expenses for carrying on the business of the Wilson Company were returned at $19,396.02, most of which were apparently incurred in connection with location, survey, exploration, prospecting and assessment work, carried out on mining claims or properties. The net earnings were returned at $45,818.91.

There were originally four grounds of appeal but one having to do with a farming ranch owned by the Wilson Company, or the appellant, has since been adjusted between the parties, so there remain three grounds of appeal to consider. These are (1) the disallowance of an operating loss sustained in the taxation period in question by Pleasant Valley Mining Company, the appellant claiming that the Wilson Company having elected to file a return for that period in which its profit and loss account was consolidated with that of Pleasant Valley Mining Company, the loss of the latter should be allowed as a deduction in computing the net income of the Wilson Company; (2) disallowance of the sum of $18,303.82 claimed as expenses incurred by the Wilson Company in exploration, prospecting and development work, carried on in connection with various mining properties, claims or prospects, which expenses were returned as a deduction from the income of the Wilson Company, and which it is claimed by the respondent is not properly allowable as expenses; and (3) the inclusion for taxation purposes of the sum of $5,675.76, being premiums received on dividends paid by Premier Gold Mining Company to the Wilson Company in United States funds, the point in issue being whether the appellant, in respect of such premium income, is entitled to the exemption or deduction for depreciation authorized in the case of income derived from mining by s. 5 (*a*) of the Act.

I propose first to discuss the issue relating to the receipt of premiums derived from the exchange of United States currency into Canadian currency in connection with the dividends paid by Premier Gold Mining Company to the Wilson Company. Sec. 5 (*a*) of the Act enacts that income derived from mining shall be subject to exemptions and deductions in such reasonable amount as the Minister, in his discretion may allow for depreciation, and he may make such an allowance for the exhaustion of the mine as he may deem just and fair. No deduction was allowed for depreciation or exhaustion in respect of the amount of such premiums but a deduction on such account was allowed in respect of the face value of the dividend cheques received from Premier Gold Mining Company by the Wilson Company. The Wilson Company was not a dealer in exchange and neither was Wilson. The question is whether the premiums received from the conversion of United States currency into Canadian currency is subject to the tax without deduction, or whether an allowance for depreciation should be made thereon, just as on the face value of the dividends remitted from New York, and that is the whole point in issue. The claim made on behalf of the Minister is that the cashing of a dividend cheque is a monetary transaction in respect of which depreciation or depletion does not enter. It appears that at one time, in such cases, depreciation was allowed but later that practice was departed from. There is no statutory provision, or regulation, directed to the controversy, and there is no decided authority upon such a point to assist one, at least my

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attention was not directed to any such authority. I was referred to the Australian case of *Payne* v. *Deputy Federal Commissioner of Taxation* (1), but that case is authority only for the proposition that income received as premiums on exchange should be included as income in the return of the taxpayer, and does not touch the question at issue here, namely, whether a deduction for depreciation should be allowed upon income derived from premiums on exchange on account of dividends paid by a mining company.

The premium income here in question constitutes, I think, "income derived from mining"; its source was dividend cheques issued to a shareholder by a mining company, and should, I think, be treated as part of the dividends. There is something, of course, to be said for the respondent's view, but the reasons advanced therefor do not weigh so heavily with me as those advanced for the appellant's contention. If United States funds, in terms of Canadian currency, had been at a discount the Wilson Company would not be taxed on the discount, and the net proceeds of the dividend cheques or warrants would be the dividend income received. To separate the premium received upon the amount of a dividend cheque and give it one name, and to call the balance "the dividend," seems to be to be a rather arbitrary distinction. The Premier Gold Mining Company might have saved the premiums for its treasury by remitting the dividends in Canadian funds but it passed this advantage over to its Canadian shareholders by remitting the same in United States funds. In such a case as this the shareholder would, I think, describe the entire proceeds of each dividend cheque as a "dividend," in his books containing the investment account, and in which account such proceeds would appear as a credit. On the whole, it seems to me that the premiums in question should be treated as part of the income derived from mining, and therefore entitled to the depreciation allowance usual in such cases.

I turn now to the appeal from the disallowance of the sum of $18,303.32, as a deduction, the same being expenses incurred by the Wilson Company in connection with prospecting, exploration and assessment work, carried out upon mining properties, and which properties were, of course,

(1) (1936) A.C. 497.

not revenue yielding. These expenses were disallowed on the ground that they were " disbursements or expenses not wholly, exclusively and necessarily laid out or expended for the purpose of earning the income," as provided by s. 6 (*a*) of the Act, and which are not allowable " in computing the amount of the profits or gains to be assessed." The revenue of the Wilson Company came almost entirely from two sources, the Bond Investments and Premier Gold Mining Company. No revenue was expected to be earned by reason of the expenditures in question, in the 1932 taxation period; they were in the nature of capital expenditures, and not related in any way to the earning of the income of the Wilson Company. If the mining properties upon which these expenditures were made were later sold the proceeds would, I apprehend, be treated as a return of capital, and would not be taxed as income. Had these expenses been incurred by W. R. Wilson, prior to the organization of the Wilson Company, they would not, I think, have been allowed as a deduction in computing the amount of his profits or gains to be assessed. If the appellant's contention be correct then " personal corporations " would be accorded deductions not allowed other corporations or individuals, and this, I think, is something the Act does not contemplate. A " personal corporation " is relieved of the corporation income tax and its income is to be deemed as a dividend distributed to the shareholder, to him who transferred assets to the corporation, and the distribution is not determined on the basis of the number or value of the shares held by the transferor in the corporation, but on such percentage of the income of the corporation as the value of the property transferred is of the total value of all property of the corporation acquired from the shareholders. That is what distinguishes a " personal corporation " from other corporations. Now I do not understand the Act to mean that a " personal corporation," or a shareholder in a " personal corporation," is to be treated differently from other taxpayers as to the manner of computing the amount of the profits or gains to be assessed. If a personal corporation incurs expenses not wholly, exclusively and necessarily laid out for the purpose of earning the income, I think that s. 6 (*a*) applies to it as well as to any other corporation or individual tax-

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payer. There is nothing in the Act, so far as I can see, which suggests that this provision of the Act is suspended or becomes inoperative in respect of personal corporations, and I am therefore of the opinion that the "expenses" involved in this ground of appeal are to be treated as not having been incurred for the purpose of earning the income here, and for that reason the appellant must fail.

I come now to the last question for decision and that is whether the Wilson Company is to be permitted to file a return in which its profit and loss account is consolidated with that of Pleasant Valley Mining Company. The relevant provision of the Act is s. 35 (3) and which, at the material time, read as follows:

3. A company which owns or controls all of the capital stock (less directors' qualifying shares) of subsidiary companies which carry on the same class of business, may elect within the time and in the manner prescribed by regulations, to file a return in which its profit or loss is consolidated with that of its subsidiaries, in which case the tax provided by paragraph D of the First Schedule of this Act shall apply.

If "company" in this section includes a "personal corporation," and if Pleasant Valley Company is a subsidiary of the Wilson Company—neither of which point the respondent contested,—and if the Wilson Company and Pleasant Valley Mining Company carried on the same class of business, then, I think, it was permissible for the Wilson Company to elect to file a consolidated profit and loss statement. The statute enacting sec. 35 (3), Chap. 41, of the Statutes of Canada, 1932-33, provided that this section was to apply "to income of the 1932 taxation period." No regulation was ever enacted, as authorized by that section, prescribing the time and manner in which the consolidated profit and loss statement should be filed, in fact it was virtually conceded by Mr. Donaghy that no regulation had been enacted. At least there was no pretense of showing that one was ever enacted. However, a consolidated statement was filed in respect of the period in question. In any event, no valid regulation could be enacted that would prevent the Wilson Company from filing a consolidated profit and loss statement for the 1932 taxation period, because the statute plainly states that this might be done. Therefore, the filing of such a statement was quite within the terms of the Act and the taxpayer cannot be deprived of the right of doing so, or be deprived of any advantage resulting therefrom, by reason of the failure to enact any such regulation as was authorized by sec. 35 (3), as was decided in the *Carling* case (1). Therefore, in respect of this point, I would decide that the consolidated profit and loss statement must be considered in determining the assessable income of the Wilson Company unless it be that the Wilson Company and Pleasant Valley Mining Company did not, as required by the Act, "carry on the same class of business," in the period in question. Upon this point the parties are in conflict.

The Income War Tax Act does not in terms define a "subsidiary company" but for the purposes of s. 35 (3) it may be said to mean a corporation the capital stock of which is owned or controlled by another company, usually called a holding company, the business of the holding company and the subsidiary company being of the same class. Sec. 115 of the Dominion Companies Act, 1934, defines a "subsidiary company" but with special reference to the accounting and auditing of holding companies. Ordinarily, a holding company is one which acquires the whole or a controlling interest in the share capital of one or more distinct businesses, thereby for practical purposes effectively amalgamating them and consolidating their interests. The types of business carried on by a holding company and its subsidiaries may vary greatly, and it is not necessary that they be of the same class. The advantages of the summarized picture presented by a consolidated statement of affiliated groups of companies have become well recognized throughout the financial community. Consolidated statements are needed for certain audit purposes, for certain prescribed statutory purposes, and are frequently required by banks and stock exchanges. If the type of business done by a subsidiary company so differs from that carried on as a whole by the holding company, or if there is little or no intercompany business, the consolidation of the figures of the holding and subsidiary companies would lead only to confusion. Consolidated statements in such a case would not likely be expected or required, except perhaps for some special purposes. The taxing statute here recognizes the consolidated statement of a holding company and its subsidiary only when each carries on the same class of business. The reason for that

(1) (1931) A.C. 435.

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is quite obvious. So that the usual consolidated statement of holding and subsidiary companies might mean one thing, and the consolidated statement which s. 35 (3) has reference to would mean another thing.

Here, the Wilson Company owned all the capital stock (less directors' qualifying shares) of Pleasant Valley Mining Company. Therefore one of the conditions precedent to the application of s. 35 (3) in this case is established. But did each company carry on the same class of business? That is the vital and difficult question for decision in connection with this branch of the appeal. In the 1932 taxation period Pleasant Valley Mining Company carried on the business of mining coal, and nothing else. The Wilson Company did not engage in this class of business though it appears it owned or controlled a coal area, called the "Blue Flame," upon which it did exploration and development work for the purpose of making it saleable, but in the practical sense it was not a producing coal mine, and in fact the witness, B. A. Wilson, testified it was never "a coal mine." The business activities of the Wilson Company seem to have been directed to the oversight of its revenue bearing investments, which I have already described, and to investigating, prospecting and exploring undeveloped mining properties, all, I think, being gold mining properties. In any event, I do not think it can be said that the business of mining coal was of the same class as any business carried on by the Wilson Company, however the latter might be described, and as contemplated by sec. 35 (3). The statute here uses the words "carry on the same class of business" for a special purpose. It means that before a consolidated statement might be filed, the subsidiary company must be owned by the holding company, and that the business of each company be of the same class, in the practical sense of course, in which event the profit and loss account of each might, on sound business grounds, or as a matter of fair accounting, be consolidated, that is to say, in the practical sense their business operations were of such a similar character that they might be regarded as the one business concern. That such similarity in the two businesses should exist before it might be expected that, for taxation purposes, a consolidated profit and loss statement would be allowed would seem reason-

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able and just what one would expect, and therefore the words "carry on the same class of business" must be narrowly construed. Anything else would not seem reasonable in determining net income for taxation purposes. The words of s. 35 (3) which I am discussing were designedly used to express the idea that before the profit or loss account of a holding company and a subsidiary company might be consolidated, it was necessary that they be, in a very strict sense, carrying on the same class of business. Therefore, it seems to me, and I so hold, that the two companies here were not carrying on the same class of business within the meaning of s. 35 (3) of the Act, and that this provision of the Act was not available to the Wilson Company in computing the amount of its income, though for its own or other purposes this of course might be done. This ground of appeal therefore, in my view, cannot succeed. It is arguable that the word "company" in s. 35 (3) does not include a "personal corporation," and that it was not intended that this provision of the Act should apply to "personal corporations"; I should think it possible that difficulty might be encountered in applying s. 35 (3) to a "personal corporation," in view of the provisions of s. 21. However, that point was not raised before me, and I pronounce no definite opinion upon it, and in my view of the case it is not necessary to do so.

I reserve the matter of costs until the settlement of the minutes.

Judgment accordingly.

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Sept. 27 & 30

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Aug. 13.

BETWEEN:

HIS MAJESTY THE KING, on the Information of the Attorney-General of Canada .... PLAINTIFF;

AND

CANADA RICE MILLS LIMITED....DEFENDANT.

Revenue—Sales tax—Special War Revenue Act—Liability for tax.

Defendant, a manufacturer of rice and bags, sold its entire output during the period in question herein, to the Canada Rice Sales Company, a partnership, the members of which are, with one exception only, shareholders in defendant company, and in that instance, the partner represents a limited company which is a shareholder in defendant

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company. The partnership purchased from defendant at a price lower than the current wholesale price, and sold at the current wholesale price. The partners divided any profits accruing to the partnership in the proportion of their holdings in defendant company.

Defendant was assessed for sales tax upon the selling price of The Canada Rice Sales Company.

Held: That the Canada Rice Sales Company was not an independent trading unit or business enterprise, and defendant is liable for the sales tax and penalty assessed on the selling price of The Canada Rice Sales Company.

INFORMATION exhibited by the Attorney-General of Canada to recover from the defendant sales tax and penalty alleged due the Crown under the provisions of the Special War Revenue Act, R.S.C., 1927, c. 179, and amendments thereto.

The action was tried before the Honourable Mr. Justice Maclean, President of the Court, at Vancouver, B.C.

C. L. McAlpine, K.C. and *J. R. Tolmie* for plaintiff.

W. Martin Griffin, K.C. for defendant.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT, now (August 13, 1938) delivered the following judgment:

This is an action to recover from the defendant Canada Rice Mills Ld. (to be referred to hereafter as "Rice Mills"), as sales tax, under the provisions of The Special War Revenue Act, the sum of $9,741.55, which with penalty interest amounted to $11,004.87, on November 30, 1936. The taxation period in question is from March 1, 1933, to August 31, 1936.

The issue here arises from the fact that the defendant, a manufacturer of rice and bags, sold its entire output during the period in question to The Canada Rice Sales Company (to be referred to hereafter as "Rice Sales"), a partnership, and Rice Mills was assessed for the sales tax upon the selling price of Rice Sales. This assessment Rice Mills contests and claims it should be assessed on its own selling prices to Rice Sales. No question arises as to the quantity of the sales in question, and Rice Mills admits that if it is obliged to pay the tax on the prices at which Rice Sales sold the goods to wholesalers, then it is indebted to the plaintiff in the sum of $9,741.55; there is no admission as to the penalty interest, in fact that was not mentioned by either party during the course of the trial.

The purpose of forming the partnership, Rice Sales, its nature and activities, should be explained. The defendant commenced the business of manufacturing and selling rice in 1907, on the Fraser river, some sixteen miles from Vancouver, B.C., where was the office of Rice Mills. In 1932 Rice Mills, on the suggestion of its chartered accountant, first considered the matter of forming some selling organization, and in 1933 there was formed the partnership, Rice Sales, which was to market the products of Rice Mills. One of the purposes in forming the partnership was to separate the accounting of production costs and selling costs, so that Rice Mills might conveniently and accurately inform the Revenue Department as to its production costs, and which would assist the Minister in fixing the fair selling price of Rice Mills as a manufacturer or producer, for the purposes of the tax, in the event of any dispute. It was claimed that at this time Rice Mills was encountering severe competition from rice imported from Oriental countries, and that the sales tax did not fall evenly upon such importations and domestic manufactures of the same product, because in the former case the tax was based only on the foreign or export price plus the duty, without the inclusion of freight and other items of cost which the domestic manufacturer had to incur on the importation of his raw material; and it was claimed by Rice Mills that it paid as sales tax $1.50 more per ton than did importers of Chinese rice; and it was also claimed that the sale of rice manufactured by Japanese residents of British Columbia was in a favoured position so far as the tax was concerned, owing to the conditions under which the same was manufactured, and otherwise, and apparently it was thought that by the separation of the manufacturing and selling ends of the business of Rice Mills, relief would, in some way or other, be afforded it in respect of the sales tax. These were important considerations leading to the formation of Rice Sales.

The members of Rice Sales, the partnership, are, with one exception, shareholders in Rice Mills. One of the partners is a Mr. Ranking, who is not a shareholder in

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Rice Mills, but it appears that he represents, in the partnership, the firm of Martin and Robinson Ld., which concern is a shareholder in Rice Mills. For our purposes here it may therefore be said that all the partners of Rice Sales are shareholders in Rice Mills. The partners of Rice Sales divide any profits accruing to it, from the business in question, in the proportion of their share holdings in Rice Mills. As Rice Sales only purchases rice from Rice Mills as it sells, its losses are probably negligible, but no mention was made of this. In fact it is not clear by which concern the losses of Rice Sales, if any, are borne.

Rice Mills and Rice Sales occupy the same office premises in the City of Vancouver. The accounting of each concern is kept apart, apparently in separate books, though that is not absolutely clear, but that of itself is not of any moment. The secretary-treasurer of Rice Mills is the book-keeper of both concerns but he is allowed remuneration by Rice Sales for such services as are performed on its account. The wages of Rice Sales employees are said to be paid by Rice Sales. The entire production of Rice Mills, during the period in question, was sold to Rice Sales at an advance of from 5 to 10 per cent above the cost of production, but, it is admitted, at a price below the wholesale prices current at the time of sale; Rice Mills, prior to the formation of Rice Sales, sold its rice, from day to day, at the current wholesale price. Rice Sales sells to wholesalers, retailers, departmental stores, and in fact to any person wishing to buy. The same warehouse is used by both concerns, and apparently—though I am not sure of this—rice there stored on account of either is subject to a lien under section 88 of the Bank Act, for banking advances or credits extended to Rice Mills. There is but one bank account, that of Rice Mills, and drafts, with bills of lading attached, made by Rice Sales upon customers for goods shipped, are at once endorsed over to Rice Mills, and from the proceeds of such drafts cheques are issued by Rice Mills for the difference between its price and the selling price of Rice Sales, directly to the partners of Rice Sales, not the partnership, in the proportions in which they hold shares in Rice Mills. Under this practice it would look as if the partnership, Rice Sales, were never in funds with which to pay any expense of doing business, if so it was not clearly explained. It is of course claimed by the defendant, that both concerns are independent business enterprises, and the relationship of principal and agent is denied.

Now the facts of this case are quite different from those in other cases which have come before the courts, that is, so far as I am acquainted with them. The plaintiff is not contending that Rice Sales is in any way liable for the tax, in fact it is not even a defendant in this action. The plaintiff takes the position that, for the purposes of the tax at least, Rice Sales is a part of Rice Mills, and that its business activities are but a part of those of Rice Mills. While cases of this kind are never free from difficulties, yet, I think, it is fairly clear in this case that the defendant must be held liable for the tax. Rice Sales was formed at the instance of the directors and shareholders of Rice Mills in the belief that they might thus minimize the sales tax, or, that, in some way or other, they might put themselves on what they thought would be a parity with their competitors so far as the sales tax was concerned; or, that they might induce the Revenue Department to accept a more favourable basis of assessing the sales tax against Rice Mills, as a manufacturer or producer. The formation of Rice Sales does not seem to have been suggested by the usual motives underlying the creation of business enterprises. Mr. Gavin, the president, positively affirms that it was not the directors of Rice Mills who first suggested the partnership, but rather their chartered accountant. And I would expect that what the accountant had in mind was a separation of the accounting of production costs from the selling costs, to assist the Minister in fixing the selling prices of Rice Mills as a manufacturer, under s. 98 of the Act, as apparently was done in the case of other manufacturers. The two concerns occupied the same warehouse, and they occupied the same office building. The intervention of the partnership into the business affairs of Rice Mills did not add to the number of employees or staff, so far as I know; it neither added to nor subtracted from the cost of producing and selling rice; it merely separated the costs incident to production from the costs incident to sales, and this only required two sets of books instead of one. It did not alter the financial position of

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the shareholders of Rice Mills; the combined profits of both concerns were divided precisely as before, and in fact the profits all went to the shareholders of Rice Mills. It seems to me that Rice Sales was not formed as an independent trading unit or business enterprise, but merely as a paper partnership, to facilitate the purposes which Rice Mills had in mind and which I have already explained. The partners never contributed one dollar of capital to the partnership and I am disposed to suspect that any expenditure made by the partnership was a book-keeping expenditure only. In this case I think it may be said that no real change occurred in the business set-up of Rice Mills, except that some or all of the officers, shareholders and servants, for some purposes, were given the colour of a partnership. The partnership was but another name for that which already existed and was functioning. The same people performed the same services as before, under the colour of a partnership, but nothing more.

I am not relying upon that portion of regulation no. 6, which states that where the vendor and purchaser are associated or affiliated concerns the price at which the goods are sold to *bona fide* independent wholesalers by either of them shall be the value upon which the tax is payable. Mr. Griffin urged that this regulation was *ultra vires* and I am inclined to think that this contention is correct. I am disposing of the case upon the facts here disclosed, and as I weigh them. It was conceded that the goods in question were sold by Rice Mills below the current wholesale prices, and I think the tax must be calculated against the defendant, on the basis of the selling prices of Rice Sales. However, counsel stated that if I reached the conclusion that the defendant were liable for the tax, the amount payable under this judgment would be determined between the parties themselves, and there is no need therefore to add anything further.

The action is therefore allowed and with costs.

Judgment accordingly.

BETWEEN:

THE COCA-COLA COMPANY OF CANADA, LIMITED .... PLAINTIFF;

AND

THE PEPSI-COLA COMPANY OF CANADA, LIMITED .... DEFENDANT.

1937 March 31, April 1 & 2. — 1938 July 15.

Trade mark—Infringement—Unfair competition—Unfair Competition Act, 22-23 Geo. V, c. 38, s. 2, ss. (e), (k), (l), (m), s. 3 (c), s. 4, ss. (1), s. 11, s. 18, s. 26 (1) (c & d), s. 42 (2)—Deceptive name—Resemblance calculated to deceive—"Coca-Cola"—"Pepsi-Cola"—Mark adapted to distinguish goods of plaintiff—Mark descriptive or misdescriptive—Considerations determining question of infringement—Assignment of trade mark need not be contemporaneous with transfer of good will of business—Defendant held to have infringed plaintiff's trade mark and been guilty of unfair competition in sale of beverage under similar name—Mere difference of get-up no defence.

The action is one for infringement of a specific trade mark owned by and registered in the name of the plaintiff, a company incorporated under the laws of the Dominion of Canada in 1923, consisting of the compound word "Coca-Cola," in the particular form represented by the pattern accompanying the application for registration This mark "to be applied to the sale of beverages, and syrups for the manufacture of such beverages," was registered in Canada on November 11, 1905, by The Coca-Cola Company, a corporation domiciled in the State of Georgia, U.S.A., and by that corporation assigned in January, 1922, to Coca-Cola Company, a corporation of the State of Delaware, U.S.A., and by the latter corporation assigned in writing to the plaintiff company in February, 1930. The plaintiff, following its incorporation in 1923, acquired the good will of the Canadian business of the Delaware corporation which owns the whole or a majority of the capital stock of the plaintiff company. The trade mark "Coca-Cola" has been in use uninterruptedly in connection with the sale of a beverage in the United States, by the parent company of the plaintiff for over 50 years, and for a number of years, at least since April, 1906, the sale of a beverage, under the name of "Coca-Cola," has been carried on extensively in Canada, and this beverage has been extensively advertised there under that name. The plaintiff produces a syrup, also called "Coca-Cola," to which is added carbonated water in the making of the Coca-Cola beverage, and this is retailed in bottles, or by the glass from soda fountains or like dispensaries. In some of its plants the plaintiff manufactures the Coca-Cola beverage which it sells to dealers, in bottles. It also sells to a large number of independent persons, or bottlers, the Coca-Cola syrup from which such persons make the beverage Coca-Cola by adding carbonated water, according to a formula furnished by the plaintiff, and this such persons offer for sale in bottles furnished by the plaintiff, only under the name of "Coca-Cola."

The alleged infringing mark consists of the hyphenated word "Pepsi-Cola." This mark, to be applied to the sale of "beverages, and particularly to a non-alcoholic beverage," was registered in Canada on

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November 30, 1906, by The Pepsi-Cola Company, a corporation then domiciled in the State of North Carolina, U S.A., and renewed in the name of the same corporation in November, 1931, for a further period of 25 years. It was alleged that this mark was acquired from the North Carolina corporation by Pepsi-Cola Company, a corporation of the State of Delaware, U.S A , and by it assigned to defendant in May, 1936.

The defendant commenced doing business in Canada about the middle of 1934; it was not the successor of any other company that had been engaged in Canada in the business of selling beverages under the trade mark of "Pepsi-Cola" Since 1934 it has manufactured and sold in certain localities in Canada a beverage under the name of "Pepsi-Cola," in bottles larger and different in shape from those in which the plaintiff's beverage is vended, and not from soda fountains or such dispensaries.

At the trial the plaintiff proved registration of its mark, and established the sale in Canada by the defendant of a beverage, falling within the same category as that of the plaintiff's, under the name of Pepsi-Cola The plaintiff then rested its case. A motion by defendant to dismiss the action was refused

Held: That the plaintiff, having established a *prima facie* case, was not required to do more at that stage in an action for infringement, and was justified in resting its case.

2. That the defendant's mark is an infringement of the plaintiff's mark.
3. That in deciding whether there has been infringement of a trade mark the proper course is to look at the marks as a whole, and not to disregard the parts that are common; regard must also be had to the nature of the goods to which the marks are applied, the similarities in the goods regardless of their dress, the nature of the market, the class of people likely to become purchasers, the appeal to the ear as well as to the eye, the probability of deceiving the unwary or uncritical purchaser, the opportunity afforded retailers and their employees to practise deception upon the unsuspecting customer, the liability to error and confusion in transmitting and receiving orders for the goods by telephone, the effect of the tendency to abbreviate trade marks which readily lend themselves to that practice, the fact that the first registered mark has been long and widely known, and any other special features associated with the trade marks in conflict, illustrated in this particular case by the conspicuous scroll effect, or flourishes, in the formation of each mark.
4. That the practice of bottling the plaintiff's beverages by other authorized persons, indicates to the public that the plaintiff has assumed responsibility for their character or quality, and that they are known to the public as plaintiff's beverages, and such practice does not void plaintiff's mark
5. That the plaintiff is entitled to the exclusive use of the mark "Coca-Cola," in Canada
6. That due to the long and extensive use of the trade mark "Coca-Cola" by the plaintiff and its predecessor in business, that mark has become adapted, in Canada, to distinguish the product of the plaintiff
7. That the trade mark "Coca-Cola" is neither descriptive nor misdescriptive within the meaning of the Unfair Competition Act, 22-23 Geo V, c. 38, s. 26, ss. 1 (*c*)

8. That it is not essential that the assignment of a trade mark, and the transfer of the good will, should be exactly contemporaneous, or that there should be any legal conveyance of the latter if the assignee is equitably entitled to it

ACTION by plaintiff praying for an injunction restraining defendant from infringing plaintiff's trade mark rights.

The action was tried before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa.

R. S. Smart, K.C. and *A. W. Langmuir, K.C.* for plaintiff.

Hon. W. D. Herridge, K.C. and *J. J. Creelman, K.C.* for defendant.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT, now (July 15, 1938) delivered the following judgment:—

This is an action for infringement of a specific trade mark owned by and registered in the name of the plaintiff, a company incorporated under the laws of the Dominion of Canada in 1923, and which mark consists of the compound word "Coca-Cola," in the particular form represented by the pattern accompanying the application for registration. This mark, "to be applied to the sale of beverages, and syrups for the manufacture of such beverages," was registered in Canada on November 11, 1905, by The Coca-Cola Company, a corporation domiciled in the State of Georgia, U.S.A., and by that corporation assigned in January, 1922, to Coca-Cola Company, a corporation of the State of Delaware, U.S.A., and by the latter corporation assigned in writing to the plaintiff company, in February, 1930; it appears that the plaintiff company, following its incorporation in 1923, acquired the good will of the Canadian business of the Delaware corporation, which corporation, I understand, is the owner of the whole, or a majority, of the capital stock of the plaintiff company. The registration of the mark "Coca-Cola," in Canada, was renewed by the plaintiff in November, 1930, for a further period of twenty-five years. In 1932, the plaintiff also registered the mark "Coca-Cola," for the same use, "in any and every form or kind of representation," but that registration may here be disregarded. Reproduced

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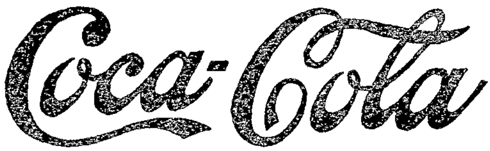
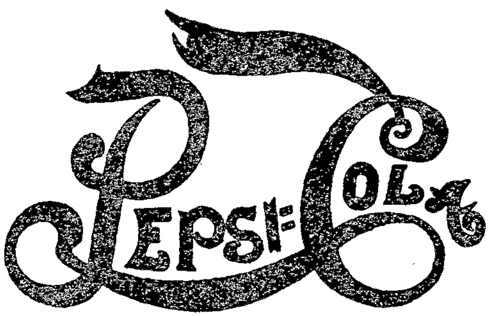
below is a fac simile of the plaintiff's mark which is here in question.



The alleged infringing mark consists of the hyphenated word "Pepsi-Cola," and in the form or pattern accompanying the application for registration. This mark, to be applied to the sale of "beverages, and particularly to a non-alcoholic beverage," was registered in Canada on November 30, 1906, by The Pepsi-Cola Company, a corporation then domiciled in the State of North Carolina, U.S.A., and it was renewed in the name of the same corporation, in November 1931, for a further peroid of twenty-five years. This mark, it is said, was acquired from the North Carolina corporation by Pepsi-Cola Company, a corporation existing under the laws of the State of Delaware, U.S.A., and by the latter corporation assigned to Pepsi-Cola Company of Canada Ltd., the defendant, in May, 1936. There does not appear to be any evidence of a formal assignment of this mark from the North Carolina corporation to the Delaware corporation. The defendant commenced doing business in Canada about the middle of 1934; it was not the successor of any other company that had been engaged, in Canada, in the business of selling beverages under the trade mark of "Pepsi-Cola." Below there is reproduced a fac simile of the defendant's registered trade mark.



This case is of some general importance because it appears that many trade marks, applied to non-alcoholic beverages, partially similar to the plaintiff's mark, or variants of it, have at one time or another been registered, or used, in Canada. It is within my own experience that such trade marks have, in quite recent years, been in use in certain areas in Canada, and that such use was in more than one case restrained, in actions brought by the plaintiff, and it is possible that some of such trade marks are still in use in Canada, particularly in certain localities.

It is shown by the evidence that a beverage has been sold in Canada under the trade name of Coca-Cola by the plaintiff, or its predecessor in business, at least since April, 1906, that is, over thirty years, and there is fairly satisfactory evidence that such sales commenced sometime prior to 1900; the trade mark Coca-Cola has been in use uninterruptedly, in connection with the sale of a beverage, in the United States, by the parent company of the plaintiff, for over fifty years. It is quite clear that for a long number of years the sale of a beverage, under the name of Coca-Cola, has been carried on extensively in Canada, and that this beverage has there been extensively advertised, under that name.

In the United States, there is a corporation known as Pepsi-Cola Company, which owns all the capital stock of the defendant company, and the mark used by that company is precisely that used by the defendant company, in the sale of its beverage in Canada. In 1931, the Pepsi-Cola Company acquired in the United States, it is claimed, the good will of the business of a bankrupt concern of the same name, and which had been producing and selling a beverage in some parts of the United States under the name of Pepsi-Cola; this latter concern apparently had acquired earlier the good will of another bankrupt concern which had carried on a similar business, and had used in that connection the same trade mark, Pepsi-Cola. It would seem that a beverage was marketed under the name of Pepsi-Cola, in 1904, in the State of North Carolina, U.S.A., by the company which registered "Pepsi-Cola" in Canada in 1906 and there was the suggestion, but without any definite proof, that this beverage was sold in that State, and perhaps elsewhere, earlier than in 1904. The evidence as to the extent or period of time in which this North Carolina company sold its beverage in the United

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States was not established, but at any rate there is no evidence that it ever carried on business in Canada, or that it ever sold its product in Canada under the name of Pepsi-Cola, and in fact there is no evidence that a beverage was ever sold in Canada under the name of Pepsi-Cola, until so sold by the defendant, and which sales began in 1934. On the whole, the evidence adduced on behalf of the defendant might be summed up by saying that since 1934 it has manufactured and sold in certain localities in Canada a beverage under the name of "Pepsi-Cola," in bottles larger and different in shape from those in which the plaintiff's beverage is vended, and not from soda fountains or such dispensaries.

It might be convenient at this stage to refer to certain registered trade marks put in evidence by the defendant, and which go to show that either the word "Coca," or "Cola," or variants of such words, usually with a word prefix or suffix, have been registered in Canada in considerable numbers, in most cases to be applied to beverages such as we are concerned with. There were put in evidence by the defendant some thirty certified copies of such registrations, among which we find such marks as Kuna-Kola, Mint-Kola, Cola-Claret, Tona-Cola, Kola-Bromo, Kali-Kola, La-Kola, Celery Kola, Mexicola, Kola-Fiz, Fruta-Kola, Royal Kola, Ketra Kola, Fruita-Kola, Kola-Cardinette, Klair-Kola, Laxakola, Noxie-Kola, Orange Kola, Vita-Kola, Kolade, and Rose-Cola. All of these marks were registered subsequent to the registration of Coca-Cola, most of them in recent years, and four of them were registered for use in connection with medicinal preparations. No evidence, so far as I recall, was given as to whether any of these registered marks ever went into use in Canada. In the defendant's particulars there is furnished a lengthy list of alleged user in Canada of the word mark "Kola" and "Cola," usually associated with some other word, some of which are included among the registered marks just referred to. These particulars purport to show when, where and by whom, in Canada, such trade marks were used, with three or four exceptions all subsequent in point of time to the registration of the plaintiff's mark, but no evidence was furnished in proof of the use of such marks and therefore the same is not of any importance here. What inference is to be drawn from such registrations, and such alleged user, will be referred to later.

It might be desirable before proceeding further to refer, without comment, to those provisions of the Unfair Competition Act, 22-23 Geo. V, c. 38, which may have relation to some of the various issues which arise in this case.

Sub-s. (*e*), (*k*), (*l*), and (*m*) of s. 2 of the Act define "Similar" in the following terms:—

(*e*) "Owner" in relation to a trade mark, means either the person who has an exclusive right to use the mark in association with his wares in such a way as to indicate to dealers in and/or users of the wares that they have been manufactured, sold, leased or hired by him . . . .

(*k*) "Similar," in relation to trade marks, trade names or distinguishing guises, describes marks, names or guises so resembling each other or so clearly suggesting the idea conveyed by each other that the contemporaneous use of both in the same area in association with wares of the same kind would be likely to cause dealers in and/or users of such wares to infer that the same person assumed responsibility for their character or quality, for the conditions under which or the class of persons by whom they were produced, or for their place of origin;

(*l*) "Similar," in relation to wares, describes categories of wares which, by reason of their common characteristics or of the correspondence of the classes of persons by whom they are ordinarily dealt in or used, or of the manner or circumstances of their use, would, if in the same area they contemporaneously bore the trade mark or presented the distinguishing guise in question, be likely to be so associated with each other by dealers in and/or users of them as to cause such dealers and/or users to infer that the same person assumed responsibility for their character or quality, for the conditions under which or the class of persons by whom they were produced, or for their place of origin;

(*m*) "Trade mark" means a symbol which has become adapted to distinguish particular wares falling within a general category from other wares falling within the same category, and is used by any person in association with wares entering into trade or commerce for the purpose of indicating to dealers in, and/or users of such wares that they have been manufactured, sold, leased or hired by him, ...

Sec. 3 (*c*) enacts that:—

No person shall knowingly adopt for use in Canada in connection with any wares any trade mark or any distinguishing guise which . . .

(*c*) is similar to any trade mark or distinguishing guise in use, or in use and known as aforesaid.

Sec. 4, s.s. (1) is as follows:—

4. (1) The person who, in association with wares, first uses or makes known in Canada, as provided in the last preceding section, a trade mark or a distinguishing guise capable of constituting a trade mark, shall be entitled to the exclusive use in Canada of such trade mark or distinguishing guise in association with such wares, provided that such trade mark is recorded in the register existing under the *Trade Mark and Design Act* at the date of the coming into force of this Act, ...

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Sec. 11 reads as follows:—

11. No person shall, in the course of his business,

(*a*) make any false statement tending to discredit the wares of a competitor;

(*b*) direct public attention to his wares in such a way that, at the time he commenced so to direct attention to them, it might be reasonably apprehended that his course of conduct was likely to create confusion in Canada between his wares and those of a competitor;

(*c*) adopt any other business practice contrary to honest industrial and commercial usage.

Sec. 18 defines the effect of a certified copy of the record of the registration of a trade mark in the following words:—

18. (1) In any action for the infringement of any trade mark, the production of a certified copy of the record of the registration of such trade mark made pursuant to the provisions of this Act shall be *prima facie* evidence of the facts set out in such record and that the person named therein is the registered owner of such mark for the purposes and within the territorial area therein defined.

(2) Such a certified copy shall also, subject only to proof of clerical error therein, be conclusive evidence that, at the date of the registration, the trade mark therein mentioned was in use in Canada or in the territorial area therein defined for the purpose therein set out, in such manner that no person could thereafter adopt the same or a similar trade mark for the same or similar goods in ignorance of the use of the registered mark by the owner thereof for the said purposes in Canada or in the defined territorial area within Canada.

Sec. 26 (1) (*c*) and (*d*) is to the following effect:—

26. (1) Subject as otherwise provided in this Act, a word mark shall be registrable if it

(*c*) is not, to an English or French speaking person, clearly descriptive or misdescriptive of the character or quality of the wares in connection with which it is proposed to be used, ...

(*d*) would not if sounded be so descriptive or misdescriptive to an English or French speaking person;

At the trial the plaintiff established, by certain discovery evidence, the sale in Canada by the defendant of a beverage, falling within the same category as that of the plaintiff's, under the name of Pepsi-Cola. On that evidence, and on proof of the registration of its mark, the plaintiff rested. Thereupon the defendant moved for the dismissal of the plaintiff's action, but this application I refused. The plaintiff, I think, established a *prima facie* case, and I do not think it was required to do more at that stage, in an action for infringement of a registered trade mark, though more might be required in a passing off action. The plaintiff, having established that it, or its predecessor in business, was the first to make known and use, and register, its mark in Canada, and having shown user of the defendant's mark, and there obviously being some similarity between the two marks, I think the plaintiff, in these circumstances, was justified in resting its case. I do not think that the plaintiff was bound to show specific instances of confusion, or that any person was actually deceived by reason of the contemporaneous use of both marks. Sec. 18 of the Unfair Competition Act provides that the production of a certified copy of the record of the registration of a trade mark shall be *prima facie* evidence of the facts set out in such record and that the person named therein is the registered "owner" of such mark for the purposes and within the territorial area therein named, and by s. 2 (*e*) of that Act, "owner," in relation to a trade mark, means the person who has an exclusive right to use the mark in association with his wares so as to indicate to dealers and users thereof that they have been manufactured or sold by him. Possibly the court might have been assisted by evidence upon some points, by both parties, but except for one witness called by the defendant, and certain discovery evidence introduced by the defendant, no further evidence was given at the trial.

The major question for determination here is whether the plaintiff's mark is infringed by the use of the defendant's mark. Whether two marks, having some definite similarity, are calculated to lead to confusion is usually one of considerable difficulty, and particularly is this true of cases where the marks in conflict consist of a compound word, one part of which is precisely the same, or, where they are coined words possessing some common characteristic and each perhaps suggestive of the character or quality of the articles to which they are applied, and which fall within the same general category. And such cases are rendered more difficult when there is no evidence as to specific instances of confusion arising from the use of the trade marks said to be in conflict, or where there is no evidence that dealers in such articles have experienced instances of confusion. I propose to refer to certain English and American decisions, in trade mark cases, and I propose to quote at some length certain passages therefrom. Portions of some of such passages may refer to points other than the question of infringement, and if I

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include the same it is because they touch upon some other issue arising here. As has been frequently stated, probability of deception is, of course, a question of fact, and except so far as the decided cases lay down any general principle of comparison, they afford no assistance in the determination of new questions of fact raised upon other materials, but in some instances decided cases may contribute some assistance and I venture therefore to refer to some. I shall first refer to certain English authorities.

In the English case of *Bale and Church Ld.* v. *Sutton, Parsons & Sutton* (1), the registered mark was "Kleenoff" and the infringing mark was "Kleenup," both used in respect of cleaners for cooking stoves and the like. The trial Judge, Clauson J., found there was infringement. On appeal, reported in the same volume, at p. 139, Lord Hanworth M.R. said:—

When one comes to consider what has been done by the defendants, I desire to read the observation which I made in the *Ustikon* case, reported in 44 Reports of Patent Cases 412, where I said this at p. 422: "I agree with the argument that was presented to us by Sir *Duncan Kerly* that, when the registration of a mark under Part B is challenged, it may be challenged in other ways than by leading evidence. In fact it may be challenged by a scrutiny and criticism of the word and consideration of the relevant authorities" Those observations, to my mind, apply to the present case, and we are entitled to scrutinize and criticize the word which is now being put forward. It is suggested, first, that there is no similarity in the two words "Kleenoff" and "Kleenup," which seems to me to be an almost impossible contention; and, secondly, it is said that distinctiveness is only in the termination, because, as may be seen from an examination of the telephone book, the word "Kleen" is used in various collocations for the purpose of indicating various firms. I do not attach much importance to that.

I think the passage to which Mr. *Swan* called our attention in a judgment of Lord Justice *Sargant* is useful upon such a point, but those cases in which "Kleen" is used are in respect of commodities which are not closely competitive, as is the case between the commodities of the Plaintiffs and the Defendants. In the case of "Klinoff," that is a disinfectant cleanser; in the case of "Simoniz Kleener," that is a cleaner of furniture and woodwork. But in the present case we get two commodities by these names "Kleenoff" and "Kleenup," which are intended for precisely the same purpose, "Kleenup" having been now discovered to be useful in the same sphere as "Kleenoff" has been proved to be for some twenty years by the sales that have been made by the Plaintiffs.

Mr. *Shelley* propounded two propositions. He said: "There are two questions; have the Plaintiffs satisfied the Court that the Defendants have infringed the word 'Kleenoff'? The learned Judge, after hearing the evidence, has definitely held that they have, and I confess I should have accepted the evidence as the learned Judge has done and held

(1) (1934) 51 R.P.C. 129.

that it had been established that the Defendants had infringed; and for this reason: They have applied a word, "Kleenup" which is in no sense really distinctive with reference to the word "Kleenoff" to the very same sort of commodity to which it had been previously applied, and no valid distinction or differentiation can be made by reason of the mere termination, treating the body of the word as available for all persons. But Mr *Shelley* took a second point, namely: Have the Defendants established that the user, such as it is, by the Defendants is one which is not calculated to deceive or to lead to the belief that the goods the subject of such user were manufactured by the proprietors of the trade mark? Mr. *Shelley* says there is no evidence of actual deception. Applying the standard, or canon, which I have suggested from the *Ustikon* case, it appears to me that, quite apart from affirmative evidence which may be difficult to get and possibly somewhat difficult to accept, an examination of the two words clearly indicates such a similarity that, if an order was given by telephone or an order even in writing it might well create a confusion in the minds of persons who received the one commodity when they were asking for the other. Under those circumstances, it does not appear to me that the Defendants have established that the user of which the Plaintiffs complain is not such as to lead to the belief that the goods the subject of the user were not goods manufactured and selected by the proprietor of the trade mark.

It must be remembered that the Trade Mark is registered as a word and for a word, and not for any get-up. It lies upon the Defendants to establish that there could not be deception or confusion, and in the present case they have an extremely difficult task where they are dealing with a commodity produced for precisely the same purpose as that of the Plaintiffs and where there cannot be a wholly or practically different user, such as was suggested in the case where you have an article, although in the same Class, yet used for a completely different purpose, as would be this "Kleenoff" and candles which are found in the same class of goods

In the same case Romer L.J., at p. 141, made the following observations which I think have some application here. He said:—

It is not disputed that the test to be applied in considering whether one trade mark does or does not infringe another registered trade mark is correctly stated on page 445 of Sir *Duncan Kerly's* book. He there states as follows: "Infringement is the use by the defendant for trade purposes upon or in connection with goods of the kind for which the plaintiff's right to exclusive use exists, not being the goods of the plaintiff, of a mark identical with the plaintiff's mark or comprising some of its essential features or colourably resembling it so as to be calculated to cause goods to be taken by ordinary purchasers for the goods of the plaintiff."

Now it is necessary to bear in mind in this case that the registered mark of the Plaintiffs does not consist of the two English words "clean off"; it consists of something that is not an English word, spelled "K-l-e-e-n-o-f-f." That, of course, when pronounced, sounds like the two English words "clean off."

The Defendants' mark complained of by the Plaintiffs in this action and used by them upon goods substantially identical with the goods of the Plaintiffs' consists, again, not of two English words, but of one

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word which is not an English word at all, namely, the word "kleenup"—again a word which sounds like the two English words "clean up."

I think the case perhaps is somewhat near the line, but on the whole I have come clearly to the conclusion that the use by the Defendants of this mark "Kleenup" so nearly resembles the Plaintiffs' registered mark "Kleenoff" as to be calculated to cause goods sold under the mark "Kleenup" to be taken by ordinary purchasers for the goods of the Plaintiffs. It must, I think, be borne in mind in this, as in other similar cases, that the ordinary purchaser has only the ordinary memory and that a man who has been accustomed to buy the Plaintiffs' material "Kleenoff" is quite likely to have forgotten the precise name which the Plaintiffs have attached to their material; that is to say, the precise registered trade mark of the Plaintiffs. But the one thing I should have thought he would remember is that it begins with the somewhat ridiculous word "Kleen." What he might very well fail to remember is whether it ended with the word "off" or with the word "up." So that, if a man who was ordering the goods himself wanted to give a repeat order for "Kleenoff" he might very well make a mistake, especially if he saw the word "Kleenup" in the shop where he was giving the order and order that stuff believing it to be the Plaintiffs' "Kleenoff." But, apart altogether from the man who himself has given the order, and may have and probably has an imperfect memory, the fact has also to be borne in mind that goods are frequently ordered on the telephone, and are frequently ordered on behalf of the purchaser by a domestic servant. In both those cases, even though the name had been correctly given and was intended to be correctly given on the telephone the receiver at the other end of the telephone might very well mistake "Kleenoff" for "Kleenup." The domestic servant might very likely, too, make a mistake, and instead of ordering "Kleenoff" order "Kleenup."

It may be said that the marks in question in the "Kleenoff" case more clearly suggest the probability of confusion than the marks in the case presently before me for decision, but it seems to me that persons might very easily and readily be confused or mistaken in receiving an order for the beverage of either the plaintiff or defendant, if hurriedly or carelessly given or pronounced, particularly over the telephone; and confusion might easily occur if the emphasis happened to be placed on the last part of the hyphenated word mark, and, in this particular case, I think there would be a tendency so to do. And further, there would, I think, be a probability of confusion resulting from the probable tendency on the part of many persons to abbreviate one or other of the marks, or both marks, into "Cola," which would render it easily possible for a person to be given a beverage he really had not in mind.

In the matter of an application by *Magdalena Securities, Ld.* (1), for registration of the word "Ucolite" as

(1) (1931) 48 R P C 477, at p 487.

a trade mark for partially coked coal, the mark "Coalite" being earlier registered and in use, Maughan J., on appeal from the Registrar who had allowed the registrations, said:—

I would add this, that people who have heard of "Coalite" as a fuel and who have been recommended to "Coalite," may well think on another occasion when they are offered "Ucolite" that the substance "Ucolite" is the substance of which they have heard a good account. It is actually in evidence before me that "Coalite" is constantly spelled with the "a," and that "Coalite" is often ordered with a "K," beginning the first syllable with "Ko." I have referred to foreigners and girls—girls who come from the elementary schools—who are employed when fuel runs out to go to the telephone, or to go round to a Coal Office, and order goods, and I am not satisfied that if they have been told to order "Coalite," if the coal merchant were to say, "What you want is "Ucolite," they would not gladly accept that view. And, on the telephone, the case is even stronger, because anybody who knows how difficult it sometimes is either to hear or to make oneself heard on the telephone, in certain conditions which constantly arise, will know that you cannot pronounce words quite in the way in which they are pronounced in ordinary speech to a person who is standing beside you. I venture to think that nobody wanting to order "Ucolite" on the telephone would say "I want a ton of 'Ucolite,'" with the accent on the 'U'; he would have to pronounce the syllables quite separately; and then some trouble comes in by reason of the fact, or the possible fact, that the man at the other side had caught the syllables "Co-lite" very distinctly and had not caught the vowel "U." As a matter of fact, the vowel "u" is a very difficult vowel to make plain on the telephone and it seems to me not at all improbable—and the evidence before me tends to show that it would be very probable in actual use,—that the person ordering on the telephone "Coalite" would be asked if he meant "Ucolite" and would consent, he not having heard the "U," or vice versa. In my opinion, therefore, it is not improbable that orders given over the telephone, even by moderately intelligent people, will result in confusion if both the articles are in common use; and I think with regard to verbal orders given by people without a high standard of education, or without the educated man's habit of pronouncing the first syllable of a three-syllable word as being the principal syllable on which to lay emphasis, they also will lead to confusion.

In *Davis* v. *The Sussex Rubber Co. Ld.* (1), the trade mark "Ustikon" was registered and in use by the plaintiff since 1919, in respect of rubber soles for boots and shoes, and the infringing mark, also registered, was "Justickon," used also in connection with rubber soles. In this case the trial judge, Russell J., found that the word "Justickon" was liable to be confused with the word "Ustikon," and that therefore there was infringement. I wish to refer particularly to a small portion of the

(1) (1927) 44 R.P.C. 412

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remarks of Lawrence J., on appeal, at page 429 of the reported case. He said:—

The Appellants' mark contains the whole of the Respondent's mark with the sole additions of the two letters "J" and "c." The Appellants contended that, so far as the last two syllables of both marks were concerned, they were common to the trade and that the addition of the initial letter "J" sufficiently differentiates their mark from the Respondent's so as to prevent it being an infringement or calculated to deceive In my judgment, this contention is ill-founded. In the first place, I think that for for the purpose of judging whether there has been an infringement or whether there is likelihood of deception the whole mark should be looked at and that it would not be right to ignore altogether that part of the mark which, if standing alone, would be incapable of distinguishing the goods. And, in the next place, even if it were right to ignore the last two syllables of both marks, the distinction between the letter "U" and the letters "Ju" is, in my opinion, not sufficient either when written or when spoken to prevent the latter from being an infringement and from being calculated to mislead.

In arriving at a conclusion as to what resemblance is sufficient to justify an injunction against infringement and passing off, the Court must have regard (*inter alia*) to the other marks used in the trade, the probable purchasers and the places where the goods are likely to be sold Taking all these matters into consideration, I agree with the learned Judge that the Appellants' mark "Justickon" is an infringement of the respondent's mark "Ustikon," and that there is a likelihood of deception owing to the close resemblance of the two words.

In the matter of applications by *Wheatley Akeroyd & Co. Ld.* (1), the court had to consider whether the marks "Vyno" and "Vino" should be registered in respect of toffee, the trade mark "Harvino" being already registered in respect of confectionery and used for toffee. On appeal from the Registrar, allowing the applications, it was held that neither of the marks applied for should be registered because they so closely resembled the trade mark "Harvino" as to be calculated to lead to confusion. In that case Sargant J., at pp. 140, 141, said:—

The law on the subject has been concisely summed up in the judgment of the late Lord *Parker,* when a Judge of first instance. *In the Matter of an Application by the Pianotist Company Ld.,* reported in 23 Reports of Patent Cases, at page 774. He says this:—"You must take the two words. You must judge of them, both by their looks and by their sound You must consider the goods to which they are to be applied. You must consider the nature and kind of customer who would be likely to buy those goods. In fact, you must consider all the surrounding circumstances, and you must further consider what is likely to happen if each of those trade marks is used in a normal way as a trade mark for the goods of the respective owners of the marks. If, considering all those circumstances, you come to the conclusion that there will be a confusion—that is to say, not necessarily that one will be injured

(1) (1920) 37 R.P.C. 137.

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and the other will gain illicit benefit, but that there will be a confusion in the mind of the public which will lead to confusion in the goods—then you may refuse the registration, or rather you must refuse the registration in that case" Here the word "Harvino" is a word from which the first letter, as the word would be pronounced by a large number of those who buy the toffee, would be conspicuous by its absence. I think it is also clear that in the pronunciation of the word the second syllable would be the syllable on which the accent is laid. And the first syllable, especially when the first letter is omitted, has a slurring sound about it, not a sound at all calculated to arrest attention. Under those circumstances, when children go and ask for small quantities of toffee, I think it would be extremely likely that the word "Vino" would be confused with the word "Harvino" Mr. *Gray* has argued that, if I refuse the registration, I shall be giving to the proprietor of the word "Harvino" a monopoly of the two syllable word "Vino" I do not think that that will be the result of my decision. I expressly disclaim any result of that kind I think it is quite possible that the two syllables "Vino" may be used in conjunction with some other syllable, either preceding or following those two syllables, so that there would be no probability of confusion between the ultimate result and the already registered word "Harvino" But, as between the word "Harvino" and the word "Vino." I do think that there would be a considerable probability of deception among the class of persons who would be asking for the toffee. Accordingly, I allow the Appeal.

I now turn to certain American cases which are apposite here because in each case the owner of the registered trade mark "Coca-Cola," the plaintiff's parent company, sought to establish infringement, or passing off, of its mark, and which mark is precisely the same as that of the plaintiff's in this case. In the United States there apparently developed, as later in Canada, a rather widespread tendency to imitate the mark "Coca-Cola," in connection with beverages of the same character, and there we find that there was registration and use, or use simply, as trade marks, of the world "Coca," or "Cola," or variants of the same, and usually one or other of such words would be hyphenated with another word. In one case the trade mark "Pepsi-Cola" was the offending mark, and in another even the exact mark "Coca-Cola." The case of *Coca-Cola Company* v. *The Koke Company of America* (1), will first be mentioned. The defendant's trade mark in that case was the word "Koke," and action was brought by the plaintiff to restrain infringement of its mark by the use of the word mark "Koke," with the result that the action was sustained by the court of first instance and the defendant was restrained from further use of its mark. It was

(1) (1916) 235 Fed. Rep. 408.

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held that the word "Koke" was selected for the purpose of reaping the benefit of the reputation and advertising of the plaintiff, and because it would permit the defendants to better dispose of their product as and for Coca-Cola. This decision was reversed by a Circuit Court of Appeals (1), but only on the ground that the plaintiff was held chargeable with certain deceptive and fraudulent conduct in the advertising and sale of its product which, it was held, precluded a court of equity from granting any relief to the plaintiff in the protection of its trade mark or business. On appeal to the Supreme Court of the United States (2), the decision of the court of first instance was restored. There were thus three courts which held that, on the merits of the case, the mark "Koke" infringed that of "Coca-Cola." The judgment of the Supreme Court of the United States was delivered by Mr. Justice Holmes. He said, at p. 145:—

> It appears that after the plaintiff's predecessors in title had used the mark for some years it was registered under the Act of Congress of March 3, 1881, c. 138, 21 Stat. 502 and again under the Act of February 20, 1905, c. 592, 33 Stat. 724. Both the Courts below agree that subject to the one question to be considered the plaintiff has a right to equitable relief. Whatever may have been its original weakness, the mark for years has acquired a secondary significance and has indicated the plaintiff's product alone. It is found that the defendant's mixture is made and sold in imitation of the plaintiff's and that the word Koke was chosen for the purpose of reaping the benefit of the advertising done by the plaintiff and of selling the imitation as and for the plaintiff's goods. The only obstacle found by the Circuit Court of Appeals in the way of continuing the injunction granted below was its opinion that the trade mark in itself and the advertisements accompanying it made such fraudulent representations to the public that the plaintiff had lost its claim to any help from the Courts. That is the question upon which the writ *certiorari* was granted and the main one that we shall discuss.

Mr. Justice Holmes, after discussing the grounds of the judgment of the Circuit Court of Appeals, proceeded to say, at p. 146: —

> . . . We are dealing here with a popular drink, not with a medicine, and although what has been said might suggest that its attraction lay in producing the expectation of a toxic effect the facts point to a different conclusion. Since 1900 the sales have increased at a very great rate corresponding to a like increase in advertising. The name now characterizes a beverage to be had at almost any soda fountain. It means a single thing coming from a single source, and well known to the community. It hardly would be too much to say that the drink characterizes the name as much as the name the drink. In other words,

(1) (1919) 255 Fed. Rep. 894. (2) (1920) 254 U.S.R. 143.

Coca-Cola probably means to most persons the plaintiff's familiar product to be had everywhere rather than a compound of particular substances. . . . . It appears to us that it would be going too far to deny the plaintiff relief against a palpable fraud because possibly here and there an ignorant person might call for the drink with the hope for incipient cocaine intoxication. The plaintiff's position must be judged by the facts as they were when the suit was begun, not by the facts of a different condition and earlier time.

In *Coca-Cola Co.* v. *Chero-Cola Co.* (1), it was held by the Court of Appeals for the District of Columbia, on appeal from the Commissioner of Patents, that the mark "Chero-Cola" was so similar to that of "Coca-Cola," as to be likely to cause confusion in the public mind or to deceive purchasers, and that the application for registration of "Chero-Cola" should be refused. In that case Smyth C.J., in the course of his judgment, at p. 756, made the following observations:—

Opposer has been using its mark since 1886, while applicant did not adopt its mark until 1911. It is conceded that the goods of the parties have the same descriptive properties, and therefore there is but one matter for our decision, namely, whether or not the marks are so similar as to be likely to cause confusion in the public mind or to deceive purchasers.

Nearly 3,000 pages of testimony were taken, and elaborate briefs have been filed. Many decisions by courts in this country and in England are cited, and, besides, we are invited to listen to the teaching of psychology on the subject. None the less the question in dispute is a simple one, and the principles by which its solution may be reached have been often declared and applied by this court.

It is true that, if we analyse the two marks, differences will be found. They do not sound quite alike, and the number of letters in each is not the same; but these are only arguable differences, which are not enough to defeat the opposition.

Each of the marks embraces two hyphenated words. "C" is the first letter in each mark, and "Cola" the last word in each. The image which one mark paints upon the mind is not clearly different from that made by the other mark. To require that the line which separates marks should be well defined is not to ask too much, since the field from which a person may select a mark is almost limitless. If he is not content with a word to be found in a dictionary, he may coin one.

Of course, if the two marks were placed together, or if a person's attention was in some other way directed to them, there would be no difficulty in apprehending the difference between them. This, however, is not the way to make the test. Ordinarily the prospective purchaser does not carry more than a faint impression of the mark he is looking for. If the article offered to him bears a mark having any resemblance to the one he is thinking of, he is likely to accept it. He acts quickly. He is governed by a general glance. The law does not require more of him. *Patton Paint Co.* v. *Orr's Zinc White*, 48 App. D.C. 221.

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(1) (1921) 273 Fed. Rep. 755.

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Opposer, as we have seen, adopted its mark in 1886, and has been using it ever since, so that "the mark for years has acquired a secondary significance, and has indicated the plaintiff's (opposer's) product alone" *Coca-Cola Co* v. *Koke Co. of America*, 254 U.S. 143, 41 Sup. Ct. 113, 65 L Ed—; Millions have been spent by it for advertising its goods under the mark. During the time that it has used the mark it has been doing business in Atlanta, Ga. Applicant's place of business is a nearby town—Columbus, Ga. It, as we have said, did not commence to use its mark until 1911, twenty-five years after opposer had put into use its mark. Why was this mark selected by it, since it had so many others from which to choose? Is not its action open to the inference that the purpose was to appropriate some of opposer's business, by producing confusion in the mind of the purchasing public? Whatever the purpose may have been, it is quite undeniable that mistakes have resulted from the use of applicant's mark.

In *Coca-Cola Company* v. *Old Dominion Beverage Corporation* (1), the trade mark "Taka-Kola" was held by the Circuit Court of Appeals, Fourth District, to infringe the mark Coca-Cola. It would appear from the report of the judgment of that court that the defendant corporation was promoted by persons who had earlier been involved with the plaintiff, in a contest in the United States Patent Office, over the right to use the word "Tenn-Cola," and in which the defendant was unsuccessful. From the judgment of the Circuit Court of Appeals at p. 603, I quote the following:—

In this case it is true that the evidence does not show that the defendant ever asked any one to sell its product as Coca-Cola. It appears that in Richmond, at least, most purchasers know that Taka-Kola is in a way different from Coca-Cola On the other hand the similarity of names seems to have suggested to unscrupulous retailers that they could mix defendant's product with that of plaintiff and sell the compound as Coca-Cola; the marked likeness in taste and colour making such a partial substitution safe and easy. At one time, when in Richmond the supply of Coca-Cola ran short, this fraud appears to have been practised to an appreciable extent.

The strength of defendant's position, if it has any, must lie in the soundness of the contention which it sets up, implicitly, if not explicitly, that as Coca-Cola is not patented it has the right to make it if it will and can, or may make something as near like it as its skill and knowledge will permit; that, having produced a beverage which in all substantial respects is almost if not quite the same thing, there is no reason why it may not tell the public it has done so; and that it makes no legal difference whether to give this information it uses many sentences, or but one or only two short words. It says that, while the phrase "Taka-Kola" informs possible purchasers that the beverage it makes is very much like Coca-Cola, it also gives him to understand that it is the product of another concern. The argument is ingenious It is of course true that, because plaintiff's drink is not patented, any one who knows how can make it without leave or licence from plaintiff; but also,

(1) (1921) 271 Fed. Rep. 600.

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because it never has been patented, the name which constitutes plaintiff's trade mark for it may not, without plaintiff's consent, be either used or imitated by another.

May defendant employ, for the sole purpose of bringing its wares speedily and cheaply into notice, a variant of plaintiff's trade mark so close as to suggest the latter to every one thereby turning to its own profit the reputation which the plaintiff has built up through many years of skill and effort, and at the cost of millions expended in advertising its goods under its mark? It may tell the thirsty that its drink is not only as good as Coca-Cola, but that it believes it to be in fact the same thing; but can it do so by using plaintiff's trade mark to plaintiff's hurt? Even if there is no attempt by defendant to palm off its goods as those of plaintiff, does it necessarily follow that defendant is not unfairly competing? The right to equitable relief is not confined to cases in which one man is selling his goods as those of another. *International News Service* v *Associated Press,* 248 U S. 215, 241, 39 Sup. Ct. 68, 63 L Ed. 211, 2 A L R. 293. What in that case, upon a different state of facts was said of the respondent, is applicable to defendant's conduct here, for it, too, "amounts to an unauthorized interference with the normal operation of complainant's legitimate business precisely at the point when the profit is to be reaped in order to divert a material portion of the profit from those who have earned it to those who have not"

By using the words "Taka-Cola," and by imitating the ornamentation of the crowns of plaintiff's bottles defendant has unfairly competed and is still doing so; but has it not also infringed upon plaintiff's exclusive right to the use of its federally registered trade mark? A trade mark is property of a limited and qualified kind, it is true. It cannot exist apart from the business with which it is connected, nor in jurisdictions into which that business has not gone, leaving on one side the possible effect of a state or federal registration. But it is property still within the somewhat restricted limits thus imposed upon its owner's rights. It would seem to follow, as we think it does, that it is entitled to protection against the attempt of a competitor to use it to push his wares to the possible and probable damage of the owner. Plaintiff's rights are limited at the most to two words. All the rest of infinity is open to the defendant. It will be safe if it puts behind it the temptation to use in any fashion that which belongs to the plaintiff. It has not done so voluntarily, and compulsion must be applied.

The next case to which I would refer is that of *Coca-Cola Co.* v. *Duberstein et al.* (1), an unfair competition case, in which the trade mark "Coca-Cola" was held to be infringed by the mark "Coca and Cola." During the pendency of the case the defendants changed their mark to "El-Cola" by covering the infringing mark blown in the bottles by a paper label, which was likely to become detached. It was held that even if the paper label were permanent, it afforded no protection, and was a mere evasion and an infringement of the plaintiff's mark Coca-Cola, and in the circumstances amounted to a contempt

(1) (1918) 249 Fed. Rep 763.

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of court. The trial judge made the following remarks in the course of his judgment (p. 764):—

This is illustrative of a strange lack of perception on the part of the defendant Duberstein, and by many, as the decisions show, in cases of infringement of trade-mark and unfair competition, that the courts deal with matters of substance rather than of form, and that the odour of fraud is difficult to remove. This case reeks with it. Why does the defendant use the word "Cola" at all? And why colour its product as it does? And why adopt the same size of bottles? The only purpose is to appropriate a part of the value of the complainant's trade-mark and good will.

The use of the mark "Coca" and "Cola" was, of course, utterly indefensible and a palpable fraud, and I refer to this case only to emphasize the utter lack of *bona fides* in some of the attempts to use trade marks having a similarity to the mark "Coca-Cola," in connection with the sale of beverages.

I shall refer next to the case of *Steinreich* v. *Coca-Cola Co.* (1). There, the word mark "Vera-Coca" used to designate a soft drink, was held to be so similar to the registered mark "Coca-Cola," applied to a similar drink, as to cause confusion, and registration was refused by the Commissioner of Patents. On appeal to the Court of Customs and Patents Appeals, a court consisting of five judges, who I assume are experienced in this very class of litigation, the finding of the Commissioner of Patents was sustained. The judgment of the Court of Customs and Patent Appeals was delivered by Lenroot J. who said:—

The Commissioner of Patents held that the goods to which the respective marks are applied are substantially identical in class and descriptive properties, and that appellee had used its mark for forty years before appellant entered the field, had expended large sums in advertising its goods under its mark, and had sold such goods in very great quantities throughout the United States. In view of these facts, which are undisputed in the record, the Commissioner further held that the question to be determined was confined to a comparison of the marks. Upon this question the Commissioner said:—

"Both marks include the word 'Coca'; the applicant places the notation 'Vera' before the word and the opposer places the word 'Cola' after the common word, and both parties separate their words by a hyphen. It is at least reasonable to suppose that customers in ordering goods of this kind might abbreviate the entire name or notation and if this were done the goods of the opposer and those of the applicant might well be called for by the word 'Coca.' At any rate the goods are of the character to be ordered carelessly without much thought or consideration and it is deemed at least probable there would

(1) (1933) 67 Fed Rep. (2nd) 498

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be some confusion of goods as well as of origin. Those familiar with the opposer's trade-mark and goods might be led to think even if the difference in the trade-marks were noted, that the applicant's goods had their origin with the opposer; and that the latter was putting out a new kind of beverage. It is considered the applicant has approached too nearly opposer's trade-mark and should have, from the practically unlimited field before him, selected a mark as to which there could be no question of confusion."

The decision of the examiner of trade-mark interferences sustaining the opposition and adjudging the applicant not entitled to the registration for which he has applied is affirmed.

We are in entire agreement with the foregoing conclusion of the Commissioner. Appellant challenges the statement of the Commissioner that the goods upon which the marks are applied are of the character to be ordered carelessly without much thought or consideration.

The goods to which the marks of both parties are applied include syrups which are sold to proprietors of soda fountains and like dispensaries, and the drink of which such syrup is an ingredient is sold to the public. While it is no doubt true that dealers would not carelessly order the goods, the purchaser of such drinks at the soda fountain would not be apt to exercise care and precision in giving his order. As was said by the Circourt Court of Appeals, Sixth Circuit, in the case of *Federal Trade Commissioner* v. *Good-Grape Co.*, 45 F. (2d) 70, 72, with respect to a soft drink of a different character: ". . . The average purchaser makes for himself only a casual, if any, examination of the real character of this five-cent drink. . ."

We are also in agreement with the Commissioner that customers, on ordering goods of the kind here involved, might abbreviate the entire name or notation, and that, if this were done, the goods of appellant and appellee might well be called for by the word "Coca." Testimony introduced by appellant is to the effect that customers at soda fountains often order appellee's product "Coca-Cola" by ordering a "small coke" or a "large coke."

In the same judgment reference is made to the case of *Coca-Cola Co.* v. *Carlisle Bottling Works* (1), an action for infringement and unfair competition, wherein it was held by the District Court for the Eastern District of Kentucky, affirmed by the Circuit Court of Appeals, Sixth Circuit, that the trade mark "Roxa Cola" did not infringe the mark "Coca-Cola." Concerning this case, Lenroot J. said (p. 500):—

We have examined the opinions in that case and do not find it necessary to express either approval or disapproval of the conclusion there reached. It is sufficient to say that under the facts in the case at bar, which differ in material respects from the facts in the case last cited, we are satisfied that there was no error in sustaining the opposition of appellee and denying appellant's application for registration.

From this it may at least be inferred that if the Court of Customs and Patent Appeals were considering an application to register as a trade mark the words "Roxa Cola,"

(1) (1929) 43 Fed. Rep. (2nd) 101 and 119.

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it would refuse the same. The judgment of the Circuit Court of Appeals in the "Roxa Cola" case, on the question of infringement, seems to me to proceed upon the basis that the trade mark "Coca-Cola," quoting from the judgment of the trial judge, "has been burned into the consciousness of the people generally. Instinctively one recalls in memory its appearances and sound," and that the dissimilarity in the two marks would instinctively be observed, and that deception would be impossible; with respect I would be inclined to think that, in the circumstances, this would have afforded some support for the plaintiff's contention in that case. It was also held by the Circuit Court of Appeals that the plaintiff had acquiesced in the defendant's use of the trade mark "Roxa Cola"; that there was no evidence that any casual purchaser was ever deceived by the manner of use of the defendant's trade mark; and that there was no substantial evidence of any actual intent by the defendant through its officers or agents to deceive by the use of its trade mark. These findings of fact appear to me more relevant in an action for unfair competition, or passing off as we usually call it, than to one for infringement. The facts in the Roxa Cola case may have justified the finding that the charge of passing off was not established.

Finally, and in the same connection, I shall refer to the cases of *Coca-Cola Company* v. *Loft Inc.*, and *Coca-Cola Company* v. *Happiness Candy Stores Inc.* (1), passing off actions, heard together, and decided in June, 1933. Both parties here seem to draw comfort from the result in those cases. Mr. Guth, who gave evidence at the trial here for the defendant Pepsi-Cola Company, was interested in the business of both defendants, and he is presently General Manager of the American Pepsi-Cola Company, which in turn controls the defendant company. Loft Inc., and Happiness Candy Stores Inc., owned or controlled a great number of shops in New York City, and perhaps elsewhere, in which the beverage "Pepsi-Cola" was sold, from soda fountains only; as a result of the trial and judgment of those two cases, the defendants, and the American Pepsi-Cola Company, turned to the use of bottles exclusively, at least I so understand. At the instance of agents

(1) (1933) 167 Atlantic Rep 900

or investigators of the plaintiff Coca-Cola some six hundred and twenty different orders for Coca-Cola were given in the shops of the defendants, and they were in all cases served with Pepsi-Cola, and not Coca-Cola. The report of the cases sets forth the following facts (p. 901):—

Prior to September 26, 1931, Coca-Cola was sold in all these stores. On that date its sale was discontinued and the Loft management introduced in all the stores managed by it a drink, new to New York and vicinity, called Pepsi-Cola, a drink made in a manner similar to that of Coca-Cola and resembling the latter in colour. After September 26, 1931, no Coca-Cola was sold in any of the stores under the Loft management. The president and some of the other officers of Loft Inc. have acquired a substantial interest in the company that manufactures Pepsi-Cola—enough of an interest to give them a working control of that company. The son-in-law of Mr. Guth, president of Loft Inc, is in charge of the management of the Pepsi-Cola Company.

Coca-Cola is a well known beverage upon the promotion and exploitation of which the complainant has spent in advertising alone since 1886 more than sixty million dollars. Coca-Cola is familiarly and very extensively known It is called for by the public both under the name of Coca-Cola and Coke.

The complainant charges the defendants with substituting and passing off, without explanation or comment, in response to calls for Coca-Cola, a product not the product of the complainant and not containing complainant's Coca-Cola syrup, but closely imitating complainant's product in colour, appearance and taste, in fraud of the purchasing public and in violation of complainant's rights. The substitute so charged as having been passed off is Pepsi-Cola.

The action was dismissed on the ground which will presently appear from excerpts from the judgment of the Chancellor of the Court of Chancery of Delaware. He said (p. 901):—

There is practically no dispute in these cases upon material matters of fact. The uncontradicted evidence shows that substitutions were made by employees of the defendants of a product other than Coca-Cola for that beverage when calls for the same were made at the Loft and Happiness, as well as at their Mirror stores.

* * * * * * * * *

Where, as here, the facts specified to by the complainant's investigators are in no wise challenged either by direct evidence or by any circumstance other than the mere fact that the witnesses were employed by the complainant to investigate the defendant's behaviour, there can be no possible justification for the court's refusal to lend credit to the witness-investigators.

He then proceeds to state that there were six hundred and twenty substitutions made in forty-four stores by forty-one soda dispensers at fountains, and fifty-nine waitresses at tables. The Chancellor then proceeds (p. 903):—

The proposition is of course a general one that a principal is responsible for the acts of his agent done in the course of his employ-

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ment. As I read the cases, however, the law refuses to apply that general principle so far as to hold that a fraudulent intent to injure another in his trade will be conclusively presumed against an employer from the acts of a clerk. The principle may be deduced from the case I think, that if it is shown that clerks or salesmen engaged in acts which constitute unfairness in trade towards another, a *prima facie* case for an injunction is made out against the employer. The burden is thrown upon the defendant employer to rebut the presumption thus raised against him, and if he can exculpate himself by showing that he was entirely innocent of any participation in the wrong or connivance in its perpetration, injunctive relief against him will be refused.

This I am aware is contrary to the authority of the English case of *Grierson-Oldham & Co., Ltd* v. *Birmingham Hotel & Restaurant Co. Ltd.,* 18 R.P.C. 158, where it was held that as a corporation acts through agents and as the waiters of a defendant were its agents acting for it in its restaurants, the acts of the waiters in substituting a wine not made by the complainant on calls from customers for complainant's wine, were attributable to the defendant with all their inculpating intent, and that the *bona fide* attempt of the defendant, by appropriate orders in that behalf, to prevent its employees from resorting to any such trickery constituted no excuse, and that an injunction should issue against the employer-defendant.

The Scottish case of *Montgomrie & Co. Ltd.* v. *Young Brothers,* 21 R.P.C. 285, overruling 20 R.P.C. 781, is an authority directly opposed to the English case just referred to. In the case against Young Brothers, Lord Justice Clerk observed with respect to a case simply of a servant violating accidentally or otherwise the instructions of the master by substituting one product for another in violation of the complainant's rights—"in a case of that kind to say that the remedy is to interdict (or as we would say to enjoin) the master and punish him for breach of interdict, that is to say, for his contempt of the court which has granted it, if his servant or any servant in any of his shops should ever violate his instructions again—to maintain such a proposition is certainly not in my opinion to be accepted. The maintenance of such a proposition is not to be sustained."

The cases in this country in principle support the same view. They are to the effect that substitutions made by salesmen, though deliberate, will not be received as fixing an intent on the part of the employer where the circumstances are such as to justify the belief that the offending acts were done without the assent or in violation of the honest instructions of the employer . . .

The Chancellor held that upon the evidence he was unable to attribute to the defendants any intention to substitute Pepsi-Cola for Coca-Cola, and that there was a strong indication of *bona fides* on the part of the defendants to prevent the happening of the acts complained of. The actions were therefore dismissed.

It must be remembered that in each of the cases just above referred to the action was for passing off, and not for infringement, and that the ground on which they failed was upon the point of law that the principal was not responsible for the acts of its agents, but the Chancellor held that it was manifestly clear that the plaintiff's investigators, calling for the plaintiff's beverage Coca-Cola, were served from soda fountains with the defendant's beverage, Pepsi-Cola. Whether the method pursued by the plaintiff's investigators in giving their trap orders was fair and proper I cannot say from the report of the cases, but in any event it was found that in six hundred and twenty instances, Pepsi-Cola was sold as Coca-Cola. It may fairly be presumed that at least a fair proportion of the orders for Coca-Cola were given in a distinct and careful manner, and were perfectly understood by the employees executing the orders. The Chancellor does not appear to criticize the manner in which the investigators ordered the purchases at the stores of the defendants. The facts show how extensively fraud was practised, and while Pepsi-Cola is sold by the defendant only in bottles in Canada that would not necessarily be an obstacle in the way of serving unsuspecting customers with Pepsi-Cola instead of Coca-Cola, and with comparative immunity, by dishonest retailers or their servants, if so inclined. So while in those two cases the court felt unable to impeach the rectitude of the principals in the matter, that does not furnish an answer to the contention here that on account of the similarity of the marks, and other circumstances, there is the probability of confusion arising, and the possibility of deception being practised. It is not to be inferred from the judgment of the Chancellor that had he been dealing with an action for infringement he would not have found, on the facts before him, that there was infringement. On the whole these cases seem to me to render very formidable support to the plaintiff's contention, that if the marks Coca-Cola and Pepsi-Cola are contemporaneously used, for the same class of beverage, and having the same general appearance, there is a likelihood of confusion resulting from one or more causes, particularly in the retail sale of such beverages directly to the consumer.

I might add here that in actions for either infringement or unfair competition, brought by the owner of the trade mark Coca-Cola in the courts of the United States, use of the following marks have been restrained: "Koke," "Epso-Kola," "Takola," "A Genuine Coca And Cola Flavour," "Crescent Coca-Cola," "Extract of Coca and

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Kola," "My Coca," "Co-Cola," "Cola," "Fletcher's Coca-Cola," "Cura Cola" and "Kents Coca-Cola"; and the cases show that the following marks, upon the opposition of the American Coca-Cola Company, have been refused registration in the United States; "Sola-Cola," "Taka-Cola," "Kel-Kola," "Ko-Co-Lem-A," "Carbo-Cola," "Penn-Cola," "Tenn-Cola," "Citra-Cola," "Coca-Cola" applied to "Spearmint Pepsin Gum," "Kaw Cola," "Celro-Kola," "Sherry-Coke," "Mitch-O-Cola," "King-Cola," "Silver-Cola," "Qua-Cola," and "Prince Cola." And in default judgments, or judgments by consent of the parties, in actions brought by the owners of the mark Coca-Cola, use of the following marks was restrained by the United States courts: "Toca-Coca," "Star-Coke," "Coke," "Cola," "Ko-Kola," "Hann's Coca & Kola," "Coke-Ola," "Kos-Kola," "Cofa Kola," "Koka-Nova," and "Koke." All of the marks above mentioned—which probably does not exhaust the list—were used in respect of so-called soft drinks, or registration was sought for that purpose. The point which I particularly wish to emphasize in connection with the many marks just referred to, and the many marks referred to in the defendant's particulars, is the very extensive use or registration in the United States and Canada, of trade marks bearing some conspicuous resemblances to that of the defendant, and to the conclusion to be drawn therefrom I shall later refer.

It will have been observed that I quoted liberally from judgments rendered in the English and American cases referred to, and the reasoning and general result of the opinions there expressed, in the American cases particularly because there the trade mark "Coca-Cola" was in issue, pretty accurately express my own views upon the question of infringement in the case under discussion. The question of infringement cannot fairly or properly be disposed of by taking the two marks in question, placing them side by side, and critically comparing them; if that is done the marks may exhibit various differences, yet the main idea left in the mind by both may be the same. A person acquainted with the mark first registered, and not having the two side by side for comparison, might well be deceived, if the goods were allowed to be impressed by the second mark, into a belief that he was dealing with the goods which bore the mark with which he was acquainted. In such a case the dissimilarities are not put before or explained to the consumer; he can only contrast the mark upon the goods offered to him with his recollection of the mark upon the goods he is seeking to buy, and allowance must be made for this in estimating the probability of deception or confusion. It would be too much to expect that persons dealing with trade marked goods, and relying, as they frequently do, upon marks, should be able to remember the exact details of the marks upon the goods with which they are in the habit of dealing. The proper course is to look at the marks as a whole, and not to disregard the parts which are common. Any other rule would be of no practical use. Then regard must be had to the nature of the goods to which the marks are applied, the similarities in the goods regardless of their dress, the nature of the market, the class of people likely to become purchasers, the appeal to the ear as well as the eye the probability of deceiving the unwary or uncritical purchaser, the opportunity afforded retailers and their employees to practice deception upon the unsuspecting customer, the liability to error and confusion in transmitting and receiving orders for the goods by telephone, the effect of the tendency to abbreviate trade marks which readily lend themselves to that practice, the fact that the first registered mark has been long and widely known, and any other special features associated with trade marks in conflict, illustrated in this case by the conspicuous scroll effect, or flourishes, in the formation of each mark.

It is quite apparent that a great deal of litigation has already arisen in the United States, and possibly more is pending, involving a much similar state of facts to that which we have here; and considerable litigation of the same nature has arisen in Canada, though so far as I know, none, excepting this case, has so far reached the trial stage. In some of the United States cases to which I have referred the courts have attributed the adoption and use of the infringing mark to the hope of obtaining some business advantage or advertising from the established position of Coca-Cola in the market, at the expense of the producer of Coca-Cola. It puts a great strain upon

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one's credulity to believe that the registration and use of so many of the marks mentioned, in the United States and Canada, in respect of low priced beverages which so often look much alike, was not intended for that purpose. All this could hardly be accidental. I can hardly believe that the many persons adopting as a trade mark, for beverages of the character in question, a compound word, or any two words, comprising either the word "Coca," or the word "Cola," or variants of such words, did not do so with the expectation of reaping some advantage from the wide acquaintance of consumers with Coca-Cola; and variants of registered marks are not usually looked upon with favour by the courts. If one person can do this with immunity, then a thousand may do it, surely an undesirable situation from the public standpoint alone, and one which, in my opinion, only accentuates the inherent weakness of the contention here advanced on behalf of the defendant in respect of the charge of infringement.

Mr. Herridge stated that in the City of Montreal and contiguous areas, the "Cola drinks," as he put it, that is beverages sold under some such name, were extremely popular and that the demand therefor was abnormal. The phrase "Cola drinks" has frequently been employed by defendants in actions for infringement brought by the owners of the mark Coca-Cola, and the purpose is to suggest the idea that "Cola" is descriptive of a well known type of beverage, and hence that no one is entitled to the exclusive use of such a word as or in a trade mark. I shall have occasion to refer to this later. I know from my own experience, in applications for interlocutory restraining orders in infringement actions brought in recent years by the plaintiff, that in the Montreal area several beverages have been produced and put on the market under trade mark names employing one or other of the words "Cola" and "Kola," generally in combination with another word, and it is possible that such beverages are referred to as "Cola drinks"; I might observe that this would go to show a tendency to abbreviate marks, such as those of the plaintiff and defendant here and this I have already referred to. I have no doubt that this has occurred in other areas. If "Cola drinks" are well known or in unusual demand in the Montreal area, or elsewhere, I am inclined to think that it might more safely be said that this was due to the fact that a considerable section of the consuming public has come to associate "Cola drinks" with the plaintiff's beverage. Any unusual demand for beverages of this character usually begins with a taste or preference developed therefor among consumers, by a first producer who has popularized and made known the same. When I look over all the marks registered or used in Canada, and in the United States, for beverages of the character in question, I am not inclined to think that the registrants or users were really so much distressed over making it certain and clear that their potential patrons would be satisfied that their beverage was made from the exotic "Cola" or "Kola" nut, or flavoured therewith, or that they would get a "Cola drink," as they were to select a name for their beverage that might quickly and cheaply be popularized and made known; and in that state of mind, I think, the selections were made as close to that of the plaintiff's as they respectfully could go. If registrants and users of such marks desired the public to clearly understand that their beverage was meritorious and of their own manufacture, why would they not adopt a wholly new and distinctive trade mark, one that was so entirely free from resemblance to the plaintiff's mark that no one would ever harbour the idea of infringement? Why should all these trade marked beverages follow in the wake of the entry of the plaintiff's beverage on the market, and expand in numbers with the years? To me, all this has a cumulative effect adverse to the defendant's contention, and lends weight to the contention that Pepsi-Cola, and others of such marks were registered and put into use in Canada for the purpose of obtaining some commercial advantage from the long acquaintance of the public with the plaintiff's beverage. My conclusion is that there is infringement here, and that barring other points of defence the plaintiff is entitled to succeed.

The defendant contends that on other grounds the plaintiff cannot succeed in its action for infringement, and these must be considered. It was contended that the plaintiff has so permitted others to use its trade mark that it is now without distinctiveness, and is *publici juris*, and in support of this allegation the defendant's statement

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of defence is accompanied by an exhibit giving the names of over seventy persons, or concerns, bottlers they are called, who were authorized by the plaintiff, it is said, to use its mark. The plaintiff produces a syrup, also called Coca-Cola, to which is added carbonated water in the making of the Coca-Cola beverage, and this is retailed in bottles, or by the glass from soda fountains or like dispensaries. The plaintiff, in some of its plants, manufactures the Coca-Cola beverage which it sells to dealers, in bottles. And it sells to a large number of independent persons, or bottlers, the Coca-Cola syrup from which such persons make the beverage Coca-Cola by adding carbonated water, according to a formula furnished by the plaintiff, and this such persons bottle for sale; such persons, or bottlers, are, I understand, under a contractual obligation to sell the same, the bottles being furnished by the plaintiff, only under the name of "Coca-Cola." This, I assume, would also apply to those who similarly make the same beverage, and dispense it from soda fountains, but of this I am not sure. I do not think that in that state of facts the law supports the contention of the defendant that this practice voids the plaintiff's mark. Such beverages, so bottled, indicate to the public that the plaintiff has assumed responsibility for their character or quality, and they are known to the public as the plaintiff's beverage. This arrangement in the production of an article of this kind is virtually a production by the plaintiff itself, and I do not think that this contention of the defendant is one of substance.

It was urged on behalf of the defendant that the plaintiff's mark is descriptive, and if not descriptive then misdescriptive, and therefore void. Sec. 2 (*m*) of the Unfair Competition Act enacts that:—

"Trade mark" means a symbol which has become adapted to distinguish particular wares falling within a general category from other wares falling within the same category, and is used by any person in association with wares entering into trade or commerce for the purpose of indicating to dealers in, and/or users of such wares that they have been manufactured, sold, leased or hired by him . . .

Section 26 (1) (*c*) reads:—

Subject as otherwise provided in this Act, a word mark shall be registrable if it

(*c*) is not, to an English or French speaking person, clearly descriptive or misdescriptive of the character or quality of the wares in connection with which it is proposed to be used . . .

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It is established, I think, that the plaintiff is entitled to the exclusive use of the mark "Coca-Cola," in Canada, and I think it may now be presumed that the plaintiff's mark has become adapted, in Canada, by its long and extensive use by the plaintiff, and its predecessor in business, to distinguish the goods of the plaintiff, and this presumption has not in any way been rebutted, in fact I do not think it has been even put in question. Further, I do not think that the plaintiff's mark is descriptive or misdescriptive. I do not see how it can be said that the compound word "Coca-Cola" is descriptive of the plaintiff's beverage, largely composed of carbonated water, even if it contains a flavouring of Coca leaves or the Kola nut, which indeed has not even been properly established here if it were a vital point. The plaintiff's syrup, "Coca-Cola," is made according to some secret formula, and which was not disclosed. As used, the mark indicates, and has come to mean, merely the name of the beverage manufactured by the plaintiff. It has no other name. As used, I think it is but a coined word mark, and is not "clearly descriptive" of the character of the beverage. I should think that the words comprising the plaintiff's mark were unknown in this country, at least as the name of a beverage, before the plaintiff's predecessor in business came to use the same for that purpose, and I doubt if it would occur to any one that the beverage was made from Coca leaves and the Kola nut both of which products would be unknown to most people in Canada at the date of the adoption of the mark as the name of a beverage. It seems to me that "Coca-Cola" is but a word mark adapted to distinguish a beverage made by the plaintiff, and in the eyes of the general public is meaningless except to distinguish that beverage and its origin, and it is not "clearly descriptive" of the character of the beverage.

This ground of attack against the mark Coca-Cola has frequently been advanced in the courts in the United States, but, so far as I know, without success. I might refer to the case of *Nashville Syrup Company* v. *Coca-Cola Company* (1), an infringement action brought by the American Coca-Cola Company, the infringing mark being "Fletcher's Coca-Cola," applied to a syrup from which a

(1) (1914) 215 Fed. Rep. 527.

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beverage was made. In that case it was urged, on appeal from the court of first instance sustaining the charge of infringement, that the mark "Coca-Cola" as applied to a syrup entering into the making of a beverage, was descriptive or misdescriptive, which contention conceivably might be applied with greater force in the case of the application of the mark to the syrup than when applied to the beverage itself. I venture to quote at some length from the judgment of the appellate court in that case, sustaining the finding of infringement in the court below, because I think what was there said may be found of some interest upon the point presently under discussion. The report of this case first states the following facts (p. 528):—

Coca is a South American shrub, from the leaves of which cocaine, among other substances, is obtained; the cola tree grows in Africa, and from its nuts cafeine may be extracted. The use of these leaves and these nuts by the natives in their respective countries and for the supposed stimulating qualities, had long been known in this country, and before 1887 extracts respectively from coca leaves and from cola nuts had found a place in the pharmacopœia. There was little popular knowledge concerning them. The extracts were used only by druggists in compounding medicine. In 1887, Pemberton, an Atlanta druggist, registered in the Patent Office a label for what he called "Coca-Cola Syrup and Extract" The plaintiff below, the Coca-Cola Company, was organized as a corporation in 1892, and acquired Pemberton's formula and label. Since that time, it has continuously manufactured and sold a syrup under the name of "Coca-Cola," and, used as a basis for carbonated drinks, the syrup, under this name, has had a large sale in all parts of the country. In 1893 the Coca-Cola Company (herein called plaintiff) registered the name "Coca-Cola" as a trade-mark, and again in October of 1905, and pursuant to the Act of February 20, 1905, the name was registered by plaintiff as a trade-mark under the 10-year proviso of that Act. Plaintiff enjoyed the exclusive use of the name from 1892 until 1910. In that year, J. D Fletcher, now the active manager of the Nashville Syrup Company (herein called defendant), became interested with others in the manufacture of a somewhat similar syrup being sold under the name "Murfe's Cola." Later in that year they changed the name of their product to "Murfe's Coca-Cola" and shortly afterwards, Mr. Fletcher became sole owner of the business, and the product was named "Fletcher's Coca-Cola," and has been sold by him and his successor, the Nashville Syrup Company, under that name . . . . .

The judgment of the court in part states (p. 530):—

The words here involved were, if fairly "descriptive" at all, not purely descriptive. and by 10 years' exclusive use they had become the distinctive appellation of plaintiff's product. To permit defendant to use them in connection with his own name is not to avoid or mitigate the wrong, but is rather an aggravation, because of the false implication that plaintiff has parted with the exclusive right. *Jacobs* v. *Beecham,* 221 U.S. 263, 272, 31 Sup. Ct. 555, 55 L Ed. 729

There remains the question whether the mark is deceptive. Defendant does not expressly make this point, but it is so bound up with the questions of how merely descriptive the words are, and whether the same words as used by the defendant are only the rightful name of its product, that is must be decided . . . . .

The argument is that the use of the name "Coca-Cola" implies to the public that the syrup is composed mainly or in essential part of the coca leaves and the cola nut; and that this is not true. The fact is that one of the elements in the composition of the syrup is itself a compound made from coca leaves and cola nuts This element becomes a flavour for the complete syrup, and is said to impart to it aroma and taste characteristic of both. This flavoring element is not in large quantity (less than 2 per cent), but it is impossible to say that it does not have appreciable effect upon the compound The question then is whether the use of the words is a representation to the public that the syrup contains any more of coca or of cola than it really does contain.

We think it clear that whether the claimed trade-mark is so descriptive of something else as to be deceptive must be decided at the time of adoption. It cannot be that rights once lawfully acquired by exclusive appropriation can be defeated by subsequent progress of public knowledge regarding some other substance of similar name. It is undisputed that during the period shortly after 1892, while this name was coming into public knowledge in connection with plaintiff's product, little or nothing was popularly known about either coca leaves or cola nuts, although existing technical or cyclopedic publications gave information. It is not important whether Pemberton's original form "Coca-Cola Syrup and Extract" was so descriptive as to be deceptive if applied to a compound not composed mainly of these ingredients. The name in which trade-mark rights have been acquired, is the compound name "Coca-Cola," and this name may not, for all purposes, be the same as if it was "Extract of Coca and Cola."

Neither of these words alone had any absolute complete meaning, but when the words were put together to make a compound term, the ambiguity of meaning was intensified If "coca" was spoken of, the reference might be to the leaves, or to a decoction or to an extract "cola" might refer to the nuts or to a powder or to a paste or a fluid; and so, when the public first saw the name "Coca-Cola," it could not know, as we said in the accompanying case, whether the substance was medicine, food, or drink, or whether it was intended to swallow, smoke, or chew. One who had all the existing available information could only infer that the new substance, whatever it was, had some connection with these two foreign things The case would be somewhat different if each of the two named elements was itself definite and certain, but neither is. To illustrate by more common substances: Sage is a shrub, used in various ways; the almond is a nut, eaten raw or prepared in numerous methods. The compound name "Sage-Almond" as a label would convey a very indefinite idea, if any, as to what would be found when the package was opened; and, if we assume that "Sage-Almond" turned out to be a drink in connection with which sage leaves and almonds had been used, we have, in this illustration, a close analogy to Coca-Cola; yet this name, applied to a soda fountain beverage, would not deceive the public into supposing that it contained all the virtues of sage tea and all of the nourishment of the almond nut meats. Such an article could honestly enough carry the supposed name "Sage-Almond," and after 20 years' exclusive use of the name it would not still be common property. A newcomer might rightfully sell (e.g) "Sage Tea"

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with "Almond Flavour"; he might not take the peculiar, precise, and really arbitrary compound name.

Plaintiff's counsel say, and so far as we can see accurately say:—

"The use of a compound name does not necessarily indicate that the article to which the name is applied contains the substances whose names make up the compound. Thus, soda water contains no soda; the butternut contains no butter; cream of tartar contains no cream; nor milk of lime any milk. Grape fruit is not the fruit of the grape; nor is bread fruit the fruit of bread; the pineapple is foreign to both the pine and the apple; and the manufactured food known as Grape Nuts contains neither grapes nor nuts"

The court then proceeds to refer to certain authorities referable to the issue there under discussion.

The defendant's Pepsi-Cola is sold in Canada in bottles only, which bottles are considerably larger than those in which the plaintiff's Coca-Cola is sold, and they are of a much different shape, and for those reasons it was contended that the defendant's Pepsi-Cola was not liable to be confused by the public with the plaintiff's Coca-Cola. The issue here relates to a word mark, and the plaintiff's mark was registered as a word mark. The get-up or dress of the bottles or containers in which Coca-Cola or Pepsi-Cola is sold has, I think, nothing whatever to do with the case, and the same is not of importance, I think, in this action. In a passing off action facts of that character might be of relevance and importance but they cannot be, I think, in an action for infringement of a word mark.

The defendant has raised a question regarding the assignment of the registered trade mark "Coca-Cola," from the registered owner to the plaintiff. The Unfair Competition Act states that "no person shall institute proceedings in any court to prevent the infringement of any trade mark unless such trade mark is recorded in the register maintained pursuant to this Act." Registration of an assignment does not, as registration of the mark itself, appear to be a condition precedent to any action for infringement by the assignee. But the want of registration will cast upon the plaintiff in any action the necessity of proving that he was the owner of the mark. The plaintiff company was incorporated in 1923, and it seems to be conceded that the plaintiff shortly thereafter acquired and took over the business and good will of the Canadian business of the parent company. That business has since been carried on by the plaintiff, using always, as did its predecessor, the trade mark "Coca-Cola" in connection with the manufacture and sale of a beverage. It appears, however, that it was not till 1930 that an assignment in writing of the mark from the parent company was registered by the plaintiff. As I understand it, the point sought to be made is that the written assignment of the mark not being contemporaneous with the transfer of the good will of the business, and that, at the date of the assignment in writing, seven years later, the plaintiff's predecessor having earlier parted with its good will in the business, the registered trade-mark had therefore terminated, and was incapable of valid assignment. The defendant admits in its statement of defence that the plaintiff was registered as the proprietor of the mark but denies that it was "now in full force and effect." It is difficult to say if this were intended to mean that the registration was void because of the allegations which I have just mentioned, or because of other reasons. I do not think I need pause to discuss the construction of this plea. The Unfair Competition Act, s. 44 (2) states that:—

> 44 (2). A registered trade-mark shall not be assigned or transmitted except in connection and concurrently with an assignment or transmission of the good will of the business carried on in Canada in association with the wares for which such has been registered, and in any case such trade-mark shall be terminated with such good will; . . .

The language of this provision perhaps fails to express with absolute clarity what I think was no doubt intended. I think this provision of the statute means only to express what always was the law, namely, that a trade mark is assignable only with the good will of a business, and not otherwise. The word "concurrently," which, I think, is surplusage, merely means that an assignment of a trade-mark to be valid must accompany, or be "concurrent" with, the sale, transfer or assignment, of the good will of a business, and that it cannot be made before or after as something apart from, and independent of, the good will of a business. The statute does not say that the assignment must be evidenced by registration of an instrument in writing, although an assignment in writing would, of course, be desirable in establishing title to a mark. The statute can hardly be construed to mean that where a business is sold and transferred to another, and the sale expressly or impliedly includes any trade marks registered and used in association therewith, that an assignment of

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the mark in writing must be made precisely contemporaneous with the sale and transfer of the business itself, and must be contemporaneously registered. I do not think s. 42 (2) means that.

It has been held in England, as stated in Kerly on Trade Marks, 6th Edition, at page 408, that it was not essential that the assignment of a trade mark and the transfer of the good will should be exactly contemporaneous, or that there should be any legal conveyance of the latter if the assignee is equitably entitled to it; it is also stated by the author that where a company sold its trade marks and the good will of its business, but was dissolved without its making any assignment to the purchaser, the equitable owner was registered as the proprietor of the trade marks; and authorities are referred to in support of such propositions. The section of the English Trade Marks Act in force at the date of such authorities was to the effect that a trade mark when registered shall be assigned and transmitted only in connection with the good will of the business concerned, in the particular goods for which it has been registered, and shall be determinable with that good will. In the case of *In Re Welcome's Trade Mark* (1), Chitty J. held that it would be too narrow a construction of that section to read it as if the assignment of the trade marks must be contemporaneous with the assignment of the good will; he said: "That seems to me to be far too narrow a construction to adopt. But the point remains whether there must not have been some assignment of the good will, and an assignment of the good will from the person who is the registered proprietor of the trade mark." There was no suggestion that the assignment had to be registered. I think the meaning and sense of the Canadian statute is the same as that of the English Statute of 1886, notwithstanding the use of the word "concurrent" in the former.

Upon the facts here disclosed, I think, the assignment in writing of the trade mark in question, made and recorded in 1930, long prior to the bringing of this action, is to be treated as a valid assignment made in connection with the assignment of the good will of the business, and as of that date, I can have no doubt but that the plain-

(1) (1886) 32 Ch. Div. 213.

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tiff acquired along with the good will of the business the equitable title to the mark in question, and it has used that mark ever since 1923, in connection with the manufacture and sale of a beverage, known only by that mark. I would entertain no doubt but that the plaintiff would succeed in any proceeding brought by it to have the mark registered in its name, if for any cause, an assignment in writing had not been procurable, from its predecessor in business. All equities would be open to it, and might be enforced in like manner as in respect of any other personal property. I am of the opinion therefore that the defendant must fail in respect of this point.

I think I have now discussed all the important points raised by the defence. My conclusion is that the plaintiff's mark is infringed by that of the defendant, and that the plaintiff is entitled to the relief claimed and that the defendant's counter claim should be dismissed. There will be the usual consequence as to costs.

Judgment accordingly.

BETWEEN:

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Sept. 23 & 24.

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Sept. 17.

ARCHIBALD STEVENSON ....PLAINTIFF;

AND

HALSTEAD F. CROOK, ET AL. .....DEFENDANTS.

Copyright—Infringement of copyright—Copyright in bridge tallies—"Ideal Bridge Tally"—"Practical Tally"—Original work—Knowledge, skill and labour—Injunction

The action is one for infringement and conversion of copyright in an original work produced by the plaintiff and published under the title of *Ideal Bridge Tally* or *Ideal Bridge Scorer,* and registered pursuant to the Copyright Act, R.S.C., 1927, c. 32. Copies of these tallies were sold to the public through several commercial agencies including Drug Agencies Ltd., a Vancouver, B C, business concern, with which defendant was associated as salesman for 18 months and in which capacity he sold the plaintiff's *Ideal Bridge Tally* to dealers in Western Canada.

Defendant, after severing his connection with Drug Agencies Ltd, commenced manufacturing and selling the *Practical Bridge Tally,* under the name of The Practical Bridge Tally Company, of which concern he is sole proprietor

The Court found that those tallies sold by defendants were copied from plaintiff's work

Held· That the plaintiff's work is an original plan, arrangement, compilation or combination of material, for a particular purpose or use, produced by his own skill and labour, and plaintiff is entitled to copyright therein.

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ACTION by plaintiff alleging infringement and conversion of infringing copies by defendant in bridge tallies, copyright in which plaintiff claims to own.

The action was tried before the Honourable Mr. Justice Maclean, President of the Court, at Edmonton, Alberta.

J. D. Adam for plaintiff.

F. A. Ford and *Gifford Main* for defendants.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT, now (September 17, 1938) delivered the following judgment:

This is an action for infringement and conversion of copyright in what is claimed to be an original work produced by the plaintiff. It consists of sheets of letter press in sets or volumes, published under the title of "Ideal Bridge Tally" or "Ideal Bridge Scorer," and was duly registered as copyrighted pursuant to the provisions of the Copyright Act, in May, 1929. The copyrighted work, for use in the card game of Bridge, for 2, 3, 4, 5, 6 and 7 sets of tables, and for seven rounds of play, provides for such an arrangement of partners, opponents and tables, as will avoid duplication of partners and almost wholly the duplication of opponents.

I do not propose venturing upon a description of all the arrangements provided by the Ideal Bridge Tally, for partners, opponents and tables. That would consume an unnecessary amount of time and space and would probably lead to confusion and not clarity. For the purpose of illustrating the nature and purpose of the plaintiff's Bridge Tally, I propose attempting a partial explanation or description of the arrangement of players and tables designed by him for a set of five tables of Bridge.

In the production of the copyrighted work the plaintiff by means of two tables, which he designates as Tables A and B, provides for the grouping of partners, and the grouping of partners against their opponents. In Table A, in a set of five tables, that is ten couples, the grouping of partners is as follows:

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1	Plays	2	4	6	8	10	12	14
3	"	4	6	8	10	12	14	16
5	"	6	8	10	12	14	16	18
7	"	8	10	12	14	16	18	20
9	"	10	12	14	16	18	20	2
11	"	12	14	16	18	20	2	4
13	"	14	16	18	20	2	4	6
15	"	16	18	20	2	4	6	8
17	"	18	20	2	4	6	8	10
19	"	20	2	4	6	8	10	12

Here the odd numbers play with the even numbers, commencing with the low numbers and working downwards, so that No. 1 plays first with No. 2, then with numbers 4, 6, 8, 10, 12 and 14, and so on; in the six-table set the grouping is reversed and commences with the high numbers. It is conceded that this grouping is a simple one but essential to ensure that each player will play but once with every other player, as a partner.

Then having arrived at the grouping of partners set out in Table A, the plaintiff in Table B groups the partners and opponents at the different tables at which they are to play, in such a manner that the sitting partners at any table do not meet any two opponents more than twice in the seven rounds. Table B is as follows:

No. 1	No. 2	No. 3	No. 4	No. 5
1 - 2	3 - 4	9 - 10	7 - 8	5 - 6
19 - 20	17 - 18	11 - 12	13 - 14	15 - 16
3 - 12	1 - 10	13 - 2	5 - 14	19 - 8
11 - 20	15 - 4	7 - 16	17 - 6	9 - 18
3 - 6	11 - 14	5 - 8	19 - 2	1 - 4
7 - 10	13 - 16	17 - 20	15 - 18	9 - 12
1 - 12	9 - 20	17 - 8	3 - 14	15 - 6
7 - 18	5 - 16	19 - 10	13 - 4	11 - 2
5 - 10	17 - 2	9 - 14	19 - 4	1 - 6
13 - 18	7 - 12	15 - 20	11 - 16	3 - 8
1 - 14	13 - 6	9 - 2	3 - 16	11 - 4
17 - 10	15 - 8	19 - 12	5 - 18	7 - 20
15 - 2	19 - 6	1 - 8	3 - 10	7 - 14
17 - 4	13 - 20	5 - 12	9 - 16	11 - 18

The allocation of opponents, and the selection of the tables at which they are to play, as shown by this Table, is said to be the vital thing in the arrangement of players provided by the Ideal Bridge Tally, but, I was informed, there

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are many other possible combinations of players and tables. There is also Table C which shows how the Table B groupings actually work out in the several rounds of play throughout a game, but the tracing of that would be quite a lengthy and complicated matter and would not be particularly helpful. I should, however, point out that after arranging the partners as in Table A the plaintiff altered the order of the rounds of play in his published Bridge Tallies by taking the fifth round in Table A and making that his second round, and making the second round his third round, the sixth round his fourth round, the third round his fifth round, the seventh round his sixth round, and the fourth round his seventh round. This is made clear by reference to Table A where player No. 1 is to play with No. 10 in the fifth round, but in the transposition which I have just explained No. 1 now plays with No. 10 at table No. 2, in the second round, and as seen in Table B. Now this arbitrary transposition of the rounds of play shown in Table A, namely, making the fifth round the second round, and so on, was not based on any rule or system, but, very strange to say, the defendants' Practical Bridge Tally follows precisely this altered arrangement of rounds; and the plaintiff claims that it would hardly be possible for the defendants to have struck upon this particular arrangement of players, tables and rounds, by trial and error or otherwise, out of the many possible arrangements or combinations, without having deliberately copied the Ideal Bridge Tally, for a set of five tables. And this the plaintiff claims the defendants did.

The plaintiff's copyrighted Bridge Tally, the result or product of Tables A and B, for a set of five tables, is represented by the Bridge Tally reproduced below, provided for player No. 1, in what is called a mixed game—ladies and gentlemen. I should perhaps mention that copyright is not claimed for Tables A and B but only for the published Bridge Tallies illustrated by the following Tally.

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Ideal Bridge Tally
Gent. No. 1

Name ....

Play at Table No.	With Partner No.	Score
1	2	....
2	10	....
5	4	....
1	12	....
5	6	....
1	14	....
3	8	....

Total ....

This Tally shows the tables at which Player No. 1 will play and his partners, his first partner being No. 2, his first table being No. 1. The corresponding form of Tally is provided for each of the other 19 players, the Tallies of the even numbered players being printed on coloured cards, but that is immaterial. Now that illustrates the Ideal Bridge Tally for which copyright is claimed, and of which infringement and conversion is alleged. According to the arrangement of players and tables shown in the above Ideal Tally, provided for a set of five tables, no one player will play with another partner as a partner more than once, and that arrangement will avoid the meeting of the same opponents more than twice, in seven rounds. I might point out once again that in the second round, according to the Ideal Bridge Tally just above reproduced, No. 1 plays with No. 10 in the second round, due to the fact that round No. 5 in Table A has been made round No. 2 in the plaintiff's copyrighted Bridge Tally, just as I earlier explained, and which arbitrary departure from the arrangement in Table A the defendants, in their Practical Bridge Tally, follow.

The plaintiff claims that the production of his Ideal Bridge Tally required a great deal of time and labour on his part, and of this I entertain no doubt; he also claims that no one else had ever produced such a work, and so far as I can see, that contention is also established. The infringement alleged is that of reproducing and publishing the work in question, or a substantial part thereof, and particularly those Ideal Bridge Tallies provided for 2, 3,

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4, 5 and 6 sets of tables. The defendants' Tallies make provision for only six rounds of play whereas that of the plaintiff contemplates seven rounds, but that distinction is immaterial.

The plaintiff, after registration of his copyright in the work in question, issued copies of his Bridge Tally to the public through several commercial agencies including Drug Agencies Ltd., a concern carrying on business at Vancouver, B.C., and with which concern the defendant Crook was associated as a salesman for some eighteen months; and in such capacity he sold the plaintiff's Ideal Bridge Tally to dealers in the Western Provinces of Canada. On the termination of his association with Drug Agencies Ltd., Crook commenced manufacturing and selling the Practical Bridge Tally, under the name of The Practical Bridge Tally Company, of which concern he is the sole proprietor, and it is now claimed that the Practical Bridge Tally is a reproduction and copy of the plaintiff's Ideal Bridge Tally. The material for the Practical Bridge Tally was prepared by a Mr. Stuchberry at the instance of the defendant Crook, the former then being in the service of the Practical Bridge Tally Company. It is clear from the evidence that each and every Tally card, or set of Tally cards, of the Practical Bridge Tally, provided for 2, 3, 4, 5 and 6 tables of Bridge respectively, are exactly the same as the corresponding Tally cards produced by the Ideal Bridge Tally, except that the former provides for six rounds of play only while the latter provides for seven rounds. The plaintiff claims that the defendants, by Stuchberry, actually copied the Ideal Bridge Tally. On the other hand, it is the contention of the defendants that the Practical Bridge Tally was the independent and original work of Stuchberry, and entirely the product of his own efforts. If this contention of the defendants be true in point of fact then I do not think it could be held that the defendants have infringed the plaintiff's work, even if the work of each be precisely the same. It is important therefore that the evidence bearing upon this particular issue be considered carefully.

Repeating what has already been stated, the defendant Crook, while an employee of Drug Agencies Ltd., sold to dealers the Ideal Bridge Tallies. When this employment ceased he proceeded to produce and sell the Practical

Bridge Tally, utilizing the services of Stuchberry to prepare the material for such Tallies. And it also appears that Crook, when instructing Stuchberry to prepare such material, placed in the hands of the latter a three-table Ideal Bridge Tally. I propose quoting from certain of the evidence of the defendant Crook, given on cross-examination, the questions and answers being as follows:

Q Mr. Crook, you were in the employ of Drug Agencies Limited for some 18 months or more; is that correct?

A. No, not exactly.

Q. You were in its employ over 12 months at least?

A From June, 1934, until the middle of January, 1935. I was actually in their employ for that period of time.

Q. And thereafter as salesman?

A After that I was entirely on my own initiative; I represented their lines and sold their goods on a commission basis

Q And, during that time, you continuously carried the Ideal Tally, a sample of it anyway?

A Yes, up until the end of 1935.

Q. And you exhibited it to the trade and made sales in a wholesale way?

A. Yes.

Q Did it ever occur to you, after you had severed your connection with Drug Agencies Limited, that there was anything unethical in your bringing out a new Bridge Tally?

A. No, sir. That never occurred to me at all.

Q. Although the Practical Tally which you brought out was substantially the same in its general get-up?

A. The tally I brought out is entirely different apart from the back of it

Q. The printing and colouring is different but it consists of sets showing a combination of players from two up to six tables?

A. That is right

Q. You heard the evidence of the plaintiff this morning that he has compared your sets with his?

A Yes

Q. And that he finds in each case that they are exactly the same in so far as the numerical arrangement throughout is concerned?

A. Yes, I understand they are

Q You do not dispute that?

A No, but we did not know that at the time. That was discovered later when we were first threatened with proceedings

Q You admit now that each one of your tally cards in all of your five sets corresponds exactly figure for figure with the Ideal corresponding set?

A I believe they do.

Q Now you say your employee, your associate, Mr. Stuchberry, did work you out a system exactly similar to the Ideal System?

A. Not particularly the Ideal; there are the following systems: The Ideal, Meet em All, Play one Play All, Every Player your Partner.

Q You were at that time aware that a system was required?

A Not particularly, not necessarily.

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Q. You stated in evidence that you asked your friend, Mr. Stuchberry, to figure out a system for you?

A. I realized the importance of having some kind of a system printed on the back.

Q It was almost necessary that there be a system for figuring?

A. Yes, exactly.

Q. At the time you instructed Mr. Stuchberry to figure that out, did you supply him with any material to work on?

A. I gave him an Ideal Mixed 3-table set and told him to work me out a new system.

Q But you did not furnish him with any sort of tables or principles of operation or methods of computation?

A. No, sir; I did not think that was necessary.

Q. You advised Stuchberry, of course, that you had been selling these Ideal sets?

A. Yes.

Q. And you gave him one set that you had on hand?

A. Yes, and told him I had ceased selling them.

Stuchberry gave evidence at the trial on behalf of the defendants and he admitted that the Ideal and the Practical Bridge Tallies were identical but he claims that the latter was entirely his own work and produced without any reference to the plaintiff's work. I shall quote but briefly from his evidence, and that is the following:

Q. Mr. Stuchberry, you admit the full authorship of the system of computation copied into the Practical?

A. Yes, that is my work alone.

Q. On June 25th you replied to a letter received from Mr. Wilson dated June 19th?

A. Yes.

Q In your letter to Mr. Wilson you stated that the writer (meaning yourself) personally figured out the numerical part of the tallies?

A Yes.

Q. But you said up to that you had never seen an Ideal Tally?

A. Yes, but that letter was not written under oath. I made a stipulation. It was written without prejudice and since then I have admitted having seen a three-table set. That letter was written without prejudice and without authority.

The letter to which reference is here made was one from Stuchberry to the plaintiff's solicitor (Wilson), in June, 1936, and in it he stated:

We can assure you that there is no intentional infringement of copyright as the writer personally figured out the numerical part of the Tallies and never saw an Ideal Tally till this morning.

The evidence continues:

Q. You say it was written without prejudice and without authority; does that mean without the authority of Mr. Crook?

A. Yes

Q Did you make this statement without his authority, namely, that you personally did figure out the numerical part of the tallies?

A. That is correct.

Q Do you admit also that each and every individual card of the Practical Tally agrees exactly figure for figure with the corresponding card in the Ideal?

A I know that now to be a fact. In spite of the fact that it makes me appear untruthful I still maintain I made up the figures for the Practical Bridge Tally.

Q Do you admit now that it is the case that each and every individual card in the Practical, in each one of the sets, 2, 3, 4, 5 and 6 table, corresponds exactly in numerical order or arrangement with the corresponding card in the respective sets of the Ideal?

A I do admit that with the exception that we have only 6 hands, not seven

The evidence of Stuchberry falls far short of convincing me that he did not copy or imitate the plaintiff's work. I cannot accept his denial of having copied substantially the plaintiff's work. I do not believe it to be possible that he could so quickly and easily as he pretends, produce by trial and error, a Bridge Tally with an arrangement of players and tables so similar to that of the plaintiff's without having before him the plaintiff's work, when he prepared the Practical Bridge Tally, and which I think, he closely imitated. He did have in his possession the Ideal Bridge Tally for a set of three tables but in his letter to Wilson he denies ever having seen, up to June, 1936, an Ideal Bridge Tally, and no satisfactory explanation of that denial was attempted. Upon the evidence I feel compelled to hold that Stuchberry copied the plaintiff's work.

Now, is the plaintiff's work the subject of copyright? I am of the opinion that it is, and that it falls within the statutory definition of "literary work," which includes "maps, charts, plans, tables and compilations." The production of the Ideal Bridge Tally I am satisfied involved a great deal of original work, and was the product of the plaintiff's prolonged labour. The plaintiff therefore had the exclusive right of multiplying copies of the same. The Copyright Act does not purport to give a monopoly in ideas but only to the particular forms, or media, for reproducing or communicating ideas. As stated in one text book, copyright is not conferred in the ideas formulated, or expressed, in writings, but in the writings themselves, that is, in the expression of such ideas. Works that are original in subject-matter and treatment present no difficulties, but in the case of works which consist of subject-matter that is not original, or is only partially original, and where the claim to copyright is based upon the mental

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labour involved in the compilation of selected information, difficult questions of fact may arise for consideration. Lord Halsbury, in *Walter* v. *Lane* (1), considered the author of a directory to be the canvasser who writes down the names and addresses of the persons who live in a particular street, and he said in that case:

> I should very much regret it if I were compelled to come to the conclusion that the state of the law permitted one man to make profit and to appropriate to himself the labour, skill, and capital of another. And it is not denied that in this case the defendant seeks to appropriate to himself what has been produced by the skill, labour, and capital of others. In the view I take of this case I think the law is strong enough to restrain what to my mind would be a grievous injustice.

In the compilation, for example, of a directory there has been at least the minimum of thought involved in the classification and arrangement of the material there found. It is the product of the labour, skill and capital of one man which must not be appropriated by another. To secure copyright for this product it is necessary that labour and skill should be expended sufficiently to impart to the product some quality or character which the elements or raw material did not possess. In the case under consideration the amount of patient labour involved in the production of the plaintiff's Ideal Bridge Tally must have been very considerable, occupying several months the plaintiff stated, and that I can quite believe. This work expresses one way, perhaps but one of many other possible ways, of arranging players and tables, so as to avoid the duplication of partners and opponents as already explained. And no one seems to have produced the same Bridge Tally before, though something partially of the same nature had been published before.

In the case of *Macmillan* v. *Cooper* (2), Lord Atkinson, delivering the judgment of the Judicial Committee of the Privy Council, refers approvingly to the judgment of Mr. Justice Story in the case of *Emerson* v. *Davies*, decided in the Supreme Court of the United States (3). The plaintiff in that case had compiled and published a book entitled "The North American Arithmetic," described as containing Elementary Lessons by Frederick H. Amson, the purpose and object of the publication being to teach children the elements of arithmetic. The complaint was that the

(1) (1900) A C 539 at 545
(2) (1924) 40 T L R 186 at 188
(3) (1845) 3 Story's U S Rep. 768 at 778.

defendants on a date named had without the plaintiff's consent exposed for sale and sold 50 copies of the plaintiff's said work, purporting to have been composed by the defendant Davies, and had subsequently sold 1,000 copies of the same. The main defence was that the book, copies of which were sold by the defendants, was composed by themselves, and that neither it nor any part of it was copied, adopted, or taken from the plaintiff's book or any part thereof. At page 778 of the report Mr. Justice Story expressed himself thus:

> The book of the plaintiff is, in my judgment, new and original, in the sense in which those words are to be understood in cases of copyright. The question is not, whether the materials which are used are entirely new, and have never been used before; or even that they have never been used before for the same purpose The true question is, whether the same plan, arrangement and combination of materials have been used before for the same purpose or for any other purpose. If they have not, then the plaintiff is entitled to a copyright, although he may have gathered hints for his plan and arrangement, or parts of his plan and arrangement, from existing and known sources He may have borrowed much of his materials from others, but if they are combined in a different manner from what was in use before . . . he is entitled to a copyright . . It is true, that he does not thereby acquire the right to appropriate to himself the materials which were common to all persons before, so as to exclude those persons from a future use of such materials, but then they have no right to use such materials with his improvements superadded, whether they consist in plan, arrangement or illustrations, or combinations; for these are strictly his own . . . In truth, in literature, in science and in art, there are, and can be, few, if any, things, which, in an abstract sense, are strictly new and original throughout

Mr. Justice Story used this further language which Lord Atkinson thought singularly applicable to the case he was discussing, and which language I think is very applicable to the case I am now considering (p. 797):

> I have bestowed a good deal of reflection upon this case; and, at last, I feel constrained to say, that I am unable to divest myself of the impression that, in point of fact, the defendant, Davies, had before him, when he composed his own work, the work of the plaintiff, and that he made it his model and imitated it closely in his title or section of Addition, and in a great measure, in that of Subtraction also.

Lord Atkinson, in the *Macmillan* case, after referring to this American case, and after quoting just as I have done from the judgment of Mr. Justice Story, said (p. 188):

> This decision is, of course, not binding on this tribunal; but it is, in the opinion of the Board, sound, able, convincing and helpful. It brings out clearly the distinction between the materials upon which one claiming copyright has worked and the product of the application of his skill, judgment, labour and learning to those materials; which product, though

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it may be neither novel or ingenious, is the claimant's original work in that it is originated by him, emanates from him, and is not copied.

It was by confounding the materials with the product that Mr. Upjohn endeavoured to sustain the argument that if the appellants obtain copyright in their book any reprint of North's translation would be an infringement of it under section 8 of the Act of 1911

The question of the existence of copyright in an anthology entitled "The Golden Treasury of Songs and Lyrics" was raised in the case of *Macmillan* v. *Suresh Chunder Deb* (1), and which case is referred to at length in *Macmillan* v. *Cooper* (*supra*). There Sir Arthur Wilson expressed himself as follows concerning the matter of the existence of copyright in the anthology (p. 188):

> And first I have to consider whether there is copyright in a selection. There has not, so far as I know, been any actual decision upon this question But upon principle I think it clear that such a right does exist; and there is authority to that effect as weighty as anything short of actual decision can be.

He then proceeds to state the law, as he conceived it to be, dealing with the existence of copyright in such a work as the anthology there in question, in the following words (p. 189):

> In the case of works not original in the proper sense of the terms, but composed of, or compiled or prepared from materials which are open to all, the fact that one man has produced such a work does not take away from anyone else the right to produce another work of the same kind, and in doing so to use all the materials open to him. But, as the law is concisely stated by Vice-Chancellor Hall, in *Hogg* v. *Scott* (L.R. 18 Eq, 444 at p. 458), "the true principle in all these cases is, that the defendant is not at liberty to use or avail himself of the labour which the plaintiff has been at for the purpose of producing his work, that is, in fact, merely to take away the result of another man's labour, or, in other words, his property."

Sir Arthur Wilson then points out that this principle applies to maps, guide books, street directories, dictionaries, to compilations of scientific work and other subjects and considers that it applies to a selection of poems. He then gives the reason why it applies to Mr. Palgrave's "Golden Treasury" in the following words (p. 189):

> Such a selection as Mr. Palgrave has made obviously requires extensive reading, careful study and comparison, and the exercise of taste and judgment in selection. It is open to anyone who pleases to go through a like course of reading, and by the exercise of his own taste and judgment to make a selection for himself. But if he spares himself this trouble and adopts Mr. Palgrave's selection he offends against the principle.

The above quotations from the judgments in the American and Indian cases mentioned, extracted from the report

(1) (1890) Ind. L.R. 17 Cal. 951.

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of the case of *Macmillan* v. *Cooper* (1) are, I think, applicable to the case before me, but, I might add, that the claim to copyright in the work of the plaintiff here appears to me to rest on even stronger ground than in either the American or the Indian case. I think it has been shown that the plaintiff's work is an original plan, arrangement, compilation or combination of material, for a particular purpose or use, produced by his own skill and labour, and I think he is entitled to copyright therein. The defendants, I think, have copied or imitated the plaintiff's work. It is hardly conceivable that Stuchberry could have produced precisely the plaintiff's Ideal Bridge Tally, without having made use of the latter, that is, substantially copying it. It is conceivable that in some cases two persons working independently with a common end in view, might arrive at the same result, or substantially the same result, but it is too much to ask one to find that this occurred in this case. The true principle applicable to the case is, as was stated in one of the cases referred to, that the defendants are not at liberty to use or avail themselves of the labour which the plaintiff has been at for the purpose of producing his work, that is, in fact, merely to take away the result of another man's labour, or in other words, his property.

The plaintiff therefore succeeds and is entitled to the relief claimed, and his costs of the action. The plaintiff asks for nominal damages only and the determination of that I reserve until the settlement of the minutes of judgment.

Judgment accordingly.

BETWEEN:

GEORGE ALEXANDER MORRISON ... SUPPLIANT;

AND

HIS MAJESTY THE KING .... RESPONDENT.

1937 June 2-5, 1938 May 27.

Crown—Petition of right—Exchequer Court Act, R.S.C., 1927, c. 32, s. 19 (c)—"Public work"—"Public service"—Negligence—R.C.M.P. constable patrolling the Driveway in Ottawa not engaged on a public work—No liability on part of the Crown.

Suppliant by his petition of right seeks to recover damages from the Crown for injuries suffered by him through the alleged negligence of

(1) (1924) 40 T.L.R. 186.

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one, Glencross, a constable in the Royal Canadian Mounted Police, while engaged in patrolling a paved roadway in the City of Ottawa, known as the Driveway. The Driveway is part of a certain area leased by the Crown to the City of Ottawa in July, 1904, during pleasure, for agricultural purposes only. It was constructed by the Federal District Commission, a body corporate created by Act of Parliament, R.S.C., 1927, c. 55, which retains some degree of supervision and control over it. There is no agreement between the Federal District Commission and the City of Ottawa respecting the maintenance of the Driveway. It is patrolled by the motor cycle squad of the R.C.M.P. at Ottawa, in accordance with certain standing orders promulgated by the Commissioner of the Force, and to this squad Glencross was attached at the time suppliant was injured

The Central Canada Exhibition Association annually holds an exhibition on the area north and west of the Driveway, and since 1929 it has been the practice of the Federal District Commission to authorize the Exhibition Association, during the exhibition period, to place barriers in the form of gates across the Driveway at Fifth avenue and at Bank street, which is carried over the Driveway by a bridge. The Exhibition Association was authorized by the Federal District Commission to erect and keep in place such barriers from 6 p.m. August 22, 1936, to 6 p.m. August 30, 1936

On Sunday, August 23, 1936, there was no barrier at Fifth avenue whilst that at Bank street was closed. Glencross, in patrolling the Driveway on that date, passed the point where Fifth avenue meets it and proceeded at a rate of speed within the limit established by the Standing Orders, towards the Bank street bridge. Suppliant was in charge of the gates at that point, with instructions to exclude the public from passing through. Glencross was at a point approximately 50 or 60 feet or a little further away from the barricade before he became aware of it being in place. Suppliant, who had been sitting on the grass alongside the pavement, proceeded from the side of the roadway to the centre to open the gates and whilst doing so was struck by Glencross' motorcycle and seriously injured

Held: That the constable was not employed upon a public work within the meaning of the Exchequer Court Act, R.S.C., 1927, c. 32, s. 19 (*c*)

2 That negligence on the part of the constable had not been established.

PETITION OF RIGHT to recover damages from the Crown for injuries suffered through the alleged negligence of a constable in the R.C.M.P. Force, while acting within the scope of his duties or employment upon a public work.

The action was tried before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa.

R. A. Hughes and *E. A. Anglin* for suppliant.

Auguste Lemieux, K.C. for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT, now (May 27, 1938) delivered the following judgment:—

This is a petition of right proceeding for injuries to the person of the suppliant, allegedly suffered through the negligence of one, Glencross, a traffic constable in the Royal Canadian Mounted Police Force, while acting within the scope of his duties or employment upon a public work. The facts of this case differ in several respects from those found in a line of well known cases where liability against the Crown was claimed, under s. 19 (*c*) of the Exchequer Court Act. I shall attempt first to state, as fully and clearly as possible, the facts as they appear to me.

Skirting close to the Rideau canal within the bounds of the City of Ottawa, and between two streets leading thereto, namely, Fifth avenue and Bank street, there is what is called the Driveway, a paved roadway for vehicle and pedestrian traffic, which was constructed by the Federal District Commission, a body corporate created by Chap. 55 of the Statutes of Canada, 1927. While the Driveway, speaking precisely, includes narrow strips of land on either side of the travelled roadway, on which trees and shrubs have been planted, and which on the north and west sides is largely fenced off from the contiguous area, yet, when I refer to the "Driveway," I usually shall have in mind only the travelled roadway.

The Driveway, with the strips of land on either side, together with a substantial area of land on the north and west sides thereof, now occupied by the Central Canada Exhibition Association, was leased by the Crown to the City of Ottawa in July, 1904, during pleasure and at a nominal annual rental, for agricultural exhibition purposes only. An agricultural exhibition is held annually by the Central Canada Exhibition Association on the area north and west of the Driveway. The Driveway is within the area leased to the City of Ottawa and was constructed through the lands leased by the Federal District Commission at the request of the City of Ottawa. It would appear that the Federal District Commission continues to exercise some degree of supervision and control over the Driveway, and, also, over the strips of land on either side of the Driveway which reach the Rideau canal on the one side, and the exhibition grounds on the other side. As already stated, the Driveway area is, to a considerable extent, fenced off from the exhibition grounds. There is no written agreement between the Federal District Commis-

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sion and the City of Ottawa respecting the maintenance of the Driveway, nor so far as I know is there any specific verbal understanding respecting the same. The terms of the lease therefore stand unvaried.

The Federal District Commission consists of ten members of whom nine are appointed by the Governor in Council, and one by the Corporation of the City of Ottawa. It may acquire and hold real property for the purposes of public parks or squares, streets, avenues, drives or bridges, and may build, improve, repair, maintain, and protect all or any of the works of or under the control of the Commission, and preserve order thereon. It may co-operate with any local municipality in the improvement and beautifying of the same or the vicinity thereof by the acquisition, maintenance and improvement of public parks, squares, streets, avenues, drives, thoroughfares or bridges in such municipality or in the vicinity thereof. It is to be inferred from the evidence that the Federal District Commission constructed the section of the Driveway in question, at the request of the City of Ottawa, and has since maintained the same at its own expense. The City of Ottawa and the Federal District Commission apparently were co-operating to beautify this particular area, that is, the Driveway and the narrow strips of land on either side. Earlier the City of Ottawa in furthering of the project had, I understand, removed some buildings, stables, I think, from the Driveway area. As already pointed out, the Commission was authorized to co-operate with any local municipality in the improvement and beautifying of the same by the maintenance and improvement of any park or drive, etc. Whether the Federal District Commission was authorized by the City of Ottawa to exercise control over the section of the Driveway in question, after its construction, is entirely a matter of inference.

The Royal Canadian Mounted Police Force is a police force constituted for Canada under the Royal Canadian Mounted Police Act, Chap. 160, R.S.C., 1927, and may be employed in such parts of Canada as the Governor in Council may prescribe. The Governor in Council may enter into arrangements with the government of any province of Canada for the use or employment of the Force, in aiding the administration of justice in such province, and in carrying into effect the laws of the legislature thereof, upon terms to be agreed upon. The duties of members of the Force are prescribed by s. 17 of the Act. Sub-s. (*a*) of s. 17 enacts:—

It shall be the duty of members of the Force, subject to the orders of the Commission,

(*a*) to perform all duties which now are or hereafter shall be assigned to constables in relation to the preservation of the peace, the prevention of crime, and of offences against the laws and ordinances in force in any province or territory or territories in which they may be employed, and the criminal and other laws of Canada, and the apprehension of criminals and offenders, and others who may be lawfully taken into custody.

Sections 18 and 19 further define the duties of members of the Force.

With the approval of the Governor in Council, the Federal District Commission enacted, in May, 1931, by-laws dealing with traffic regulations in respect of "driveways" which are therein defined to "include any property owned by or under the control of the Commission." These by-laws are very general and do not appear to be of any assistance here except that they suggest the exercise of control over the Driveway to the extent of regulating motor vehicle traffic thereon. It is not clear whether "Peace Officer" therein mentioned was intended to include members of the R.C.M.P. Force. I might mention that it is enacted by these by-laws that motor vehicles shall not be driven upon any driveway at a greater speed than 35 miles per hour, subject to some exceptions, but apparently this would not apply to a Peace Officer. The Governor in Council, on the recommendation of the Minister of Public Works, enacted regulations for controlling vehicular traffic on Dominion property, but it is specifically stated that the same were not to apply to properties under the control of the Federal District Commission. There is what is called "Standing Orders," for members of the Motorcycle Squad of "A" Division, and to which squad Glencross was attached at the material time. These Standing Orders, I assume, were promulgated by the Commissioner of the Force, and there is nothing to suggest that they were made at the request of or with the approval of the Governor in Council. The duties of this section of the Force are defined at great length, and one of such duties is the patrol of certain areas, including the section of the Driveway in question between Fifth avenue and Bank street. No question was raised as to the validity of these Standing Orders. There

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is no evidence that the patrol of the driveways owned or controlled by the Federal District Commission, by the R.C.M.P. Force, was authorized by the Governor-in-Council, or that the same was at the express request of the Federal District Commission, though this might be inferred. The Force patrols parks and driveways on property owned by the Crown, and Dominion buildings. The extension of the patrol to property owned or controlled by the Federal District Commission probably developed without any specific authorization by the Governor in Council, but by arrangement reached between the Commissioner of the Force and the Minister of Justice, at the request of the Federal District Commission. At any rate, there is no very satisfactory evidence on the point, but, as the Force had to be equipped for such a service, with motorcycles for example, it may be assumed that this was made possible by means of a parliamentary vote. The patrol service of the Force, over property controlled by the Federal District Commission, could not well have been sustained except by a vote of public moneys. Whether the exercise of a patrol service on or over a driveway constitutes such driveway a "public work" is one of the questions that arises for decision, but this will be considered later.

As I have already stated, the Central Canada Exhibition Association annually holds an exhibition on the area north and west of the Driveway, by the leave and licence of the City of Ottawa, I assume. Since 1929 it has been the practice of the Federal District Commission to authorize the Exhibition Association, during the exhibition period, to place barriers in the form of gates across the Driveway at Fifth avenue, and at Bank street which is carried over the Driveway on a bridge. A bridge pier or abutment bifurcates the Driveway under the bridge and it there, and for a distance before reaching the bridge on the eastern side, and for quite a considerable distance on the western side, becomes a two-way roadway. It was on the west or right hand section of the two-way Driveway that Glencross was proceeding when the accident in question, which I am soon to describe, occurred. On August 4, 1936, the Federal District Commission authorized the Exhibition Association to erect the barriers during the exhibition period which was soon to open, that is to say, between Saturday, August 22, at 6 p.m., until Sunday, August 30, at 6 p.m. It is not clear whether the exhibition was open to the public on Saturday, August 22, but I think not; possibly there was a formal opening on that date though actual proceedings apparently commenced only on the following Monday, because on Sunday exhibits were entering the grounds and general preparations for the exhibition were under way.

On August 23, Glencross, a traffic constable of the R.C.M.P. Force, was assigned for duty in patrolling the Driveway, from Confederation Park on the southerly side of Sparks street, along the Rideau canal, to Hog's Back, a point beyond Bank street bridge, within which limits falls the section of the Driveway which concerns us here, that is, from Fifth avenue to Bank street, and in pursuance of such duties he left headquarters shortly before four o'clock in the afternoon. Proceeding along the Driveway he came to the point where Fifth avenue strikes the Driveway. He found there no gate or barrier, and by some official there was directed to proceed, which he did, towards the Bank street bridge, at a speed of from 23 to 25 miles per hour, which was within the speed limit laid down by the Standing Orders of the Force, and the evidence of Glencross as to his speed I accept.

The Driveway, practically all the distance from Fifth avenue, approaches the Bank street bridge on a gradual curve, and the right hand subway or Driveway under the bridge, over which Glencross was to pass, is only visible when one comes to a point 300 or more feet from the bridge. And it was the right hand subway, or Driveway, under the bridge, that anyone would take in proceeding in the direction Glencross was travelling, and this Glencross was doing. The two bridge subways were closed by gates, two gates under each, closing towards the centre of each subway. These gates were made of fairly large meshed galvanized wire, dull grey in colour and much like the pavement. It was urged that a view of the gates by Glencross was hindered by reason of the fact that they were shaded by the roof of the bridge subway, but of this I cannot be sure. The gates were unpainted, no flagman was stationed in front of the gates, no flag was displayed in any form on the approach to the gates, and there was no sign of any kind in front of the gates indicating danger or warning.

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Glencross stated that having passed along the Driveway at Fifth avenue without finding any barrier there he had no reason to anticipate there would be one under the Bank street bridge, and this seems to be a very reasonable conclusion to reach, particularly when the exhibition was not yet open to the general public. It is true that he had in previous years patrolled this section of the Driveway during exhibition periods, and when the Driveway under the bridge was barricaded, as on the occasion in question. I do not accept the contention that he was bound to conclude that the Bank street subway would be barricaded on this occasion. Since there was no barricade across the Driveway at Fifth avenue, it would be natural to assume that there would be no barricade at Bank street.

The gates in question, however, were at the time in charge of the suppliant Morrison, as a gateman, whose instructions were to exclude the public, and to pass only R.C.M.P. constables patrolling the Driveway, and those in the service of the electric light company which was supplying the Driveway and the Exhibition Grounds with electric lighting. Glencross stated that he was some 200 feet or more from the gates when he observed some person, who turned out to be Morrison, moving towards the centre of the Driveway from the side, and that he was only 50 or 60 feet away, possibly a little more, when he realized that the Driveway was barricaded. He instantly applied his brakes which were in perfect order, and it has been shown that the motorcycle skidded 50 feet before it was stopped. When Morrison first observed the oncoming motorcycle he was on one of the sides of the Driveway, off the travelled portion, where he apparently was engaged in conversation with two or three other men. While Morrison was engaged in the act of opening the two gates at the point where they converged, he was struck in the back by the motorcycle, and the impact forced Morrison and the gates a few feet onwards and outwards, and he was seriously injured. At the moment of impact the motorcycle had almost stopped, and in any event would have proceeded but three or four feet further even if the gates had not been there.

The first question which I propose discussing is whether or not the Driveway here was a public work under sec.

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19 (*c*) of the Exchequer Court Act. This provision of the Exchequer Court Act has been the subject of much judicial discussion in the past. In the case of *The King* v. *Dubois* (1), the facts of which fully appear therein on pages 2 and 3 and I need not take time to repeat them, Duff, C.J., in an illuminating and comprehensive manner, discusses the history and result of judicial decision in actions founded upon s. 19 (*c*) of the Exchequer Court Act. His exposition of the authorities, and the grounds for the conclusion which he reached, will be best understood if I quote from his judgment. He said:—

The amendment with which we have to deal was an amendment introduced into the Exchequer Court Act, an amendment effected, as already observed, by a change in the order of the words in one paragraph of section 16 of that Act. The term "public work" was already there in paragraph (*b*). It was already there and remained there in the amended paragraph (*c*). The scope of the phrase in section 16, as ascertained by reference to the legislation in which those provisions took their origin and definitions in that legislation, and as determined by the decisions of this court, was plainly settled. No expansion of the meaning of the term "public work," so determined, was necessary to give full effect to the amendment. There is nothing in the amendment requiring any alteration in the sense of the term as settled. The amendment, so to speak, was an amendment within the framework of the existing statute; which framework is not altered by it. "Public work" still, in paragraph (*c*) as well as in paragraph (*b*), designates a physical thing, and not a public service. Indeed, I find it impossible to suppose that anybody drafting an amendment to paragraph (*c*), by which he proposed to make the Crown liable for the death or injury resulting from the negligence of any officer or servant of the Crown acting within the scope of his duty or employment in the public service, would have retained the phrase "public work." Either the term public service, or public employment, or public labour, or public business, or public duty, would have been made use of, or the phrase "upon any public work" would have been dispensed with altogether; because it is quite clear that the contention that "public work," in the amended statute, is equivalent to public service leads to the conclusion that the phrase "upon any public work" is merely redundant, if not tautological

Moreover, if you substitute "public service" for "public work," or "public employment" or "public labour" for "public work," you establish a liability on the part of the Crown generally for the negligence of its servants. It is not a liability for every tort, but it is a liability embracing the vast majority of torts committed by public employees. Maritime torts committed by His Majesty's vessels, for example, would, speaking generally, fall within it. Such a construction, in a word, adopts the doctrine of *respondeat superior* generally throughout the whole field of negligence.

* * * * * *

My view has always been that where you have a public work, in the sense indicated in the course of the preceding discussion, and an

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injury is caused through the negligence of some servant of the Crown in the execution of his duties or employment in the construction, the repair, the care, the maintenance, the working of such public work, you are not deforming the language of the section, as amended in 1917, by holding that such an injury comes within the scope of the statute; that is to say, that it is an injury due to the negligence of an employee of the Crown while acting in the scope of his duties or employment "upon a public work" I have always thought, moreover, that the principle ought not to be applied in a niggardly way and that it ought to extend to the negligent acts of public servants necessarily or reasonably incidental to the construction, repair, maintenance, care, working of public works.

My reason for this view I can state in a sentence or two. The purpose of the legislation having been, as I have said, to correct the "stupid" inequalities to use the phrase of Mr. Justice Idington, arising in the application of the statute as it stood before 1917, it seemed to me that that purpose would be largely frustrated if you read the word "upon," which had been substituted for the word "on," strictly as a preposition of place. In a very large number of cases the officer of the Crown responsible for the injury would be a person whose duties were not carried out on the public work in the physical sense. These considerations have seemed to me to be sufficient to justify the construction I have indicated

* * * * * *

Having regard to all this, I find it very difficult to convince myself that anybody intending to subject the Crown to liability for negligence of its servants engaged in driving vehicles belonging to the Crown, or in navigating a vessel belonging to the Crown, could employ the procedure followed in effecting the amendment of 1917. If such had been the purpose of that amendment a different procedure would most assuredly have been resorted to.

I should add that if "public work" embraces employment and service as well as physical things, then the reference in *Schrobounst's* case (1) to the "public work" at Thorold was entirely superfluous; because the driver of the motor vehicle was admittedly, "acting within the scope of his duties or employment" upon a public service—that of driving the vehicle. On the construction now contended for, that, in itself, was sufficient to establish liability.

The Chief Justice there lays down that a cause of action lies where the injury is caused through the negligence of a servant of the Crown "in the execution of his duties or employment in the construction, the repair, the care, the maintenance, the working of such public work," and that the liability extends to the negligent acts of public servants necessarily or reasonably incidental to the construction, repair, maintenance, care, or the working of public works; he would exclude from the ambit of "public work" public employment on public service, as such. If the liability extended to employment in the "public service" there would, he states, be no purpose in the use of the phrase "upon any public work" in the statute. If the words "upon

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any public work" were struck out of s. 19 (*c*) as I understand is now proposed, then the Crown would be liable for any injury resulting from the negligence of any officer or servant of the Crown acting within the scope of his duties or employment, whether upon a public work or not.

Now, does the patrol, by a member of the R.C.M.P. Force, on the Driveway in question here, for the purposes which I have mentioned, constitute employment upon a public work, or is it in the nature of employment in the "public service," as held in the *Dubois* case? I should perhaps refer with more particularity to the general duties of members of the R.C.M.P. Force, as set forth in the Standing Orders, and which I omitted to do earlier, when referring to the specific duties assigned to Glencross, by such Standing Orders. They must report accidents coming to their attention while patrolling on the property of the Federal District Commission. In the case of criminal negligence they may detain the offending party, they may detain persons found intoxicated, with certain exceptions they are to prevent parking on the driveways, they may stop and examine noisy motorcycles or motor cars with defective lights and stop and turn about motor vehicles travelling against the traffic on a one-way road, they must watch for damage to Government property, they are to require motorists to observe stop signs, they are expected to prevent violations of the Migratory Birds Convention Act, and there are other duties which they are to perform. In the performance of such duties there is conferred by statute upon members of the Force, "all powers, authority, protection and privileges which any constable has by law." The duties or employment of Glencross cannot, I think, be said to relate to the construction, maintenance, repair or care of the Driveway, which was constructed for vehicular and pedestrian traffic. To say so is, I think, to allow the fundamental to be obscured by the incidental. It was the conduct of members of the public using the Driveway, the protection of public property on or off the Driveway, the enforcement of law, and the preservation of order on the Driveway and elsewhere, with which he was concerned, and not duties incident to employment upon a public work. His duties primarily related to police work on the Driveway when thereon, and elsewhere, and he was assigned no

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duties relative to the care or maintenance of the Driveway as such, which would be in other hands. His only equipment was a motorcycle and a revolver which would hardly be appropriate instruments for the repair, maintenance or care of the Driveway. It was not, I think, a part of his duties or employment to "care" for the Driveway in the sense that that word is used by Duff, C.J., in the *Dubois* case. It matters not, I think, that the greater part of Glencross' duty was carried out upon the Driveway, as he proceeded on his patrol.

These and other considerations impel me to the conclusion that, for the purposes of this case, Glencross was not employed upon a public work, within the meaning and intent of the statute. I think the "duties or employment" referred to in s. 19 (*c*) of the Exchequer Court Act, were intended to mean duties and employment relating to some public work, constructed or being constructed, the repair, maintenance and care of which would not be a duty ordinarily assigned to a peace officer of the Crown, though as a peace officer, and not as a caretaker, it was his duty to patrol the same by passing over it each day.

Regardless of whether the Driveway here is a public work I feel that I should express my opinion as to whether there was in fact negligence on the part of Glencross. I am disposed to think that negligence on the part of Glencross has not been established. The fact that there was no barrier at Fifth avenue, that the exhibition was not open to public patrons on the day in question, was calculated to lead Glencross to believe that Bank street was open as usual, if indeed his mind were ever directed to the matter. I fail to understand how it can be urged that Glencross should have anticipated that Bank street would be barricaded, and if I am accurate in this then much that occurred will be readily explained. I believe Glencross when he states that he did not observe that the gates were in place until he was fifty, sixty, or more feet away, largely because their colour was similar to the pavement and would not be readily recognized. So far as I can see the R.C.M.P. authorities were not advised by anybody that Bank street was closed. Nor, do I think his speed was excessive. When he first saw Morrison, whom he first took to be an ordinary pedestrian crossing the Driveway, he was on a one-way roadway, on the proper side, and he naturally would consider that he would meet no traffic coming in the opposite direction, that is towards him, and even if the sun somewhat obstructed his vision, having no reason to fear oncoming traffic, he therefore would not deem it necessary to reduce his speed. The exhibition authorities, even if authorized to close the Bank street subways, should have placed warnings or signs on either side of the gates, or the gates should have been painted in some way to warn persons of their existence, or Morrison should have in some way put himself in a position to warn traffic some distance in advance of the gates, and should not have acted merely as a gate-opener. Instead of this there was no warning of any kind, and Morrison when he first observed Glencross, was standing to one side of the Driveway engaged in conversation with other persons. To me it is altogether improbable that Glencross saw the gates earlier than the time he states he did, though he may be in error as to the exact distance he then was from the gates; he was not looking for the gates because he did not know they were there, and had some proper sort of warning been given Glencross I have no doubt he would have had ample time to stop his motorcycle. I think the suppliant's employer was extremely negligent and that the accident was due to the employer of Morrison, or Morrison himself, and not Glencross.

I observe that when the Federal District Commission gave leave to the Central Canada Exhibition Association to close the same two streets in 1937, it was upon the condition that a flagman would be stationed at a distance approximately 150 feet from the barricades to be erected at Fifth avenue and Bank street, to warn approaching traffic that the Driveway was closed; that the flagman be equipped with a red flag during the daylight and with a lighted red lantern at night; that suitable danger lights be placed on the barricades clearly visible to traffic in both directions; that both sides of the barricades be painted in the pattern of black and white squares, six inches in size; and that a wooden sign of suitable size lettered "Danger Ahead" be placed about 150 feet from the barricades outside of the exhibition grounds on the right hand side of the

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Driveway in each case. All this the exhibition authorities should have done, without request of the Federal District Commission, in 1936.

I therefore dismiss the petition, and with costs.

Judgment accordingly.

1938 June 24. June 27.

BETWEEN:

THERMIONICS LIMITED..............PLAINTIFF;

AND

D. L. KEPLER..........................DEFENDANT.

Practice—Examination for discovery—Written interrogatories.

Held: That an examination for discovery is to be made orally and not by the delivery of written interrogatories.

MOTION by plaintiff to examine the defendant for discovery by delivery of written interrogatories.

The motion was argued before the Honourable Mr. Justice Angers, in Chambers.

M. B. Gordon for the motion

D. A. McIlraith, K.C., contra.

ANGERS J. (June 27, 1938) delivered the following judgment:—

This is an application on behalf of plaintiff for leave to examine the defendant on discovery by delivering interrogatories in writing. In support of the application there was read the affidavit of one of the solicitors for plaintiff, stating (*inter alia*):—

3. That the defendant resides in Calgary and the information which the plaintiff is entitled to obtain can be more readily obtained by means of written interrogatories than by an oral examination on discovery.

Counsel for the defendant objected to the granting of this application, alleging that this procedure is not permitted by the rules of this Court.

The rule governing the examination for discovery is Rule 129; it is worded as follows:—

After the defence is filed any party to an action, whether plaintiff or defendant (other than the Crown or the Attorney-General) and the assignor of any patent of invention, copyright, trade mark, industrial design, or any property, right or interest, who is not a party to any action relating to the same, may, at the instance of the plaintiff or defendant (as the case may be) and without order, be examined for the purposes of discovery before the Registrar or before some other officer of the Court specially appointed for that purpose, or before a Judge, if so ordered by the Court or a Judge.

In virtue of this section the examination for discovery is made orally.

It was submitted on behalf of plaintiff that under Order XXXI, Rule 1, of the Rules of the Supreme Court (England), the examination for discovery of a party is made by interrogatories in writing and that Rule 1 of Order XXXI applies; Rule 1 reads as follows:—

1. In any cause or matter the plaintiff or defendant by leave of the Court or a Judge may deliver interrogatories in writing for the examination of the opposite parties, or any one or more of such parties, and such interrogatories when delivered shall have a note at the foot thereof stating which of such interrogatories each of such persons is required to answer: Provided that interrogatories which do not relate to any matters in question in the cause or matter shall be deemed irrelevant, notwithstanding that they might be admissible on the oral cross-examination of a witness.

Counsel for plaintiff submitted that Rule 1 of Order XXXI of the English Rules applies in virtue of Rule 2 of the Rules of this Court, which reads thus:—

(1) In all suits, actions, matters or other judicial proceedings in the Exchequer Court of Canada, not otherwise provided for by any Act of the Parliament of Canada, or by any general Rule or Order of the Court, the practice and procedure shall:—

(*a*) If the cause of action arises in any part of Canada, other than the Province of Quebec, conform to and be regulated as near as may be, by the practice and procedure at the time in force in similar suits, actions and matters in His Majesty's Supreme Court of Judicature in England; and

(*b*) If the cause of action arises in the Province of Quebec, conform to and be regulated, as near as may be, by the practice and procedure at the time in force in similar suits, actions and matters in His Majesty's Superior Court for the Province of Quebec; and if there be no similar suit, action or matter therein, then conform to and be regulated by the practice and procedure at the time in force in similar suits, actions and matters in His Majesty's Supreme Court of Judicature in England.

The examination for discovery is otherwise provided for by the rules of this Court and is governed by Rule 129. Counsel for plaintiff further relied on Rule 300, which is in the following terms:—

The Court or a Judge may, under special circumstances depart from any limitation in these rules upon the inherent right or power of the Court or a Judge and, furthermore, may excuse any party from complying with any of the provisions of these rules.

I do not think that this rule has any application in the present case, no special circumstances having been established.

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For the above reasons I think that the procedure as prescribed by Rule 129 should be followed.

The application is accordingly dismissed with costs hereby fixed at the sum of $15.

Order accordingly.

1938 June 24. — June 30.

BETWEEN:

T. S. SIMMS & COMPANY LIMITED....APPELLANT;

AND

THE COMMISSIONER OF PATENTS...RESPONDENT.

Trade mark—Appeal from decision of Registrar of Trade Marks—Design Mark including representation of Imperial Crown—Unfair Competition Act, 22-23 Geo. V, c. 38, s. 14 (1).

Held: That the Unfair Competition Act forbids the use in a design mark of a crown forming part of the Royal Arms or Crest, or of the arms or crest of a member of the Royal Family, or of a crown so nearly resembling them that it may lead to mistake.

APPEAL from the refusal of the Registrar of Trade Marks to register a design trade mark including the representation of the Imperial Crown.

The appeal was heard before the Honourable Mr. Justice Angers, at Ottawa.

O. M. Biggar, K.C. for appellant.

W. P. J. O'Meara, K.C. for respondent.

The facts are stated in the reasons for judgment.

ANGERS J., now (June 30, 1938) delivered the following judgment:—

This is an appeal from the decision of the Registrar of Trade Marks, dated May 31, 1938, refusing to register a design trade mark described in the application as follows:—

> A shield surmounted by a gold crown, the shield being divided into diagonally opposed panels of red and blue respectively, and having an inclined gold band across its face bearing reading matter.

The application, bearing Serial No. 172,119, was filed on November 17, 1937. It states that the applicant has used the said mark since the 20th of September, 1937, in association with wares ordinarily described as brushes and brooms, for the purpose of indicating that such wares were sold by the applicant.

On March 2, 1938, the Commissioner wrote to the attorneys for the applicant saying (*inter alia*):—

The representation of the Design Mark includes the representation of the Imperial Crown which is not permissible. Attention is directed to section 14 of the Unfair Competition Act.

On March 8, 1938, the attorneys for the applicant replied to the Commissioner of Patents; the second paragraph of their letter, which is the only one relevant to the question in issue, reads thus:—

Concerning the remarks to the effect that the design includes the representation of the Imperial Crown, which is held not to be permissible in view of section 14 of the Unfair Competition Act, it is pointed out first of all that the crown disclosed is not the Imperial Crown On the other hand, there appears to be no provision under section 14 of the Unfair Competition Act to prevent registration of the Imperial Crown or any crown as a part of a trade mark and, in consequence, it is believed that the application is clearly registerable.

On April 27, 1938, the Registrar of Trade Marks wrote to the attorneys for the applicant, as follows:—

I would refer to application No 172,119, filed by you on behalf of T. S. Simms & Company, Limited.

I am directed to inform you that the representation of the crown shown in the drawings submitted is considered as a Royal Crown, and, as such, is barred from registration, under the provisions of section 14 (1*a*) of the Act

I shall be glad, however, before finally disposing of the matter, to receive any further suggestions which you may desire to make.

In reply to this letter the attorneys for the applicant, on May 19, 1938, wrote to the Registrar of Trade Marks; their letter reads in part as follows:—

The provision in question prohibits the registration of the Royal Arms, Crest or Standard. The Office was perhaps under the impression that the Royal Crest consists of the Crown. In fact, however, it consists of the representation of the Royal Crown surmounted in a distinctive fashion by a crowned lion. Section 14 (1) (*a*) could not, therefore, constitute a bar to the registration of a mark consisting of the Royal Crown alone.

* * * * * * * * *

Applicant's trade mark includes an elongated shield surmounted by a crown, the whole being set out in a distinctive colour combination. Even if the representation of the Royal Crown were barred by statute, it is still thought that, because of this combination, the mark would warrant registration . . . .

On May 31, 1938, the Registrar of Trade Marks replied in part as follows:—

I have again discussed this application with the Under Secretary of State. Registration of this application is refused, because it is considered to be barred by the provisions of section 14 (1) (*a*) and (*b*) of the Unfair Competition Act.

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Sections 26 and 27 of the Unfair Competition Act indicate respectively the word marks and the design marks which are registrable.

Section 14 enumerates the emblems or symbols, the use of which is forbidden as trade marks; the relevant part of section 14 reads as follows:—

> 14. (1) No person shall be entitled to adopt for use in connection with his business, as a trade mark, or otherwise, any symbol consisting of, or so nearly resembling as to be likely to be mistaken for,
> (*a*) the Royal Arms, Crest or Standard;
> (*b*) the arms or crest of any member of the Royal Family;

It was submitted on behalf of the appellant that section 14 does not apply in the present case, because the design mark which the appellant is seeking to register does not consist of the royal arms, crest or standard nor of the arms or crest of any member of the royal family; counsel's contention is that section 14 does not prohibit the use of a crown.

I do not believe that section 14 forbids the use of a crown in general; in my opinion, however, it does forbid the use of the crown forming part of the Royal Arms or crest or of the arms or crest of a member of the Royal Family or of a crown so nearly resembling them that it may lead to mistake.

After comparing the crown forming part of the appellant's trade mark with the crown included in the royal crest, I am satisfied that it so closely resembles the royal crown as to be likely to be mistaken for it.

Counsel for the appellant filed certain trade marks including a crown; the fact that the Registrar may have granted trade marks which perhaps should not have been issued, a question on which I do not express any opinion, is, to my mind, wholly immaterial.

Counsel for the respondent, on the other hand, produced various exhibits showing that the crown alone is sometimes used, instead of the crest, by His Majesty the King and by His Excellency the Governor General.

I do not think that the decision in *B. Houde Company Limited* v. *Commissioner of Patents* (1), cited by counsel for appellant, has any bearing on the present case.

After careful perusal of the evidence adduced and of the arguments submitted by counsel, I have reached the

(1) (1934) Ex. C.R. 149.

conclusion that the Registrar of Trade Marks was right in refusing the appellant's application; the appeal is accordingly dismissed.

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There will be no order as to costs.

Judgment accordingly.

BETWEEN:

HARRY ZIMMERMAN ....PLAINTIFF;

AND

CANADIAN HANSON & VAN WINKLE CO. LIMITED....... DEFENDANT.

1937
May 18-20.
1938
July 21.

Patent—Infringement—Invention—Subject-matter—Prior art.

The action is one for infringement of Canadian Patent No. 271,159, issued to one, Yerges, assigned to the plaintiff. The invention claimed is said to relate to new and useful improvements in Bias Buffer manufacture, or the manufacture of a polishing wheel, made usually of cotton or other textile fabric, and rotated by suitable means from a hole in the central portion. The Court found that the buffer construction disclosed by the patentee is in principle one that was well known and any modifications suggested by the patentee were not patentable improvements.

Held: There is no subject-matter in plaintiff's patent.

ACTION by plaintiff to have it ordered and adjudged that defendant is infringing his patent, No. 271,159.

The action was tried before the Honourable Mr. Justice Maclean, President of the Court, at Toronto.

H. G. Fox for plaintiff.

F. B. Fetherstonhaugh, K.C. and *J. F. Mahon, K.C.* for defendant.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT, now (July 21, 1938) delivered the following judgment:—

This is an action for infringement of patent 271,159, issued on May 31, 1927, on an application made by Frank L. Yerges, and by assignment now claimed to be owned by the plaintiff. It does not appear when the application was filed, but it is dated December 10, 1925. Another patent issued to Yerges, no 255,196, was also sued upon, but this was later abandoned; while this patent was, I think, referred to in argument by counsel for the defendant,

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by way of anticipation of the other patent, it does not seem to have been put in evidence, and consequently I have not had an opportunity of seeing it.

The invention here is said to relate to new and useful improvements in "Bias Buffer Manufacture," which in plain language means the manufacture of a polishing wheel, made usually of cotton or other textile fabric, and rotated by suitable means from a hole in the central portion. Buffing in general is the practice of producing a smooth uniform face on any metal surface, by means of a revolving buff coming in contact with that surface, and may be divided into two operations, first, cutting down or smoothing the metal surface, and secondly, giving to that surface a high polish or finish by means of a mild buffing operation. The material most widely used in the construction of buffs is bleached or unbleached cotton; when a high lustre or polish is required buffs are frequently made of flannel or some such soft material, and to give the desired effect to articles of silver and gold, loose buffs, made of sheepskin, are used. Buffs may also be built up from a number of pieces of flexible fabric, or rags and scraps of textile fabric, and united in the form of a wheel by some form of stitching. Standard buffs are usually of two forms, first, the loose buff, sewn around the central hole only by a few circular stitches, and second, the full sewn buff, that is, one in which all the plies of material forming the buff are tied together throughout by circular stitching, or by both circular and radial stitching, or by criss-cross stitching. They are usually constructed of a number of plies or discs, or layers, of cotton cloth, each being approximately a circular piece, but, as already stated, a buff may be built up of irregular and waste pieces of textile fabric. The several plies of material, which may be folded or pleated, in varying ways and degrees, are assembled one above the other so that the threads of one ply are at an angle to the threads of the plies immediately above and below it; the assembled plies are then trimmed around the periphery into perfect wheel shape, and stitched together between two plain circular covers or backs of the same material. To the periphery of the revolving buff when in operation, for cutting or polishing any particular article, there is applied, from time to time as required, from an independent source, an abrasive and adhesive compound, the quantity depending upon the character of the work to be performed. Buffs are used for cutting and polishing flat and contour surfaces of articles made of aluminum, nickel, brass, sheet or cast metal, or other materials. This action arises from the fact that the defendant manufactures one type of buff which the plaintiff claims infringes the patent in suit, and this buff the defendant sells to General Motors Corporation for cutting and polishing automobile parts, such as hub caps and bumpers; the plaintiff also sells the same type of buff to the same corporation. This will indicate generally the method of manufacture and the use to which buffs or polishing wheels are put. Buffs belong, it is conceded, to an art which is old, but the plaintiff claims that his patentee invented a patentable improvement.

While this describes generally the construction of a buff, yet perhaps it is proper that the construction of the plaintiff's buff should be described with more particularity. First, the material is cut on a bias into a cigar shaped strip or blank as shown by numeral 6 in Fig. 1. The blank is then folded on itself by pleating to approximately one-third its length, which pleats are parallel to each other, and are assembled by lines of stitching parallel to each other and approximately at right angles to the folds or pleats. The requisite number of folded and stitched plies are then placed together and, as to the folds, are staggered or placed at a slightly angularly shifted position and assembled between outer plies and stitched to form a unitary structure, which stitches are parallel and intersect the parallel stitches of the plies at approximately right angles to result in a criss-cross structure. The assembled plies are then trimmed to circular form, and a central opening is provided for the purpose of rotating the buff or wheel by the appropriate means. I should also mention that the bias cutting of the ply material as to the warp and woof is to provide against the fraying of the margin of the ply, and that the ends of the folds or pleats are symmetrically grouped so as to provide, it is said, pockets in peripheral series, in addition to the pockets provided by the criss-cross stitching, for holding the abrasive composition, and this feature is stressed by the plaintiff in his claim to

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invention. To ensure accuracy, I had better allow the patentee to describe his buff. The specification states:—

Strip material 1 is shown as having opposite edges 1, 2, 3, from which extend diverging cuts 4 to parallel cuts 5 thereby completing the long strip 6 as a blank with tapered ends 7. Blank strip 6 is folded on itself herein by pleating to approximately one-third its length comprising pleats 8 perpendicular to the edges 5, which pleats are parallel to each other, and are assembled by stitching 9 parallel to each other and approximately at right angles to the folds or pleats 8. These folds 8 may in practice be formed by a pleating machine and the stitches 9 run by a multiple needle stitcher for producing such stitches simultaneously in parallel across the ply as folded to approximate ply area. These pleated and stitched plies 10 are placed, as to the folds 8, at a slightly angular shifted position and assembled between outer plane plies 11 by stitching 12, 13. These stitches 12 are parallel and intersect the parallel stitches 13 at approximately right angles to result in a criss-cross structure. Such assembled sections are trimmed to circular form and central opening 14 is provided for mounting an arbor 15 against collar 16 to be held in position by a washer 17 set up by nut 18. Bearings 19 mount arbor 15 with driving pulley 20 to be actuated by belt 21. The bearings 19 are mounted on jack-frame 22.

In building up a buffer section from a pleated ply, as herein, a pleated ply may be the equal of three single plies and a section may be built up say of seven pleated plies, and the outer plain or binding plies to have the equivalent in material of a twenty-three ply section. These sections are of approximately uniform character radially as to the quantity of fabric. The labour of production is not in excess of similarly stitch-assembled flat ply section of the same quantity of cloth. The bias cuttings for the blanks are effected, as herein disclosed, with a reduction in the total waste, and reduction in the cost of cutting which may be done three times as fast as the plain diskbuff.

There is a gain in assembly, due to the fewer number of plies. The labour of the folding or pleating and the pleat laying stitches 9 about offsets the handling of the greater number of plies and the grouping thereof. The resulting structure is one wherein the bias cutting of the sheet material 1 as to the warp 23 and the woof 24, is such that at no margin of the ply is there a fray-out region. The termini of the folds 8 are symmetrically grouped and provide additional composition or adhesive carrying pockets in peripheral series in addition to the pockets provided by the criss-cross stitching 12, 13.

The resulting section is bias as to the peripheral exposure of the plies with the folds or pleats so distributed and held by the stitchings, that there may be no catching of the material being acted upon therein to be pulled from the hands of the operator. Such material whether of aluminum, brass, or other sheet or cast metal is quickly acted upon herein for an output or life of the wheel from two to three times that of the same material as assembled independently of the pleating or folding. Accordingly, there is efficiency and economy hereunder. The cutting saving runs from two to three per cent. The operation increases economy at least one hundred per cent over the plain ply type of section. The folds are symmetrical and the stitchings are symmetrical for disk rotation in either direction. The bias is uniform for the entire radial extent of the disk.

Spiral stitching 25 (Figs. 6, 7) may be used either alone or with the criss-cross stitches to add stiffness to the completed buff.

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The claims are as follows:—

1. A multi-ply buffing section having a central arbor opening through said section plies, each throughout its periphery having bias ply providing warp and woof fray ends.
2. A fabric buffing ply of parallel pleatings on opposite sides from a diametrical pleating.
3. A pleated buffing ply and ply laying stitches transversely of the pleats of the ply.
4. A bias strip transversely folded for length approximation of width in forming a buffing element ply.
5. A bias strip transversely folded for length approximation of width, and parellel lengthwise stitching assembling said folded strip into a buffing ply.
6. A buffing section comprising a parallel pleated ply, and at an angle thereto an adjacent parallel pleated ply.
7. A buffing section comprising intermediate plies, respectively having parallel pleatings.
8. A buffing section comprising individually stitched pleated plies, and symmetrical stitching assembling the plies into a section.
9. A buffing ply comprising pleating providing peripheral folds as pockets in opposite annular series.
10 A buffing section comprising peripherally fold-formed pockets and stitch-formed pockets.

The construction of the defendant's "Duro Buffs," the offending buff, is described in an exhibit as follows:—

> These buffs are a recent development and are made by cutting the cotton into cigar-shaped pleated blanks, about five times as long as the diameter of the finished buff. They are pleated in such a way that there is a pleat every half inch, and the thickness at any point is five ply; therefore, the buffs can be made only in multiples of five. In laying the buff, the individual blanks are rotated so that the pleats of adjacent blanks are at an angle with each other. Duro Buffs are made in 22 and 27 ply.
>
> Standard sewing consists of seven rows of circular sewing and thirty-eight rows of radial sewing from edge of circular sewing to periphery; this type of sewing forms crevices or pockets around the periphery of the buff to collect buffing composition, and the pleated construction also increases the wearing quality of the cloth and tends to ventilate the cutting surface.
>
> Duro Buffs may also be had with spiral sewing one-quarter inch, three-eighths inch or half-inch from around arbor hole to periphery.

The simplest form of a buff would be one composed of a number of plain circular plies of cotton, placed one upon the other, the central portion of which would be stiffened by a limited number of circular stitches. This, one can easily visualize without reference to any drawing. From that central portion to the periphery there would be no further stitching and the plies would be loose. There would, of course, be a central opening through which the buff would be rotated by the usual means. I assume it is the high speed at which the wheel is rotated that main-

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tains the loose plies in operative position and stiffness. That probably was one of the earliest forms of buffs, and, I understand, that type is still in use for certain purposes. Then, a buff might be bound together by circular stitching from the centre to the periphery, or there might be spiral stitching from the end of a small number of rows of circular stitching at the central portion and extending to the periphery, or there might be a combination of both circular and spiral stitching, any of which would give a stiff or hard buff. An old form of buff construction was to have each ply or layer made up of a few pieces of cotton, radially folded from the centre to the periphery, the larger and open ends of the radially folded pieces being at the periphery of the buff, and the smaller ends at the centre. These pieces were assembled by placing the same over, against or between each other, and pockets of angular shape would thus be formed extending from the periphery of the buff towards the centre. Another well known construction was composed of a series of relatively small pieces of fabric, folded and arranged in such manner as to form a series of pockets extending circumferentially around the periphery. Another known form of construction was one with a central hard coil with the different plies of material crimped and doubled over, from the centre outwards to the periphery; in this case there would, of course, be a greater thickness in the crimped material at the centre than at the periphery. It was conceded by Mr. Fox that the various forms of stitching, concentric, spiral, radial and criss-cross, were all old; the cutting of the material on a bias to avoid fraying of the edges, and the folding of plies, were also conceded to be old.

I might refer to one of the prior patents cited by the defendant. In 1920, a United States patent no. 1,431,157 issued to one Gooley. The importance of that patent in this case is that it describes, *inter alia*, a construction in which the pieces of fabric composing each ply of the wheel are folded in such manner as to form a series of pockets extending circumferentially around the periphery and facing in a direction opposite to the direction of rotation of the wheel, the folds of each layer are substantially parallel and nested one within the other, and the several plies are so arranged that the folds of one ply will cross the folds

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of the next adjacent ply preferably at right angles. The entire assemblage of layers is preferably stitched together by concentric rows of stitching.

The specification states:—

This invention relates to certain improvements in buffing wheels of laminated fabric type in which the several layers are firmly stitched together to form a unitary structure. An abrasive paste is usually applied to the periphery of wheels of this character for burnishing and polishing purposes and while the polishing surface must be sufficiently flexible to enable it to contact with the varying contours of the article operated upon, it must also possess sufficient resistance to enable it to withstand the pressure necessary to produce the desired burnishing or polishing effect and, at the same time, retain its circular form and thickness or face width and also to retain a sufficient quantity of the abrasive paste evenly distributed over the surface thereof for efficient burnishing without too frequent reapplication of the paste thereto

This retention of the paste on the periphery of the wheel, together with the flexibility and necessary resistance to pressure thereon, is found to be most effective by making each layer of a series of relatively small fabric pieces, folded and arranged in such manner that their folds will form a series of pockets extending circumferentially around the periphery with the closed sides of the pockets facing in a direction opposite to the direction of rotation of the wheel, so as to prevent piling up and centrifugal discharge of the abrasive paste, when the rotating wheel is applied to the work, thereby producing more even distribution of the paste around the entire periphery of the wheel, while the pockets formed by the folds serve as reservoirs for relatively small portions of the paste to maintain a supply thereof at the periphery for a longer period of service than would be possible without the use of the folds.

I am aware that buffing wheels of this character have heretofore been constructed from folded pieces of fabric arranged to form pockets and, while that is one of the important objects of my invention, the main object is to arrange the folded strips of the several layers so that the folds of one layer will cross the folds of the next adjacent layer, preferably at right angles thereto, so that when the several layers are stitched together, those of each layer will be firmly bound together by those of the next adjacent layer thereby greatly reinforcing and strengthening the wheel as a whole and still maintaining a highly flexible peripheral surface

Another object is to provide each strip or piece of fabric with two or more folds arranged so that they will face in opposite directions to form closed pockets at the folds, so that the wheel may be rotated in either direction with equal efficiency in retaining the abrasive material and distributing it evenly around the entire periphery of the wheel.

Another object is to permit the use of relatively small pieces of fabric, which might otherwise be regarded as waste, although it is to be understood that the folded strips may be cut from whole cloth of any suitable quality, if desired.

Another object is to nest the folded strips of each layer one within the other preferably in parallelism from side to side and entirely across the wheel, not only for reinforcing purposes but also to further increase the uniform distribution of the abrasive substance around and upon the periphery of the wheel. Other objects and uses will be brought out in the following description.

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That further description I need not quote.

It was conceded by Mr. Fox that the patent in question was, in any event, a very narrow one. I should think the field for invention in this art was long since pretty well occupied. It does not appear to me to be reasonable to contend that there is invention in Yerges, and in my opinion that patent discloses no inventive step. The buff construction disclosed by the patentee is in principle one that was well known, and any modifications of the same suggested by Yerges are, I think, merely matters of detail and could hardly be said to call for the exercise of the inventive faculty; and what was said by the courts in the case of *Crosley Radio Corporation* v. *Canadian General Electric Co.* (1) is, I think, quite applicable here. The plaintiff seems to claim invention because the ply material is cut on a bias, because the folds are parallel, because the folded plies when assembled are staggered, and because the criss-cross stitching of the assembled plies result in the formation of pockets on the periphery of the buff, and inwardly, and which will capture a portion of the abrasive composition used. While all these several features were conceded to be old, and they had been earlier disclosed or used, yet it is said that they are here combined together for the first time, and this, it is claimed, constitutes invention. In any event, I should very much doubt if this would constitute what is known as a combination patent. The utility of some of these features is, I think, greatly exaggerated. For example, the idea of constructing a buff so that it would have pockets at the periphery for the purpose of retaining the composition was not a new idea, and if there is utility therein it had long ago been conceived and in principle practised. But, I think it is very probable, as was stated by one of defendant's witnesses, that cleaning or polishing is effected largely by the abrasive compound attaching to the projecting threads or fibres on the periphery of the buffer. When the buff is revolving the small ends of threads are projected. This witness compared it to the paint that is held on the bristles of a paint brush. But, if there is utility in the presence of the pockets which the patentee described, that in principle was old, and if there is any difference in the formation of the pockets

(1) (1935) Ex. C.R. 190; (1936) C.L.R. 551.

between Yerges and what was already known, that would not, in my opinion, be a difference or improvement that was patentable. And that is true of the form of stitching, the form of folding or pleating, and the form of assembling the different layers, suggested by the patentee; any distinction, in all this, between what Yerges has described and what was earlier disclosed or used does not spell invention. The principle of construction of a buff, and its manner of use, being long known, a little experience, experiment, trial and error, would soon point out the way to any observing and competent workman how to eliminate any disadvantages that had developed in any particular form of buff, and how to effect slight improvements, but this would not be invention. It would be intolerable if every slight change, every little improvement, such as, in this case, the position, size and formation of the pockets, the form of stitching, the size and number of pleats in a ply, the particular staggering of the plies, merited a monopoly, without obtaining a result that was novel, or obtaining an old result in such a new manner that it manifestly required research, experiment and skill, to find the way of so doing. The patent law was not designed for such a purpose. I do not think there is any sound foundation for the claim to subject-matter, in any of the claims of the patent in question, and I am bound to say that I think that is very clear. The action is therefore dismissed and with costs.

The validity of the assignment of the patent in suit to the plaintiff, from the widow and executrix of the patentee, is subject to some doubt, and an application was made on behalf of the plaintiff to join Mrs. Yerges as a plaintiff. In the circumstances, I think I should be justified in granting the application, and this I do. This does not cause any embarrassment to the defendant.

Judgment accordingly.

1938 June 21. Demers D.J.A.

QUEBEC ADMIRALTY DISTRICT

BETWEEN:

SHELL PETROLEUM COMPANY OF CANADA LIMITED .... PLAINTIFF;

AND

DOMINION TANKERS LIMITED..... DEFENDANT.

Shipping—Charter party—Bill of lading—Loss of cargo—Cause of loss unexplained—Liability of ship owner—Onus of proof—Water Carriage of Goods Act, R.S.C., 1927, c. 207.

Plaintiff, by its agent, entered into a Charter Party with defendant for the carriage and transportation of a full cargo of gasoline, the property of plaintiff, on board defendant's vessel from Montreal, P.Q., to Sydney, N.S. Plaintiff alleged that the gasoline was shipped on board defendant's vessel which failed to deliver it at Sydney, but instead returned to Montreal and there discharged part of the cargo. Plaintiff claimed for the loss of part of the cargo and for other damage suffered by it.

Defendant alleged that the vessel during the course of the voyage stranded on rocks and boulders on the shore of the St. Lawrence river, and that the loss of cargo and damage suffered by plaintiff were due to faults and errors in the navigation of the vessel, and that defendant is not liable therefor. Defendant counter claimed to recover from plaintiff a proper proportion of the General Average losses, expenses and charges assessed against the cargo.

Held: That plaintiff being the owner of the cargo is entitled to maintain the action.

2. That defendant must explain its default in the delivery of the cargo.

3. That the stranding resulted from the fault of the pilot of the vessel and defendant is not liable for that damage consequent upon the stranding.

4. That the cause of loss of the balance of the cargo being in doubt and the defendant not having discharged the onus on it to prove that such loss did not occur through negligence of its servants, defendant must be held liable therefor.

5. That defendant is entitled to recover on its counter claim.

ACTION by plaintiff to recover damages for loss of cargo from defendant.

The action was tried before the Honourable Mr. Justice Phillippe Demers, D.J.A., Quebec Admiralty District, at Montreal.

C. Russell McKenzie, K.C. for plaintiff.

R. C. Holden, K.C. and *F. M. Wilkinson, K.C.* for defendant.

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The facts and questions of law raised are stated in the reasons for judgment.

DEMERS, D.J.A., now (June 21, 1938) delivered the following judgment:

Plaintiff, by its Statement of Claim, alleges that: on or about the 29th of July, 1935, the Shell Oil Company of Canada Limited for and on behalf of the plaintiff entered into a Charter Party with the defendant for the carriage and transportation of a full and complete cargo of gasolene on board the defendant's vessel called the *John A. McDougald* from the Port of Montreal to the Port of Sydney, N.S.

That at the Port of Montreal on or about the 3rd August, 1935, in accordance with the said Charter Party Agreement 547,909 imperial gallons of gasolene were shipped on board the said vessel *John A. McDougald* for carriage to the Port of Sydney, N.S.

That on or about the said 3rd day of August, 1935, the said vessel cleared from the Port of Montreal but failed to arrive at the Port of Sydney, N.S., or deliver her cargo thereat in accordance with the terms of the said Charter Party Agreement or at all.

That on or about the 5th of August, 1935, the said vessel returned to the Port of Montreal and discharged a portion of her original cargo amounting to 188,438 gallons but the defendant failed to deliver the balance of 359,471 gallons of gasolene at Montreal or at all.

That defendant failed to fulfil its obligations to carry and deliver the said cargo in accordance with the said Charter Party Agreement to the damage and prejudice of the plaintiff as owner of the said cargo.

That the particulars of the plaintiff's claim in the total amount of $47,353.99 are as follows:—

Value of 547,909 Imperial Gallons of Gasolene shipped ex Montreal East Refinery on August 3rd at 13c per gallon............	$71,228 17	
Value of 188,438 Imperial Gallons of Gasolene discharged after accident, at 13c per gallon	24,496 94	$46,731 23

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Wharfage paid to Montreal Harbour Commissioners on Gasolene discharged after accident		70 40
Value of 47 Gallons of Special Heavy Pale Oil at 30c per gallon This is one of a shipment of 62 Drums of Lubricating Oil only 61 of which were recovered		14 10
Value of one Oil Drum		3 00
Value of 60 Sample Oil Cans purchased from American Can Co. to draw off samples of Lubricating Oil		5 98
Forward......		46,824 71
Value of 15¼ Imperial Gallons of Lubricating Oil drawn off from drums for testing purposes		5 96
Expenses incurred at Montreal East Refinery—		
Re unloading *McDougald*		
Direct labour at wharf	$43 40	
Direct material charges	25 44	
Laboratory tests	15 00	
Trucking	2 50	
Telephone calls (to and from Toronto) .	7 50	
Gauging—4 hrs. at 65c....	2 60	
	96 44	
Overhead and supervision	24 11	120 55
Rental of tank car from Canadian Car & Transit Co.—		
14 days at $2.50 per day....	35 00	
Switching charge from Vickers to Sec. 63—Longue Pointe	4 50	
Canadian National Railway from Turcot and return	15 00	
Harbour Commission charge from Turcot and return	9 00	63 50
Re Unloading Lubricating Oil and Grease—		
Labour	26 04	
Material	5 80	
Trucking	23 00	
Overhead and supervision	13 71	
50% of	68 55	34 27
Analysis of 61 samples of Lubricating Oil at $5 per sample		305 00
Total claim		$47,353 99

Wherefore the plaintiff prays for judgment against the defendant in the amount of $47,353.99, with interest and costs.

By its Statement of Defence and Counter-claim, defendant avers that: it denies all the allegations of the plaintiff's Statement of Claim except in so far as they are in accordance with the present Statement of Defence.

The loss of and/or damage to cargo, if any, which was sustained by the plaintiff was not due to any cause for which the defendant is responsible.

The defendant says that under the terms and conditions of a Charter Party, dated the 29th day of July, 1935, and under and by virtue of a Bill of Lading, dated at Montreal on the 3rd day of August, 1935, a cargo of gasolene amounting to 545,646 Imperial gallons was shipped on board the ss. *John A. McDougald,* owned by the defendant, destined for the Port of Sydney, N.S.

The said contract of carriage was subject to all the terms and provisions of and all the exemptions from liability contained in The Water Carriage of Goods Act, R.S.C., 1927, chap. 207.

At the commencement of the said voyage and prior thereto and until the time of stranding hereinafter referred to, the said vessel was in all respects seaworthy and properly manned, equipped and supplied.

The defendant, owner of the said vessel *John A. McDougald,* at the commencement of the said voyage and prior thereto and during the course thereof exercised due diligence to make the said vessel in all respects seaworthy and properly manned, equipped and supplied.

At about 11.19 p.m. of August 3rd, 1935, during the course of the said voyage, the said ss. *John A. McDougald* stranded on rocks and boulders on the south shore of the St. Lawrence river near Ste. Antoine, in the Province of Quebec.

As a result of the said stranding, the ss. *John A. McDougald* sustained severe bottom damage and leaks and her cargo tanks and pipe lines and equipment were seriously damaged.

Efforts were made to release the ss. *John A. McDougald* from the strand and from time to time her cargo was transferred between different tanks to lighten the vessel forward and to keep her in proper trim, and with the assistance of the wrecking tug *Lord Strathcona,* she finally came afloat on the evening of August 4th, 1935.

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Owing to her seriously damaged condition, the said ss. *John A. McDougald* was unable to proceed on her voyage and returned to Montreal.

As the result of the damage occasioned to the said vessel and to her tanks and pipe lines and equipment by the stranding, a large quantity of her gasolene cargo was lost.

The cargo remaining on board the ss. *John A. McDougald* was discharged and delivered at Montreal.

The said stranding and damage and the loss of cargo claimed by the plaintiff were due to faults or errors in the navigation of the said ship, and under the contract of carriage and by law, the defendant is exempt from liability therefor.

Without waiver of the foregoing, the defendant alleges that if there were any loss of cargo apart from what escaped owing to the damage occasioned to the ship and to her tanks and pipe lines and equipment by the stranding, such loss was due to faults or errors in the management of the said ship, and that the defendant is exempt from liability for any loss which may have resulted therefrom.

The defendant also alleges alternatively that in any event any loss of and/or damage to cargo was due to dangers of the sea or other navigable waters or to other causes from the consequences of which the defendant is likewise exempt from liability under the contract of carriage and by law.

The plaintiff has not suffered the damages claimed.

The defendant is not indebted to the plaintiff in any amount for any cause or reason whatsoever.

The defendant prays that this action be dismissed with costs.

By its counterclaim, the defendant repeats the allegations contained in the Statement of Defence and says that as a result of the stranding and the damage and danger thereby occasioned and the efforts made to save the vessel and its remaining cargo, the defendant suffered losses and incurred expenses and charges in General Average or of a General Average nature in respect of which it is entitled to recover in General Average from the plaintiff.

The defendant says that under the said contract of carriage and by law, the defendant is entitled to recover

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from the plaintiff the proper proportion of the said General Average losses, expenses and charges assessed against the said cargo.

The proportion of the General Average losses, expenses and charges chargeable to the plaintiff amounts to $1,827.65, and although a demand has been made on the plaintiff for the payment of the said amount, the plaintiff has refused to pay and still refuses to pay the said sum.

The defendant therefore claims from the plaintiff the sum of $1,827.65 together with interest thereon from the 3rd day of August, 1935, and costs.

---

1. The first point to decide is as to the right of action of plaintiff.

Plaintiff has shown that it was the proprietor of the goods.

Carver, Carriage by Sea, 9th edition, p. 687, says:—

> It may be shown that the vendor in shipping was really acting as the buyer agent, although the Bill of Lading was made to his order.

It is also admitted that the principal in such a case can sue under the contract.

Corpus Juris, vol. 2, p. 874.

It is the application of the maxim *qui agit per alium agit per se.*

Moreover, by its Cross Demand, defendant has abandoned this point.

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2. The second proposition submitted does not seem to be disputable, to wit, that it is for the defendant to explain its default in the delivery of the goods.

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3. The third point as to the damages to tanks nos. 1, 2 and 3 on the port side, there is no doubt that such damages were the consequence of the stranding, that the stranding resulted from the fault of the pilot of the ship, and that the defendant, by the Charter Party Agreement, is not responsible in such a case.

The Court is satisfied that the defendant had fulfilled its obligation as to the seaworthiness of the ship and, in consequence, those damages cannot be allowed against it.

It is also admitted that, for the other tanks, the stranding might explain a loss of 300 gallons, but as there is a doubt on that question and as it applies to all the other

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tanks, I will allow a loss of 2,100 gallons caused by the stranding, to the other tanks.

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4. As to the rest of the cargo, defendant has not satisfied the Court that the loss of those goods did not occur without any fault on its part.

(*a*) It is true that the protest of the master says there was no jettison, but this protest was not sworn to.

(*b*) In its plea and particulars, the defendant says:—

> If there was any loss of cargo apart from what escaped owing to the damage occasioned to the ship and to her tanks and pipe lines and equipment by the stranding, such loss was due to faults or errors in the management of the said ship in that during the efforts made to release the vessel the valves and pipe lines connected with cargo tanks were opened or must have been opened by mistake by members of the crew which allowed gasolene to flow from less seriously damaged tanks into tanks which were found to be badly punctured.

Not a word of evidence has been brought in support of that allegation, and this allegation shows that in the mind of the defendant there was a great doubt, and it is very natural because an examination of the ship had then and there been made in the presence of the officers of the company, by one, Drake, who was acting for the company. By his report Drake had told them that the stranding was not sufficient to explain the loss.

(*c*) Captain Foote at p. 21 of his testimony is asked:—

> Q. So there was just a slight leaking in number 5 port and starboard?
>
> A. Yes.
>
> Q. And I think you will agree with me, a similar answer as far as number 4 is concerned?
>
> A. Yes, that was a slight leak there.

On p. 42, we see that the same witness is much in doubt:—

> Q. I put this to you very seriously: that the leaks you referred to, that is, those slight leaks, once you had the cargo gone on the port tanks 1, 2 and 3, those leaks you referred to, would not account for the loss of the cargo?
>
> A. I could not answer that as I did not see the bottom of the ship when she was sitting on the boulders, but the cargo went, and most of it gone through the damage.

It shows the doubt in his mind. It is true that later on (p. 43) he makes an argument:—

> There was no pumping overboard of the cargo, therefore it went through the damaged bottom of the ship.

(*d*) But Captain Foote was not alone on that ship. There were three mates, and the First Mate Gallawin was not examined; he might have explained the loss.

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One must not forget that defendant was interested to say that there was no voluntary jettison, though Captain Foote admits that it would have been a proper thing to do on the occasion.

The conclusion the Court arrives at is that this excess of loss is not satisfactorily proven. It is doubtful, and the doubt should be against the defendant. *Gosse Millard* v. *Canadian Government Merchant Marine Limited* (1).

I am of the opinion that the defendant has accounted for the loss of 174,543 gallons. I value the goods at twelve cents ($0.12) per gallon and the goods unaccounted for at $22,191.36, and judgment will go accordingly in favour of plaintiff for that amount, with costs and interest.

Coming now to the Cross Demand, this claim is justified by the Charter Party Agreement. It has been established by an adjuster appointed by the parties, a man of great experience, knowing all the rules and usages, and the Court does not feel disposed to interfere with his decision.

The Cross Demand is, therefore, maintained and the plaintiff is condemned to pay to defendant the sum of $1,827.65, together with interest from the 3rd of August, 1935, and costs.

Judgment accordingly.

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(1) (1927) L.R. 2 K.B. 432 at p. 437.

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71848—2a

PATENTS—*Impeachment action—Prior user — Subject-matter — Application of known method in analogous manner—Patent Act, 25-26, Geo. V, c. 32, s. 61, ss. 1—"Other inventor".*]—The action is one to impeach defendant's Canadian Patent No. 336,234; the invention claimed relates to full-fashioned hosiery, particularly of silk, and to methods for making the same. The defendant counterclaims for infringement of the same patent, and for damages therefor. The plaintiffs allege that the patent in suit is invalid because (*a*) it lacks invention, being merely an analogous use of principles previously applied in the manufacture of other woven and knitted fabrics, (*b*) that there was prior user of the invention by others, and (*c*) that the defendant was not the first inventor. The Court found that there was no subject-matter in defendant's patent; that he was not the first to make the alleged invention; that as between the defendant and one, Krenkel, the latter was an "other inventor" as contemplated by the Patent Act, 25-26 Geo. V, c. 32, s. 61, ss. 1, and that Krenkel was the first inventor. *Held:* That the invention was not subject-matter for a patent, being only the application of a known method which did not require an inventive step. 2. That if a known article is applied to an analogous purpose, the application is not patentable simply because it produces advantages not produced before. 3. That the present case is one contemplated by the Patent Act, 25-26 Geo. V, c. 32, s 61, ss. 1, and that the question of priority of invention arises thereunder as between the defendant and one, Krenkel, and on the facts Krenkel was the first inventor. 4. That s. 61, ss 1 (*c*), of the Patent Act may be invoked in impeachment proceedings by others than the patentee or the applicant for a patent. Belding-Corticelli Ltd. et al *v.* Charles A Kaufman.......... **152**

2——*Infringement action — Invention — Anticipation — Prior publication — Prior user—Patent Act, 25-26 Geo. V, c. 32, s. 61 (1).*]—The action is one in which the plaintiff alleges infringement by defendant of three patents owned by plaintiff; the first patent claims an invention relating to "an art or method of shrinking textile fabrics"; the second patent claims an invention relating to "the method of shrinking woven and like fabrics and yarns"; the third patent claims an invention relating to an "apparatus for treating woven and like fabrics and yarns" Plaintiff alleged infringement by the use in factories of defendant of a process for treating textile fabrics, and by the sale in the usual course of business of the fabrics so treated. The defendant pleaded prior publication and prior user The Court found that there is invention in plaintiff's patents and that none of the published patents cited by defendant con-

REVENUE—*Income tax — Income War Tax Act, s. 11, ss. 2, s. 4, ss e, secs. 55 and 66—Income accumulating in trust for the benefit of unascertained persons — Interest — Discretion of Court*]—B, a Canadian citizen, in his lifetime transferred certain assets to the Trusts and Guarantee Co. Ltd. to be converted into cash and administered by it in accordance with the terms of an agreement entered into by them, which provided that after the expiration of 21 years following the death of B., the fund so established and all accumulations thereon should be paid to the Municipal Council of the Town of Colne in England, to be used by the said Council for the benefit of the aged and deserving poor of the said Town of Colne in such manner and without restriction of any kind, as shall be deemed prudent to the said Council. B. died on April 19, 1927. The income from this fund was assessed for income tax under the Income War Tax Act, such assessment being confirmed by the Minister of National Revenue from whose decision the appellant appealed. *Held:* That there is but one trust with two trustees, and the trust fund is being administered by the Canadian trustee, in Canada, where it must remain until 1948, and where the income is taxable. 2. That the persons who may in the future become beneficiaries of the trust fund are unascertained, and any interest of persons in the trust fund is a contingent one, and therefore the income is taxable as provided for in s 11, ss. 2, of the Act. 3. That the income here accumulating is not the income of a charitable institution within the meaning of s. 4, ss. *e*, of the Act. 4 That s. 66 of the Act does not vest a discretionary power in the Court to forego interest on any tax recovered by a judgment of the Court. PETER BIRTWISTLE TRUST *v.* MINISTER OF NATIONAL REVENUE 95

2——*Income tax—Income War Tax Act. secs. 2 (i), 2 (k), 10 and 21—"Taxpayer"—Personal corporation—Company engaging in more than one activity—Business of the company—Determination of income—Deductions — Expenses of business — Tax paid under protest not recoverable by appeal from decision of the Minister — Petition of right only procedure available.*]—Appellant included in his income tax return for the year 1931 a sum of money received by him from Trinity Securities, Limited, a private company incorporated, in 1925, under the laws of the Province of Ontario, of which appellant owned all the outstanding shares, except four qualification shares, and which he controlled. The principal objects for which Trinity Securities, Limited, was incorporated were to operate ranches or farms for live stock, dairying or agriculture; to breed, raise, keep, render marketable and deal in horses, cattle and live stock; to undertake, carry on and execute transactions as financial or commercial brokers or agents; to invest moneys of the company not immediately required for the purposes of the company in such investments as, from time to time, may be determined. Appellant transferred to it a large quantity of securities in exchange for shares of the company. During the first year of its existence and for some months in 1927, the company merely held investments and collected interest and dividends thereon. In the spring of 1927 it acquired a farm, the first horses were purchased and breeding operations commenced; the number of horses owned by it increased from 2 in 1927 to 70 in 1937. The company also, from time to time, disposed of some of its securities and purchased others Trinity Securities Limited, is a personal corporation within the meaning of par. (1) of s 2 of the Income War Tax Act, R S C, 1927, c 97, as enacted by 23-24 Geo V, c 14, s 1 The income tax

TRADE MARK — *Infringement — Unfair Competition — Unfair Competition Act, 22-23 Geo. V, c. 38, s. 2, ss. (e), (k), (l), (m), s. 3 (c), s. 4 ss. (1), s. 11, s. 18, s. 26 (1) (c & d), s. 42(2)—Deceptive name—Resemblance calculated to deceive "Coca-Cola"—"Pepsi-Cola"—Mark adopted to distinguish goods of plaintiff—Mark descriptive or misdescriptive—Considerations determining question of infringement —Assignment of trade mark need not be contemporaneous with transfer of good will of business—Defendant held to have infringed plaintiff's trade mark and been guilty of unfair competition in sale of beverage under similar name—Mere difference of get-up no defence*]—The action is one for infringement of a specific trade mark owned by and registered in the name of the plaintiff, a company incorporated under the laws of the Dominion of Canada in 1923, consisting of the compound word "Coca-Cola," in the particular form represented by the pattern accompanying the application for registration. This mark "to be applied to the sale of beverages, and syrups for the manufacture of such beverages," was registered in Canada on November 11, 1905, by The Coca-Cola Company, a corporation domiciled in the State of Georgia, U.S A , and by that corporation assigned in January, 1922, to Coca-Cola Company, a corporation of the State of Delaware, U.S.A., and by the latter corporation assigned in writing to the plaintiff company in February, 1930. The plaintiff, following its incorporation in 1923, acquired the good will of the Canadian business of the Delaware corporation which owns the whole or a majority of the capital stock of the plaintiff com-

TRADE MARK—*Continued*

pany. The trade mark "Coca-Cola" has been in use uninterruptedly in connection with the sale of a beverage in the United States, by the parent company of the plaintiff for over 50 years, and for a number of years, at least since April, 1906, the sale of a beverage, under the name of "Coca-Cola," has been carried on extensively in Canada, and this beverage has been extensively advertised there under that name. The plaintiff produces a syrup, also called "Coca-Cola," to which is added carbonated water in the making of the Coca-Cola beverage, and this is retailed in bottles, or by the glass from soda fountains or like dispensaries. In some of its plants the plaintiff manufactures the Coca-Cola beverage which it sells to dealers, in bottles. It also sells to a large number of independent persons, or bottlers, the Coca-Cola syrup from which such persons make the beverage Coca-Cola by adding carbonated water, according to a formula furnished by the plaintiff, and this such persons offer for sale in bottles furnished by the plaintiff, only under the name of "Coca-Cola." The alleged infringing mark consists of the hyphenated word "Pepsi-Cola." This mark, to be applied to the sale of "beverages, and particularly to a non-alcoholic beverage," was registered in Canada on November 30, 1906, by The Pepsi-Cola Company, a corporation then domiciled in the State of North Carolina, U.S A., and renewed in the name of the same corporation in November, 1931, for a further period of 25 years. It was alleged that this mark was acquired from the North Carolina corporation by Pepsi-Cola Company, a corporation of the State of Delaware, U S A., and by it assigned to defendant in May, 1936. The defendant commenced doing business in Canada about the middle of 1934; it was not the successor of any other company that had been engaged in Canada in the business of selling beverages under the trade mark of "Pepsi-Cola." Since 1934 it has manufactured and sold in certain localities in Canada a beverage under the name of "Pepsi-Cola," in bottles larger and different in shape from those in which the plaintiff's beverage is vended, and not from soda fountains or such dispensaries. At the trial the plaintiff proved registration of its mark, and established the sale in Canada by the defendant of a beverage, falling within the same category as that of the plaintiff's, under the name of Pepsi-Cola. The plaintiff then rested. A motion by defendant to dismiss the action was refused *Held:* That the plaintiff, having established a *prima facie* case, was not required to do more at that stage in an action for infringement, and was justified in resting