



1962 BETWEEN :

Sept. 10, 11,
12, 13
Nov. 16

RODI & WIENENBERGER AKTIEN-
GESELLSCHAFT

} APPELLANT;

AND

METALLIFLEX LTD., RESPONDENT.

Patent—Patent Act R.S.C. 1952, c. 203, ss. 2(j), 67 and 68—Infringement—Royalty—Power of Commissioner of Patents to grant a licence—Failure to work invention in Canada—Appeal from order of Commissioner dismissed.

Appellant's patent granted on September 7, 1954, is for an invention of a particular type of extensible chain band, more particularly a wrist watch bracelet. Respondent obtained from the Commissioner of Patents

a compulsory non-exclusive licence to manufacture and sell in Canada extensible watch bracelets embodying the features of the invention granted to appellant.

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The appellant appeals to this Court from the order of the Commissioner of Patents granting the licence and further on the ground that he erred in fixing the amount of the royalty to be paid by respondent.

Held: That no satisfactory reason for failure to work the invention in Canada on a commercial scale was established and that abuse was shown to have existed before and at the time of the presentation of the respondent's application and to have persisted though somewhat alleviated up to the time of the hearing of the application.

- 2. That the Commissioner had exercised his discretion in favour of granting a licence and there is no good reason to interfere with his decision.
- 3. That the appeal be allowed as to the royalty to be paid by the respondent on the watch bracelets other than type B; and referred back to the Commissioner.

APPEAL from an order of the Commissioner of Patents.

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

Christopher Robinson Q.C. and *S. Godinsky Q.C.* for appellant.

Gordon F. Henderson Q.C. and *R. G. McClenahan* for respondent.

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

THURLOW, J. now (November 16, 1962) delivered the following judgment:

This is an appeal from a decision of the Commissioner of Patents ordering the grant to the respondent of a compulsory non-exclusive licence to manufacture and sell in Canada extensible watch bracelets embodying the features of the invention claimed in Canadian Patent No. 505676. There are two main issues in the appeal, the first being that of whether or not the Commissioner erred in concluding that the grant of a licence should be ordered and the other, which arises only if the licence was rightly ordered, being that of whether he erred in fixing the amount of the royalty to be paid by the respondent.

The patent in question which is for an invention of a particular type of extensible chain band, more particularly a wrist watch bracelet, was granted to the appellant on September 7, 1954. In this type of bracelet, the parts consist of a number of metal sleeves, leaf springs and U-bows with the addition of two end pieces for coupling the bracelet to

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the watch. Apart from the manufacture of suitable materials and tools with which to make the parts, the production of these bracelets consists of the relatively commonplace operation of stamping out the required parts by means of presses the assembling of the parts into bracelets and the cleaning, polishing and mounting or packaging for sale of the end product. The assembly portion of the operation is one which can be carried out by men or women after a comparatively short period of training and practice.

The respondent's application for a licence was made under s. 67 of the *Patent Act* R.S.C. 1952, c. 203, s-s. (1) of which provides that the Attorney General of Canada or any person interested may at any time after the expiration of three years from the date of the grant of a patent apply to the Commissioner alleging that there has been an abuse of the exclusive rights under the patent and asking for relief under the Act. Under s. 68 the Commissioner "on being satisfied that a case of abuse of the exclusive rights under a patent has been established" is authorized to exercise as he may deem expedient in the circumstances several powers which are then particularly defined, one of which is the power to order the grant to the applicant of a licence on such terms as the Commissioner may think expedient.

What is to be regarded as abuse in proceedings under these provisions is dealt with in s-s. (2) and (3) of s. 67. Subsection (2) contains six clauses each of which defines a situation or situations in which the exclusive rights under a patent are to be deemed to have been abused and s-s. (3) declares a policy or purpose to be taken into account in determining whether there has been an abuse within the meaning of these clauses. While the respondent's application to the Commissioner alleged abuses under three of the clauses of s. 67(2) viz., clauses (a), (b) and (d), it will be necessary in view of the conclusion which I have reached to refer only to clause (a). This clause provides that:

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

- (a) if the patented invention (being one capable of being worked within Canada) is not being worked within Canada on a commercial scale, and no satisfactory reason can be given for such non-working, but if an application is presented to the Commissioner on this ground, and the Commissioner is of opinion that the time that has elapsed since the grant of the patent has by reason of the nature of the invention or for any other cause been insufficient to

enable the invention to be worked within Canada on a commercial scale, the Commissioner may make an order adjourning the application for such period as will in his opinion be sufficient for that purpose;

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The policy subsection is as follows:

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(3) It is declared with relation to every paragraph of subsection (2) that, for the purpose of determining whether there has been any abuse of the exclusive rights under a patent, it shall be taken that patents for new inventions are granted not only to encourage invention but to secure that new inventions shall so far as possible be worked on a commercial scale in Canada without undue delay.

In *Celotex Corporation and Dominion Sound Equipment v. Donnacona Paper Co. Limited*¹ Maclean P. commented on the legislative background of these provisions as follows at p. 129:

Before referring to the provisions of the *Patent Act* relevant to the issues here, which are sections 65 to 70 inclusive, I might observe that prior to the enactment of such sections, the *Patent Act* provided that any person might apply to the Commissioner, at any time after three years from the date of a patent, for the revocation of such patent on the ground that the patented articles or process was manufactured or carried on exclusively or mainly outside Canada, to supply the Canadian market with the invention covered by the patent. The Commissioner, in the absence of satisfactory reasons as to why the article or process was not manufactured or carried on in Canada, was empowered to make an order revoking the patent forthwith, or after a reasonable interval. This provision was enacted with a view to establishing new industries in this country, but it was evidently found at times impractical, or oppressive, and it was superseded by the provisions of the *Patent Act* to which I am about to turn, which are almost identical with section 27 of the English *Patent Act*.

The development of the provisions of the English *Patent Act* referred to by Maclean P. is set out in *The Brownie Wireless Company Limited* case² at pages 469 to 472. In the *McKechnies Bros. Ltd.* case³ Luxmoore J. referring to the several clauses of s. 27 of the English Act corresponding to those in s. 67(2) said at p. 446:

The Section itself defines the classes of cases in which monopoly rights under a patent shall be deemed to have been abused. These classes are obviously not mutually exclusive, and there may be considerable overlapping owing to the elasticity of the definitions contained in the Section; but it is plain that there can be no ground for relief under the Section unless the particular case can be brought within one or other of the classes defined. The classes are five in number and are set out in paragraphs (a) to (e) inclusive of subsection (2) of Section 27. In the present case *McKechnies* allege that there has been abuse of monopoly rights under three of the defined classes, namely, those under the sub-paragraphs (a), (b)

¹[1939] Ex. C.R. 128.

²(1929) 46 R.P.C. 457.

³(1934) 51 R.P.C. 461.

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and (d). Paragraph (a) is as follows: "The monopoly rights under a patent shall be deemed to have been abused . . . if the patented invention (being one capable of being worked in the United Kingdom), is not being worked within the United Kingdom on a commercial scale, and no satisfactory reason can be given for such non-working." To fall within this class the applicants must establish, first, that the patented invention is capable of being worked in the United Kingdom, and, secondly, that it is not being worked in the United Kingdom on a commercial scale. If these points are established, the patentee is given an opportunity of establishing that there is a satisfactory reason for the non-working. It is admitted in the present case that the invention is one capable of being worked in the United Kingdom, and therefore *McKechnie*s have to establish that the Patent is not being worked "on a commercial scale".

The expression "work on a commercial scale" is defined by s. 2(j) as meaning:

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

The English *Patent Act* referred to in the *McKechnie* case contained a similar definition of "working on a commercial scale" as to which Luxmoore J. commented as follows at p. 468:

The question therefore arises, What is the meaning of the phrase "working on a commercial scale"? In ordinary parlance the phrase is used in contradistinction to research work, or work in the laboratory, but in the Section under consideration the words "worked on a commercial scale" must be read in the light of the statutory definition contained in Section 93 of the Consolidated Acts. The definition is in these words: "Working on a commercial scale" means the manufacture of the article or the carrying on of the process described and claimed in a specification for a patent in or by means of a definite and substantial establishment or organisation, and on a scale which is adequate and reasonable under all the circumstances.' This definition is again drawn in the widest and most elastic terms, "on a scale which is adequate and reasonable in all the circumstances". I am not going to attempt any delimitation of the necessary scale beyond pointing out that it must have a definite relation to all the circumstances of the particular case. It must be adequate with reference to some particular circumstances. "Adequate" is a word imputing equality or sufficiency in a proportionate sense. In ordinary circumstances, where there is no difficulty in the way of working an invention in this country and there are no other circumstances to be considered, "adequate" would, I think, suggest a reasonably close relationship to the demand for the particular article in this country.

In the present case there is in my opinion abundant evidence that the invention is one capable of being worked in Canada and the first question to be determined is whether it was established before the Commissioner that the inven-

tion was not being worked in Canada on a commercial scale within the meaning of the statutory definition. In approaching this question a preliminary point arises as to whether the material time referred to in s. 67(2)(a) is the date of the filing of the application or the date of the hearing before the Commissioner. In *The McKechnie Bros. Ltd.* case Luxmoore J. considered this point and ruled that on the true construction of the paragraph corresponding to s. 67(2)(a) the working between the date of the filing of the application and the date of the hearing could properly be considered in arriving at a conclusion with regard to the existence or otherwise of abuse of monopoly rights and after discussing the evidence he reached the conclusion that in the particular case abuse had been established because there was not at the date of the hearing a working of the invention on a commercial scale as defined in the statute. In view of the course which the argument took in the present case it is I think worthy of note that Luxmoore J. did not hold that as a matter of construction of the section the date of the hearing was necessarily the material date or the only material date to be considered and since the case before him was one in which there had been no adequate working at any time either before or at the time of the hearing, it was unnecessary to rule in any greater detail on the question. The clause does appear to contemplate cases in which at the date of the hearing it may appear to the Commissioner that for particular reasons insufficient time has elapsed to enable the invention to be worked on a commercial scale and to empower him in such cases to postpone the proceeding and consider the situation as it may exist at a later date. To say, however, that as a matter of construction of the clause the question in every case is simply whether at the date of the hearing or of the postponed hearing, the working is on a commercial scale is I think to encourage patentees who for one reason or another may prefer not to work their inventions in Canada, to mock the statute and defeat the policy declared by s. 67(3) by doing little or nothing in the way of working the invention in Canada until an application under s. 67 is presented and then hustling to get working under way before a hearing takes place. There is no authoritative pronouncement on the point in this country and if it were necessary to rule on it, I would hesitate before adopting such an interpretation.

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On the facts of the present case, however, it is unnecessary in my view to go any further into the interpretation of the provision than Luxmoore J. went for while the picture as to working of the invention in Canada changed considerably in the period of eleven months which elapsed between the filing of the application and the hearing before the Commissioner, the result is I think the same even when the matter is viewed at the later date.

The facts with respect to the working of the invention in Canada are first that there was no working at all in the first three years following the grant of the patent except that in 1956 the respondent made some 2,200 bracelets and parts for several thousand more according to a patent which it held, but was prevented from going into full production and putting them on the market by an interlocutory injunction granted in an action brought by the appellant for infringement of the patent here in question. In November of the following year shortly after the filing by Watchstraps Inc. of an application to the Commissioner alleging abuse of the patent and asking for a compulsory licence to manufacture under it in Canada the appellant organized a Canadian subsidiary company known as Rowi Limited which at some point thereafter in 1957 or in 1958 began assembling bracelets of the patented type from parts made by the appellant in Germany. The evidence does not clearly show what facilities Rowi Limited had at the time other than an office or how many employees it had engaged in assembling bracelets. Nor is there satisfactory evidence as to the extent to which the bracelets were assembled from parts as opposed to the mere attaching of end pieces made in Germany to bracelets made and otherwise assembled in Germany. It is conceded that the mere attaching in Canada of end pieces to bracelets otherwise assembled in Germany could not be regarded as manufacture of the bracelets in Canada. In 1958 Henry Amsell, who carried on business in Montreal under the firm name of Amsell Brothers, also began assembling bracelets of the patented type for Rowi Limited and installed in the cellar of his premises several machines which had been sent by the appellant to Rowi Limited. These were presses which could be

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used to make the parts for the bracelets but they were not put in use. There is evidence which I think is corroborated by the course of events which followed and which I would regard as credible that the machines were in fact brought to Canada and installed in the premises of Amsell Brothers not for the purpose of producing parts but as a camouflage in the hope of making it appear whenever necessary that the patented bracelets were being manufactured in Canada. I pause at this point to note that in considering the evidence of Mr. Loeffler who throughout this period was the sales representative of the appellant in Canada as well as the President and Managing Director of Rowi Limited, I have assumed that both Mr. Katz and Mr. Frank, the Directors of the appellant to whom he referred in his evidence, died prior to the hearing before the Commissioner. The situation as described continued until mid-February of 1961 when a change in the management of Rowi Limited and of the sales representation of both Rowi Limited and the appellant in Canada as well as a marked change in the appellant's sales and pricing policies occurred. Sales made by Rowi Limited in the years in question were as follows:

<i>Year</i>	<i>Number</i>	<i>Value</i>
1958	46,021	\$106,215.71
1959	69,561	206,296.21
1960	5,004	15,273.05
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	120,586	\$327,784.97
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In addition at mid-February 1961 when the change in the management of Rowi Limited took place, it had on hand 33,725 completed bracelets, 1,485 bracelets which had been assembled but not washed or polished and parts for 3,660 more. On such evidence as there is relating to the scale of Mr. Amsell's operation and to the facilities available at the premises of Rowi Limited it seems unlikely that a total of 155,796 bracelets were actually assembled in Canada in the period in question but assuming that they were so assembled the figures may be compared with the following which give the sales made by the appellant to Canadian customers of bracelets made in Germany to the end of 1960 and thus

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indicate the size of the market which was available to the appellant in Canada:

<i>Year</i>	<i>Number</i>	<i>Value</i>
1953	29,261	\$ 60,597.00 (U.S.)
1954	103,080	203,388.00 "
1955	177,464	346,137.00 "
1956	217,600	442,754.00 "
1957	160,170	335,800.00 "
1958	100,676	263,532.80 "
1959	61,123	104,726.77 (Can.) 29,851.70 (U.S.)
1960	108,310	235,914.90 (Can.)
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	957,684	\$2,022,702.17

In fact what was happening in the years 1958, 1959 and 1960 was that the appellant and Rowi Limited were both selling to Canadian customers. In 1958 and part of 1959 while the appellant's prices were somewhat lower than those of Rowi and in addition the appellant allowed a 5 per cent. quantity discount which Rowi could not offer the differences were apparently not of enough significance to greatly outweigh the advantage which Rowi possessed of being able to deliver more promptly and sales by Rowi increased to the point where in 1959 they were somewhat higher than those made in Canada by the appellant. In September 1959, however, the prices of bracelets sold by Rowi Limited were raised by 20 per cent, while those of the appellant remained the same and this gave the bracelets supplied by the appellant a marked advantage. Thereafter sales by Rowi Limited declined sharply while those of the appellant increased. This price policy remained in effect until March of 1961, when following the presentation of the respondent's petition, and the change in the management personnel of Rowi Limited and its sales representation and that of the appellant in Canada, arrangements were made to divert to Rowi Limited all Canadian orders for patented bracelets of the kinds which the appellant and Rowi Limited had theretofore sold on the Canadian market, all of which carried the trade mark "Fixoflex", and the prices therefor were reduced to the point where they were lower than any previous Rowi prices and only slightly above those at which the same articles had been supplied by the appellant from Germany. About the middle of March 1961 Rowi Limited acquired from another bracelet manufacturer a plant in Montreal which

included several machines and shortly afterwards the machinery formerly installed in the premises of Amsell Brothers was moved to the new location and installed there. An automatic feeding device for one of these machines was then obtained, in Montreal, and commencing in July it and the machines acquired from the other bracelet manufacturer were used to make parts for the production of the patented bracelets. In the period from the change-over to the end of November 1961, Rowi Limited sold 76,904 of the patented bracelets. In the same period, together with about three weeks of December, 1961, it produced a total of 38,954 bracelets some from parts which it had made and some from German made parts and it imported from Germany some 25,992 bracelets complete except for the attachment of end pieces which were attached in Montreal. During the same period, but commencing in June, 1961, the appellant also sold in Canada under the trade mark "Supra Fixoflex" some 13,986 bracelets of a new and more attractive type. None of this type of bracelet had been made or assembled in Canada up to the time of the hearing and there was no evidence of so much as plans to manufacture it in Canada.

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The following table of production, importations and sales, month by month, for the period in question will serve to show the situation in 1961 as it appears from the evidence:

	<i>Fixoflex Bracelets produced by Rowi</i>	<i>Fixoflex Bracelets imported by Rowi</i>	<i>Supra Fixoflex Bracelets sold to Canadian customers by appellant</i>	<i>Total Fixoflex and Supra Fixoflex Bracelets imported</i>	<i>Sales of Fixoflex by Rowi</i>	<i>Total Sales by Rowi and Appellant</i>
Feb.					302	302
Mar.					3,561	3,561
Apr.		10,400		10,400	5,921	5,921
May	2,404				3,922	3,922
June	3,268		456	456	8,538	8,994
July	2,909		969	969	8,908	9,877
Aug.	2,977		2,846	2,846	6,933	9,779
Sept.	4,762		3,320	3,320	8,765	12,085
Oct.	6,459	6,901	220	7,121	17,864	18,084
Nov.	8,112	8,656	5,603	14,259	12,190	17,793
Dec.	6,463		572	572	(no figure given)	572
	<u>37,354</u>	<u>25,957</u>	<u>13,986</u>	<u>39,943</u>	<u>76,904</u>	<u>90,890</u>

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Leaving aside the question whether the assembly of bracelets in Canada from parts made in Germany should be regarded as manufacture of the patented invention in Canada within the meaning of the definition of s. 2(j) it is to my mind apparent that up to the time of the filing of the respondent's petition for a compulsory licence there never had been anything in the way of working the invention in Canada that could be characterized as proportionate to or as bearing any reasonably close relationship to the demand for the patented article in this country and that while the situation changed somewhat after mid-February 1961, and particularly in the latter half of that year, even then the production of the patented bracelets in Canada whether assembled from parts made in Canada or from parts made in Germany was only 38,354 against a total market enjoyed for the period of 90,890 and that even in the months of September, October and November when production was at something of a peak, it still amounted in each month to less than half of the total quantities of patented bracelets sold on the Canadian market and also to considerably less than the quantities of Fixoflex bracelets sold in Canada.

It was submitted that by some time in November production of bracelets by Rowi Limited had reached 2,150 per week which multiplied by 52 would yield a number sufficient to meet the yearly Canadian market then available to the appellant and that accordingly at the time of the hearing the scale of manufacture by Rowi was adequate within the meaning of the definition. As to this it may first be observed that the production figures show that if the scale actually reached 2,150 in a week in November it was not maintained for the whole month, though it may have been maintained for the first three weeks of December. I do not think however that the problem is to be resolved by directing attention to a scale of production over so short a period for if working for a short period were sufficient it would be just as logical to say that the scale was adequate because on the day or in the last hour or minute before the hearing so many articles were produced, which to my mind would be absurd. Capacity to manufacture on an adequate scale is one thing. Actual manufacture is quite a different thing. The evidence that in the last three or four weeks before the hearing Rowi had produced on a scale of 2,150 per week

may well indicate that at the time of hearing it had the capacity to produce on a scale sufficient to supply the available Canadian market for a year. But though Rowi had been in existence for upwards of four years it had never operated for a year on anything approaching such a scale and it is only if the expectations of the production manager of Rowi Limited, who was not a policy maker, are taken as fact (an assumption which on the evidence I would not regard as justified) that one could be led to think that Rowi's production was in fact on a scale approximately equal to the available Canadian market. The cold facts are that in no year and in no month or season for which figures were given in the whole four-year history of Rowi had its scale of production equalled or even approached the market for that year or that month or that season.

In view of these facts and having regard also to the nature of the invention, the comparatively short time required to establish a plant for the manufacture of it in Canada, and to the time which had elapsed since the grant of the patent as well as to the size of the Canadian market which is shown to have been available to the appellant during that period, I am of the opinion that it has been established that the invention was not being worked on a scale that was adequate in the circumstances within the meaning of s. 2(j) either before or at the time of the presentation of the respondent's application or at the time of the hearing.

Having reached this conclusion, from which it follows that the invention was not being worked on a commercial scale within the meaning of the statutory definitions, it becomes necessary to consider whether the failure to work the invention on a commercial scale amounted to abuse within the meaning of s. 67(2). At this point, as pointed out by Luxmoore J. in the first of the passages cited from the *McKechmie* case, the patentee is given an opportunity of establishing that there is a satisfactory reason for the non-working. The position taken by the appellant on this question was that the provisions of the *Patent Act* respecting abuse are founded upon an underlying assumption that the patent is effective in affording to the patentee quiet enjoyment of the monopoly, that in the period from 1954 to the end of 1960 the appellant was faced with the competition of massive importations into Canada of cheap bracelets which infringed the patent and until December

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1960 was engaged in litigation with the respondent and others in which the validity of the patent was in issue, that the cheap infringing imports in effect took two-thirds of the Canadian market and except in the Province of Quebec could not be effectively stopped because interlocutory injunctions could not be obtained in infringement actions while the validity of the patent had not been established, that this afforded a sufficient reason to justify no working at all in Canada until the patent's validity was firmly established by the judgment of the Supreme Court of Canada in December 1960, that the assembling of bracelets in Montreal by Rowi Limited and Amsell Brothers however constituted some working of the invention even in that period when the patent was not effective to afford a full monopoly and that in the meantime sales of the patented bracelets in Canada had been falling and by the time of the hearing of the respondent's application before the Commissioner in December 1961 the production of bracelets by Rowi Limited had been increased and had reached a scale substantially equivalent to the Canadian market which the appellant and its subsidiary enjoyed.

There is on the evidence no reason to doubt that not long after the grant of the patent imported bracelets which infringed the patent made their appearance on the Canadian market and though the situation improved to some extent after a number of infringement actions had been brought by the appellant, in three of which interlocutory injunctions effective in the Province of Quebec were obtained, in general it continued throughout the period to the end of 1960 and reached a high point in 1958 and 1959. None of the actions had, however, come to trial when in October 1957 Watchstraps Inc., one of the parties against whom an injunction had been obtained, filed an application alleging abuses of the patent under clauses (a), (b) and (d) of s. 67(2) and asking for a compulsory licence. In April 1958 the action against Watchstraps Inc. as well as that brought against the respondent came to trial but judgment was reserved and had not been delivered when in July 1958 the appellant filed its counterstatement opposing the application for a compulsory licence. In it the appellant asserted that the patented invention was being worked in Canada on a commercial scale since November 8, 1957 by Rowi Limited and consisted in the assembly to form the

patented bracelets of sleeves, U-shaped bows, leaf springs and connecting members obtained from the appellant in Germany, that since the date such manufacture began importations of the patented bracelets had gradually declined until at that time about half the entire Canadian demand for the patented bracelets was being supplied exclusively with bracelets manufactured by Rowi Limited, that a major proportion of then present importations were on the basis of contracts entered into for the year 1958 before manufacture in Canada had been established, that at the beginning of 1958 Rowi Limited bought from the appellant a manually operated machine and dies for the production in Canada of parts for the bracelets which machines were received in March or April and experimental operations were carried on with them but it was found that having regard to the wages required to pay operators of the machines the price of the parts would be substantially in excess of the duty paid price of parts imported from Germany, that following such experimental operations arrangements had been made for the appellant to supply to Rowi Limited automatic machinery for the production of the parts, that such machinery had been ordered and delivery of it was expected in August when it would be put into operation by Rowi Limited promptly and would thereafter be used to produce the parts in Canada and that it was expected that by the end of 1958 the entire Canadian demand for the patented bracelets would be supplied by bracelets made in Canada from component parts also made in Canada. The statement went on to say that the appellant had asserted its patent against the sale by the applicant of watchstraps alleged to embody the invention of a patent of which the applicant claimed to be the owner, and that the appellant was awaiting the judgment of the Superior Court of the Province of Quebec in the action which had been tried at Montreal in April 1958, but nowhere in the statement is there any suggestion whatever that either infringing imports or challenges to the validity of the appellant's patent had anything to do with the failure to work the invention in Canada on a commercial scale within the meaning of the statutory definition. Nor was any explanation offered as to why there had been nothing in the way of working the invention in Canada or of preparation for such working in the three-year period from

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the grant of the patent in September 1954 to November 7, 1957.

What happened afterwards with respect to the application does not appear in the record of these proceedings but as no mention was made of any licence or of any working of the invention in Canada by any licensee other than Rowi Limited, it is a safe assumption that no licence had been granted on it up to the time of the hearing before the Commissioner in the present proceedings.

In September 1958 judgments were given in the actions tried in April 1958 and by these it was held that claims 1 and 2 of the appellant's patent were invalid and that while claim 3 was valid, it had not been infringed except by certain of the bracelets sold by Watchstraps Inc. The appellant thereupon appealed to the Court of Queen's Bench in both cases and the interlocutory injunctions were continued in effect but apparently following the trial judgment competition from infringing imports increased. In June of the following year, the judgment in the case of the respondent was reversed and claims 1 and 2 were held to be valid and infringed by a bracelet made according to a patent held by the respondent. Shortly after this success, in September 1958, the price difference which had already been referred to was established. The customers were advised that the increase in the price of bracelets assembled in Canada was due to "augmentation of costs for wages, manufacturing improvements (installation of modern automatic machinery), general overhead, advertising, etc., which price increase was long since due to appear." That these were in fact the reasons for the increase was not established. On the contrary the evidence shows that they were not the reasons. At that time the policy being followed was to divert the orders as far as possible to the appellant and the establishment of the price difference was one of the ways adopted to carry the policy into effect.

It was also submitted in argument that the reason was that Rowi Limited was not making a profit. While there was general evidence that Rowi Limited was not showing a profit and at times could not pay the 50¢ per bracelet royalty imposed by the appellant no evidence of its profit and loss accounts, from which one might assess its profit or loss situation, was given and having regard also to the unexplained substantial price reduction put into effect in

March 1951 when the changeover took place, I do not regard it as established that Rowi Limited either did not or could not operate at a reasonable profit or that its failure to make a profit was the reason for the price increase.

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While the price increase was in effect an appeal from the judgment of the Court of Queen's Bench of the Province of Quebec was taken by the respondent to the Supreme Court of Canada and on December 19, 1960 the judgment was affirmed. About a fortnight later, on January 7, 1961 the respondent's application for a compulsory licence was filed.

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Turning now to the particular reasons for non-working advanced by the appellant, it is first to be observed that neither the infringing imports nor the challenge to the validity of the patent was mentioned in the counter-statement filed in July 1958 in opposition to the application of Watchstraps Inc. for a compulsory licence nor was evidence led that these were in fact the reasons why the invention was not worked in Canada to an extent commensurate with the available market in the period from the grant of the patent in 1954 to the end of 1960. On the evidence the failure to work appears to me to have been entirely a matter of choice on the part of the appellant for as I view it there was never any real difficulty in obtaining a substantial market or in organizing manufacture in Canada and the fact that the appellant when spurred by an application for a compulsory licence sent machinery to Canada and in its counterstatement opposing the application referred to plans to manufacture on a scale sufficient to meet the whole Canadian market appears to me to indicate that it recognized at the time that it had no satisfactory reason for not working the invention on a scale to supply the market available to it. Moreover, while the judgment of the Quebec Superior Court in September 1958 holding claims 1 and 2 of the patent invalid may have afforded some reason for not immediately pursuing the plans which had been set out in the counterstatement, if indeed such plans ever existed, on the evidence there was no justification following the reversal of that judgment in June 1959 either for failure to proceed with the plans or for the appellant's conduct in so raising the price of Rowi produced bracelets as to make it impossible for them to compete on the Canadian market

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with those made by the appellant in Germany. It is also clear that the patent was never entirely ineffective for even while the litigation was in progress it served to prevent at least one Canadian manufacturer from producing bracelets embodying the features of the invention who but for the injunction obtained by the appellant would undoubtedly have been producing such bracelets for the Canadian market on a considerable scale, and it is not improbable that it served to deter others as well. It is apparent as well that regardless of the extent of infringing imports on the Canadian market the appellant throughout this period in fact enjoyed a very sizeable market for its patented bracelets and while I am not prepared to adopt the appellant's submission that there is any unexpressed assumption such as that suggested underlying the abuse provision of the *Patent Act* on the facts of the present case even assuming that the presence of the infringing bracelets on the market which the patentee was temporarily unable to prevent constitutes a satisfactory reason for failure to manufacture in Canada to an extent sufficient to supply the whole Canadian demand, in the circumstances of this case it affords, in my opinion, no satisfactory reason for failure to work the invention on a scale sufficient to meet the market which the patentee in fact enjoyed in Canada. Finally, with respect to 1961, the facts as to production of the bracelets in Canada which have already been set out do not bear out the submission that such production was sufficient to supply the market available to the appellant in Canada which even though it had been declining to some extent since the peak year 1956 still remained a very considerable market accounting in less than ten months for sales in excess of 90,000 bracelets. On the facts disclosed and having regard to s. 67(3) I am of the opinion that no satisfactory reason for failure to work the invention in Canada on a commercial scale has been established and that the case is one in which abuse within the meaning of s. 67(2)(a) is shown to have existed both before and at the time of the presentation of the respondent's application and to have persisted, though alleviated to some extent in the meantime, up to the time of the hearing.

Moreover, having regard to the length of time which had elapsed from the grant of the patent and also to the length of time which had elapsed from the time of the presentation of the petition as well as to the comparatively short time required and the other factors involved in getting into full production and to the other features of the case appearing from the evidence, I would have no confidence that production by Rowi would ever reach an adequate scale over a prolonged period or even be maintained at the scale it reached in the latter part of 1961 if the respondent's application were dismissed and because of the prior conduct of the appellant with respect to its statutory obligations I would not regard the case as one in which delay in exercising the powers committed to the Commissioner by s. 68 was warranted. The Commissioner exercised his discretion under that section in favor of granting a licence and in my opinion there is no good reason to interfere with his decision. On the main issue the appeal accordingly fails.

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There remains the question whether the Commissioner erred in fixing the royalty to be paid by the respondent at 10¢ per bracelet. The Commissioner gave no reasons for his decision on this point other than that a straight royalty on pieces would involve easier computation and accounting than one based on selling price. The appellant submitted that the amount fixed was unreasonably low, that the royalty should have been a percentage of the selling price and that it should have been set at not less than 10 per cent. thereof. It is to be observed, however, that the appellant had offered no evidence to support such a claim. Vide the comments of Rand J. in *Parke Davis & Co. v. Fine Chemicals of Canada Limited*¹ at p. 223.

As the selling prices of both stainless steel and rolled gold plate bracelets exceed \$1, a 10 per cent. royalty on such sale price would in all cases yield more than the 10¢ fixed by the Commissioner. According to the cost figures of the Bandmaster bracelet put in evidence by the respondent such a royalty would take all the 24¢ per bracelet profit to be expected from production of rolled gold plate bracelets leaving the licensee to operate at a loss of 1¢ per bracelet

¹[1959] S.C.R. 219.

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if the bracelet were to be sold at the proposed price, and it would take 15¢ out of an anticipated profit of 26¢ per bracelet to be realized on sale of stainless steel bracelets at the proposed price. The Fixoflex and Supra Fixoflex bracelets sell at prices somewhat higher than the proposed prices of the Bandmaster bracelet but it was not suggested that the latter would be able to compete with the Fixoflex or Supra Fixoflex bracelets if the proposed prices of Bandmaster bracelets were raised and having compared the samples put in evidence I would not expect that the Bandmaster bracelets could compete with them except at a lower price. The figures given by the respondent related however only to the cost of producing the Bandmaster bracelets which are made according to the respondent's patent and I would not assume that they are applicable as well to production of bracelets similar to the Fixoflex or Supra Fixoflex. On the whole, there appears to me to be sufficient evidence to support, and I see no sufficient reason to interfere with, the Commissioner's decision, so far as the Bandmaster bracelets are concerned, to fix the royalty on a per bracelet basis, and to set it at 10¢ per bracelet but as there was in my opinion no sufficient evidence led by either party on which to base, having regard to the considerations mentioned in s. 68(a) of the Act, a determination of royalty to be paid in respect of other types of bracelets of the patented kind with respect to them I shall follow the course adopted by the Supreme Court in *Parke Davis & Co. v. Fine Chemicals of Canada Ltd.*¹ and refer the matter back to the Commissioner.

The appeal will be allowed to the extent indicated and the matter of the royalty on bracelets made according to the appellant's patent other than "Bandmaster" bracelets made according to the respondent's patent will be referred back to the Commissioner. In other respects the appeal will be dismissed. There will be no order as to costs of the appeal.

Judgment accordingly.

¹[1959] S.C.R. 219.