

WESTERN ELECTRIC COMPANY }  
INCORPORATED .....

APPELLANT;

Montreal  
1969

Feb. 25-28  
Mar. 3-4

AND

THE MINISTER OF NATIONAL }  
REVENUE .....

RESPONDENT.

Apr. 11

*Income tax—Withholding tax—Non-resident company supplying technological information to resident company—Whether “secret processes” or “other like property”—Whether trade secret—Income Tax Act s. 106(1)(a)—Can-U.S. Tax Convention Protocol s. 6(a).*

Technological information concerning a non-resident’s products (viz drawings and specifications of materials, their assembly, etc.) supplied to a resident on a confidential basis are “secret processes” or “other like property” within the meaning of s. 6(a) of the Protocol to the Can.-U.S. Tax Convention and hence the non-resident’s fees therefor (based largely on the selling price of the resident’s products) are subject to withholding tax under s. 106(1)(a) of the *Income Tax Act* as being royalties for the use of property in Canada. A “secret process” referred to in s. 6(a) of the Protocol is synonymous with a trade secret. The word “secret” has an affinity with the word “confidential”.

*English Electric Co. v. Musker* (1964) 41 T.C. 556; *Mercer v. A.G. Ont.* (1881) 5 S.C.R. 538 referred to.

INCOME tax appeal.

*H. Heward Stikeman, Q.C.* and *Peter F. Cumyn* for appellant.

*D. G. H. Bowman* and *F. P. Dioguardi* for respondent.

1969  
WESTERN  
ELECTRIC Co.  
v.  
MINISTER OF  
NATIONAL  
REVENUE

DUMOULIN J.:—At the start of this trial, a joint motion was made by the litigants that evidence adduced in the instant case should also apply to the two other appeals, namely numbers B-1870 for the 1964 taxation year and B-1871 for the 1965 taxation year. Moreover, this understanding is recorded in paragraph 2 of an agreed statement of facts filed as exhibit A-1 herein.

This “pattern” appeal is directed against respondent’s notice of assessment, number 144557, dated April 15, 1966, claiming tax and interest of \$332,544 and \$46,853.51, respectively, as being due for the 1963 taxation year “in respect of certain payments paid or credited to it in the year by Northern Electric Company Limited under certain contracts between the appellant and Northern Electric Company Limited for the furnishing of technical information and assistance” (*cf.* notice of appeal, part A, paragraph 1).

The appellant, at all times material to this proceeding, was a New York (U.S.A.) corporation, incorporated under the laws of that State. It was not a resident in and had no permanent establishment in Canada (*vide* agreed statement of facts, paragraph 20).

Paragraph 3 of the notice of appeal states that:

3 During 1963, 1964 and 1965, five contracts were in force between the appellant and Northern (a Canadian corporation resident in Canada) respecting such technical information and assistance, the said contracts having come into effect on July 1st, 1959 (hereinafter called the “1959 Agreement”), August 1st, 1961 (hereinafter called the “1961 Agreement”), October 25th, 1962 (hereinafter called the “1962 Agreement”), July 1st, 1964 (hereinafter called the “first 1964 Agreement”), and August 1st, 1964 (hereinafter called the “second 1964 Agreement”). Payments under all of the said Agreements except the second 1964 Agreement are involved in the assessment herein appealed from.

A proper intelligence of the question at stake requires copious recitals from the statement of facts and the reply. Resuming the former, its paragraph 4, the leading and most comprehensive one, describes as hereunder the essential features of the business relationships between appellant and Northern Electric Company:

4. Under the 1959 Agreement, the appellant was to make available to Northern technical information relating to a selective list of products of the appellant which covered more than half the communication products manufactured by the appellant. The information furnished consisted of the manufacturing drawings and specifications of the materials and parts comprising such products, and manufacturing

drawings and specifications covering the assembly, wiring and acceptance test requirements of such products. The appellant supplied all of the new or changed information affecting these products resulting from its research and development. Also supplied were substantially all manuals, handbooks and associated drawings and specifications relating to quality control, distribution, installation and repair of these products. Specifications covering products and material purchased by the appellant from others were also included. The 1959 Agreement replaced one which had become effective on July 1st, 1949 (hereinafter called "the 1949 Commercial Agreement"). The supply of technical information under the 1959 Agreement terminated on June 30th, 1964, but certain payments thereunder continue until June 30th, 1968. The first 1964 Agreement provides for the supply on a continuous basis of technical information relating to electronic switching systems No. 1 and No 101 and specified crossbar equipment. Provision is also made in the first 1964 Agreement for the possible supply of technical information on a "one-shot" basis with respect to other products as they may be specifically identified by Northern. By this term is meant the obligation to supply information only as it existed at the time Northern requested it without any continuing obligation to supply additional technical information thereafter. Although the number of products covered by the first 1964 Agreement is considerably less than under the 1959 Agreement, the electronic switching systems covered by the first 1964 Agreement represent some of the latest developments in the art of telephony and the actual technical information to be received by Northern under the first 1964 Agreement is quite extensive.

1969  
WESTERN  
ELECTRIC Co.  
v.  
MINISTER OF  
NATIONAL  
REVENUE  
Dumoulin J.

In 1962, appellant and Northern entered into an agreement covering testing facilities for carrier systems. This followed the 1961 Agreement concluded in order to provide Northern with technical information in respect to five specified products not covered by the 1959 contract.

We read at paragraph 7 of the notice of appeal, part A, that:

7. All of the aforementioned Agreements were entered into in the City of New York, in the State of New York, one of the United States of America. Payments for information received were also made in said City of New York. The research and development work of the appellant was performed in the United States of America. The drawings and specifications involved were prepared in the United States of America and shipped by carrier to Northern in Canada. The appellant did not have in 1963, 1964 or 1965, and does not now have any office or place of business or permanent establishment in Canada.

The mode and proportional basis of, let us say, the pecuniary appreciation by Northern Electric for such immeasurably diversified and unceasing technical disclosures is thus described in paragraph 8 of Western Electric's appeal:

8 Northern's payments for technical information, as well as for certain specifications covering products and materials purchased by the appellant from others, were determined by applying various percentage fees, as specified in the Agreements, to the selling price of

1969  
 }  
 WESTERN  
 ELECTRIC Co.  
 v.  
 MINISTER OF  
 NATIONAL  
 REVENUE  
 ———  
 Dumoulin J.  
 ———

various products sold by Northern. In general, to the extent feasible, these percentage fees were based on the relationship of the appellant's research and development expenses to sales. Northern's payments for the manuals, handbooks and associated drawings and certain other specifications were on a semi-annual lump sum basis in the amounts specified in the Agreements. In addition, Northern made further payments to the appellant to cover the appellant's costs of gathering and reproducing the information. Amounts received by the appellant from Northern under these Agreements were treated by the appellant as a reduction of its research and development expenses and accounted for by the appellant accordingly.

Patent rights, they add up in the thousands, appertaining to Western Electric, were, as indicated at paragraph 9 of the appeal:

. . . at all relevant times covered in a separate Agreement, and a 15% tax was withheld from any payments thereunder..

This paragraph next specifies that:

The information furnished under the 1959, 1961, 1962, first 1964 and second 1964 Agreements was not patentable. The appellant protected itself by stipulating in the said Agreements that the information made available to Northern was to be non-transferable, and Northern is prohibited under the said Agreements from making any more copies of the information than are necessary for its own use.

Appellant's conclusions are included in part B, paragraphs 2, 3 and 4 of its written procedures, and may be summed up concisely enough. It is claimed that any amounts received from Northern were not "included in any of the categories of payments set forth in the paragraphs of subsection (1) of section 106 of the Income Tax Act . . ." and in particular were not "rentals" or "royalties" as foreseen in section 6(a) of the Protocol to the U.S.-Canada Tax Convention; that technical information supplied to Northern "was not in itself property of any kind and . . . payments made by Northern for such information and assistance were not for the use of property in Canada"; "that the amounts paid or credited to (appellant) by Northern for 1963, 1964 and 1965 were 'industrial and commercial' profits, which in the absence of a permanent establishment of the appellant in Canada, cannot, by virtue of the said Canada-U.S. Tax Convention, be subjected to tax by Canada".

The respondent flatly denies paragraphs 3, 4, 5, 6, 7, 8 and 9 of the notice of appeal, admitting only the bare existence of the five contracts entered into by Western and

Northern. It then proceeds to set forth its interpretation of the controversy in paragraphs 11 and 12 of the reply to the notice of appeal; I quote:

11. The respondent says that the amount of \$2,216,960 00 (for taxation year 1963, I presume) paid or credited by Northern, a resident of Canada to the appellant, a non-resident person, is subject to tax under section 106(1)(d) of the Income Tax Act because

(a) it was paid or credited to the appellant as, on account of or in lieu of payment of, or in satisfaction of rent, royalty or a similar payment;

(b) in any event, it was such a payment for the use in Canada of property or for property or other thing used or sold in Canada.

12. The respondent denies that the said amount was "industrial or commercial profits" within the meaning of the Canada-U.S. Tax Convention.

Both parties rely on, substantially, the same statutory provisions, with, of course, divergent conclusions, namely, sections 3, 4, 106(1)(d), 123(10) of the Act; Articles I, II, and III of the U.S.-Canada Tax Convention signed March 4th, 1962, as amended, and section 6(a) of the Protocol to that Convention.

Before attempting to deal with the moot points at issue, a brief disclosure of "who's who" and a *dramatis personae* of the financial identities of the principal "actors" on the judicial stage may be of some interest, though it is already discernible, on the factual plane, that all technical information and assistance extended refer to the "art of telephony".

Paragraph 1 of the agreed statement of facts reminds us, *inter alia*, that "American" means the American Telephone and Telegraph Company. Then, at paragraph 22, we are informed that "at all times material to this proceeding the appellant has been a virtually wholly-owned subsidiary of American", and, in paragraph 23, that "in the years 1963 to 1965, Northern was a virtually wholly-owned subsidiary of Bell of Canada".

In the years 1963 to 1965, Western Electric held no shares in Bell of Canada and Northern Electric held no shares in Western or "American" (*cf.* para. 25).

Possibly, in an amplified application of the truism that there is more in two heads than in one, we are told by paragraph 30 of the agreed statement of facts that "in the

1969  
WESTERN  
ELECTRIC Co.  
v.  
MINISTER OF  
NATIONAL  
REVENUE  
Dumoulin J.

1969  
WESTERN  
ELECTRIC Co.  
v.

MINISTER OF  
NATIONAL  
REVENUE

Dumoulin J.

years 1963 to 1965, the appellant employed 5,000 engineers". More important still to the matter at bar is the information conveyed by paragraph 35, hereunder:

35 In each of the years 1959 to 1965, the Appellant furnished copies of between 100,000 and 150,000 drawings and specifications to Northern pursuant to one or the other of the agreements mentioned in paragraphs 3 to 6 above.

This enormous mass of informative stationery was attended to "in the United States at Northern's expense and . . . sent to Northern at destinations within Canada by first class mail". (*cf.* para. 37).

Lastly, to eliminate any lurking suspicion that appellant and Northern might not have dealt at arm's length, the former, on April 30, 1962, disposed of its 10% holdings of the latter's share acquired in 1959 (*vide*: para. 23).

This said, appellant, on page 11 of its written argument, concisely states the issues as follows:

- (a) Are the fees "rent, royalty or a similar payment" for the use in Canada of property within the meaning of Section 106(1)(d)?
- (b) Are the fees industrial and commercial profits within the meaning of Article II of the Convention and therefore exempt? (i.e., are they other than royalties as described in Section 6(a) of the Protocol)

Previously, the appellant, in its written argument (page 8) had inferred that the technical information confided to Northern "*is composed of ideas. One can own the paper on which they are written, but not the ideas themselves. In particular, the information is not, nor is it like, secret processes and formulae, being neither process information nor secret . . .*" Furnishing technical information is part of appellant's overall business".

The italics are mine and emphasize that which might be qualified as both the intellectual and factual basis of appellant's plea. Time and time again, with the repetitiousness of a leitmotiv, it is contended that abstract knowledge or scientific lore, due to their intangibility, remain beyond the material scope of property.

Now, regarding the statutory and Canada-U.S. Convention texts, most of their relevant parts call for a textual quotation.

INCOME TAX ACT

106. (1) Every non-resident person shall pay an income tax of 15% on every amount that a person resident in Canada pays or credits, or is deemed by Part I to pay or credit, to him as, on account or in lieu of payment of, or in satisfaction of,

1969  
WESTERN  
ELECTRIC Co.  
v.  
MINISTER OF  
NATIONAL  
REVENUE

...

- (d) rent, royalty or a similar payment, including, but not so as to restrict the generality of the foregoing, any such payment
  - (i) for the use in Canada of property,
  - (ii) in respect of an invention used in Canada, or
  - (iii) for any property, trade name, design or other thing whatsoever used or sold in Canada.

Dumoulin J.

...

123. (10) The Minister may assess any person for any amount payable by that person under Part III, this section or section 129 and, upon his sending a notice of assessment to that person, Division F of Part I is applicable *mutatis mutandis*.

CANADA-U.S. TAX CONVENTION

Article I

An enterprise of one of the contracting States is not subject to taxation by the other contracting State in respect of its industrial and commercial profits except in respect of such profits allocable in accordance with the Articles of this Convention to its permanent establishment in the latter State.

Article II

For the purposes of this Convention, the term "industrial and commercial profits" shall not include income in the form of rentals and royalties, interest, dividends, management charges, or gains derived from the sale or exchange of capital assets.

...

Article III does not apply to the instant case, since it is admitted that Western Electric has no permanent establishment in Canada.

THE PROTOCOL

6 (a) The term "rental and royalties" referred to in Article II of this Convention shall include rentals or royalties arising from leasing real or immovable, or personal or movable property or from any interest in such property, including rentals or royalties for the use of, or for the privilege of using, patents, copy-rights, secret processes and formulae, goodwill, trade marks, trade brands, franchises and other like property;

Such are the statutory and international treaty provisions that govern the sought for solution. Next comes the technical information agreement of 1959 (a part of exhibit A-6, appendix C to the agreement as to documents), a fair sample of all other similar covenants between Western and Northern.

1969

WESTERN  
ELECTRIC Co.  
v.MINISTER OF  
NATIONAL  
REVENUEDumoulin J.  
—

Article I of this indenture is entitled "Technical Information to be Supplied" from July 1, 1959, to June 30, 1964. The opening section reads:

Section 1. Western shall supply to Northern during the supply period of this agreement, to the extent and on the terms hereinafter set forth, technical information relating to those products listed in Appendix A, attached hereto and made a part hereof, entitled "Classified Merchandise List", as presently constituted or hereafter supplemented, manufactured by Western for sale or lease to the Bell Operating Companies. The technical information which Western shall supply hereunder to Northern shall consist of Western's manufacturing drawings and specifications of the materials and parts comprising such products, and manufacturing drawings and specifications covering the assembly, wiring and acceptance test requirements of such products, but said technical information shall not include any drawings or specifications with respect to machines, tools or processes involved in the manufacture, assembly, wiring, or testing of such products . .

Section 2 stipulates that:

. . .

(c) When Western is to supply technical information on a "continuing" basis, it shall supply not only technical information as it exists at the time of the request, but also additional technical information relating to the same products, including changes and new designs, and shall continue to do so for the duration of the supply period, subject to Section 4(c) of this Article I.

The obligation next assumed by Western foresees that:

Section 3 To the extent of its right to do so Western shall supply to Northern on a continuing basis during the supply period of this agreement its technical information pertaining to all products in the product groups identified in Appendix B attached hereto and made a part hereof . . .

Two further undertakings of this 1959 agreement, sections 8 and 9(a) shed a fuller light on Western's obligations to its Canadian customer, Northern Electric; they are:

Section 8. If at any time in the supply period of this agreement Northern shall request that Western supply technical information on a "one shot" basis pertaining to one or more codes of products included in Appendix A . . . , Western shall, if it is in a position to do so, undertake to supply such information on reasonable terms to be negotiated and incorporated in an agreement substantially in the form illustrated by Appendix G attached hereto and made a part hereof.

Section 9. (a) Although the technical information to be supplied hereunder, apart from the provisions of this Section 9, relates to products manufactured by Western for sale or lease to the Bell Operating Companies, Western shall supply during the supply period, subject to the terms, conditions and limitations of this agreement, Western's technical information of the same nature relating to products, listed in Appendix B at the time the information is available,



which Western may propose to manufacture or may be preparing to manufacture for sale or lease to Bell Operating Companies. Provisions corresponding to this Section 9 shall be included, if Northern so requests, in any agreement negotiated pursuant to Section 6(b) of this Article I.

...

1969  
WESTERN  
ELECTRIC Co.  
v.  
MINISTER OF  
NATIONAL  
REVENUE

Article III, under the caption of Fees, sets up a schedule of payments for the technical data and assistance provided; a reproduction of sections 2(a) and 6(a) complements a notion of the basis on which pecuniary remuneration should be computed (as previously expressed in paragraph 8 of the statement of facts):

Dumoulin J.

Section 2. (a) Northern shall pay fees to Western at the rates specified in Appendix B (.. or at the rates determined in accordance with Section 6(a) of Article I hereof) for the respective product groups, on each product subject to fee, as hereinafter defined, which is sold or leased (emphasis added) during the base period of this agreement, as also hereinafter defined, such rates to be applied to the net selling price of such product if sold for a separate consideration payable wholly in money and in all other cases to the fair market value thereof.

Section 6 (a) In addition to the other payments provided for in this Article III, Northern shall pay Western 0.35% of the net selling price or fair market value, whichever may be applicable under paragraph (b) of this Section 6, of all products of the kinds listed in Appendix A,... The payments provided for in this Section 6 shall constitute compensation for the use of technical information, in connection with products for which payments are not otherwise provided.

For the needs of this case, a last but highly significant stipulation, formulated in Section 5 (a) (b) (c) (d) of Article IV (always Appendix C to agreement as to documents, exhibit A-6) will end the lengthy yet indispensable roster of citations. I had as well point out, without further ado, that we reach, here, the crux of the problem, the all important and warmly disputed question of whether or not the adjective "secret" in section 6(a) of the treaty protocol could have a meaning and intent coextensive with that of "confidential".

Section 5. (a) Neither Northern nor its subsidiaries shall use the technical or other information supplied hereunder except as provided in this agreement.

(b) Northern and its subsidiaries shall keep such technical or other information confidential (emphasis not in text).

(c) Neither Northern nor its subsidiaries shall, without Western's express written permission, make or have made, or permit to be made, more copies of such technical or other information than are necessary for its or their use hereunder.

1969

WESTERN  
ELECTRIC Co.  
v.MINISTER OF  
NATIONAL  
REVENUE

Dumoulin J.

(d) Neither Northern nor its subsidiaries shall make any procurement information contained in such technical or other information available to suppliers or prospective suppliers except on the agreement in writing (of which a copy will be furnished by Northern to Western, if requested) of such supplier or prospective supplier that it will keep such information *confidential* (italics added) and will not use it except for the purpose of supplying to Northern, or its subsidiaries, materials, parts or components described therein.

The appellant, as previously mentioned, among several lines of argument, stressed at great length the view that "since know-how is not property it cannot be sold, nor de-mised. Consequently, the courts have consistently characterized technical service agreements as contracts for the rendering of a service"; and reference is made to the British case of *English Electric Co. Ltd. v. Musker*<sup>1</sup>, wherein Vis-count Radcliffe wrote:

There is no property right in "know-how" that can be transferred even in the limited sense that there is a legally protected property interest in a secret process.

I, at once, take due notice that should I sense something in the nature of a secret process, the decision above would have granted it legal protection as a common law right short of any other explicit guarantee.

Respondent, as it not unfrequently happens in juris-prudence, counters this opinion by another gleaned from the same affair of *Musker v. English Electric Co. Ltd.*<sup>2</sup>, that of Lord Denning who said:

Know-how is an intangible asset, just as intangible as good-will and just as worthy of recognition.

On pages 24 and 25 of his written submissions the Min-ister's learned counsel suggests that:

page 24: The technical information to the limited use of which the right is so granted is highly valuable proprietary information, acquired by Western at substantial cost, carefully guarded and developed with the advanced technological competence and substantial resources of A.T. & T., Western and Bell Laboratories. There is no realistic distinction between this information and any other secret process or trade secret that may be licensed on a similar basis.

page 25: Yet trade secrets and secret processes are no more than in-formation of a secret nature as to the means of manufacture. It is submitted that the confidential information the right to the use of which was granted under the technical information agreements falls within precisely the same category and is therefore "like property".

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<sup>1</sup> (1964) 41 T C 556 at p 585

<sup>2</sup> 41 T.C. 556 at p. 582.

On page 3 of his brief, the appellant sets a premise, pervading throughout, and leading to the conclusion that Western rendered business services to Northern, for which it received monetary appreciation of no other class or kind than that of ordinary commercial profits, held tax free in Canada, for an American enterprise without a permanent establishment here.

1969  
WESTERN  
ELECTRIC Co.  
v.  
MINISTER OF  
NATIONAL  
REVENUE  
Dumoulin J.

This initial standpoint is that: "It cannot be said that the appellant furnishes to Northern such a comprehensive block of information that Northern, or for that matter, anyone else, needs only turn the information over to its employees in order to manufacture." And, from thence, an analytical review of the five agreements, especially that of 1959, would exclude from the technical assistance afforded all colour of "secrecy".

The oral evidence on that score is quite succinct. As explained by the assistant vice-president of corporate development at Northern, John Glover Todds: "The assistance derived from Western Electric's drawings and technical information, though not slavishly followed, are nevertheless essential. . . Information given us by Western, we consider as confidential but not as secret. In the engineering and technical departments (those of Northern) as of 1965, there would be about 1,500 scientists, all having access to the confidential information obtained from Western." Of itself, it seems only natural that highly technical communications should be handed over to highly trained scientists without any admissible suspicion that this might derogate from the confidential discretion attaching to them. Mr. Todds also testified that: "We can manufacture the product from product design information but with some further information as to processing".

An appraisal of the technical information's extensive scope was imparted to me by Mr. John T. Byrnes, Western's assistant manager of patent licensing, who specified that: "The information given in virtue of an agreement so to do is much more detailed than that accompanying a patent communicated to Northern."

An honourable mention is deserved by the distinguished counsel of both parties for their painstaking and exhaustive endeavours, for the far-reaching extent of their inquiries.

1969  
 WESTERN  
 ELECTRIC Co.

For instance the exalted mantle of philosophy was had to clothe the notion of "property" in section 106(1)(d) of the Act.

MINISTER OF  
 NATIONAL  
 REVENUE  
 ———  
 Dumoulin J.

Rightly or wrongly, I humbly suspect that the practical and often over-worked brains of our legal draftsmen never dreamt of tailoring a such-like vestment for a taxing provision; yet, should my surmise be erroneous, I crave indulgence. Still, this labour was not in vain; it achieved the meritorious if negative result of showing me what I could delete, at least so I think, from my perusal of the pertinent reasons of decision, the *rationes decidendi*.

Of these, the paramount one would be that dealing, as I must, with a measure of exception, expressly enacted by the contracting parties to limit the extent of their own national laws and to devise special rules governing special cases of mutual interest, I feel bound to adhere closely to the current and ordinary meaning of the treaty terms, even more so than to provisions of any other statute.

My guiding light should be, of necessity, the Convention covenant.

The undersigned feels fortified in this surmise by section 3 of the *Canada-United States of America Tax Convention Act, 1943* (S. of C. 1943-44, c. 21) which I cite:

3 In the event of any inconsistency between the provisions of this Act or of the said Convention and Protocol and the operation of any other law, the provisions of this Act and of the Convention and Protocol shall, to the extent of such inconsistency, prevail

A clear expression of intent that the treaty should exercise a sovereign sway over the subject-matter of its competence.

In this vein of thought, since the "confidential" nature of the continuous technical directions remains undisputed, the inquirer's task seems restricted to seek whether or not the afore-mentioned adjective might, under the known conditions and circumstances, bear a close enough analogy to the expression "secret processes" or at least offer sufficient grounds for being classified as "other like property", two of the taxing conditions in the Protocol's section 6(a).

To begin with, in this issue, figures have an undeniable eloquence. In slightly more than three and one-half years, from January 15, 1963, to August 31, 1965, Northern paid or credited to appellant a total amount of \$5,823,307 pursuant to one or more of the five agreements. It stands to reason that no company would consider as costly an

expenditure for trade informations devoid of a practically flawless degree of "exclusivity", assured by the professional "secrecy" of appellant's scientific researchers and the confidential conditions linked with their impartation to Western's selected clients. I am loath to think that "secret processes and formulae" as written in the Protocol are intended in a more restricted sense than that of a trade secret, the latter not improperly described as something strictly confidential. Neither do I assimilate a trade secret to an invention deserving of a patent. Furthermore, an intent to exclude from the exempting clause of the Convention's Article II "other like property", equivalent to "property like", akin to "secret processes or formulae", seems apparent in section 6(a) of the Protocol, even though I cannot detect any specialized meaning in the mention of "secret processes".

It may be repetitious but, I trust, not unavailing, to insist upon the likely assumption that it would be a textual error to sunder "secret processes" from interchangeability with its correlative counterpart "trade secret".

Should semantics be of some assistance, as well they might, a recourse to reputed dictionaries is permissible. *Webster's Third New International Dictionary* defines "trade secret" thus:

A formula, pattern, process or device that is used in one's business and that gives an advantage over competitors who do not know it or use it.

A foremost French encyclopaedia, the *Dictionnaire encyclopédique Quillet, of recent publication* (1958) v<sup>o</sup> "secret", in the course of an exhaustive survey of the latter noun, applying it, generally, to scientific and artistic secrets, says:

Dans les sciences, dans les arts, moyen, procédé connu d'une seule personne ou de peu de personnes.

Assuredly no reproach could attach to the lexicographer for not having at mind Western's legion of scientists who, nevertheless, are bound into a unique fascis by the ties of an all pervading professional secrecy towards their employer. Quillet, then, narrows down the word "secret" to one of its several adaptations "secret de fabrique", which is:

Le fait pour un employé d'un établissement industriel de révéler les secrets de fabrication qui y sont appliqués, soit à un étranger, soit même à un Français, constitue un délit sévèrement réprimé par la loi pénale.

1969  
WESTERN  
ELECTRIC Co.  
v.  
MINISTER OF  
NATIONAL  
REVENUE  
Dumoulin J.

1969  
WESTERN  
ELECTRIC Co.  
v.  
MINISTER OF  
NATIONAL  
REVENUE

No allusion is made to a patented secret, but obviously merely to trade secrets, "secret de fabrique". Regarding the legal classification of a trade secret, it was held in the American case of *Stalker v. United States*<sup>4</sup> that:

It is established law that a trade secret constitutes property.

Dumoulin J. And again, as stated in U.S. Revenue Ruling 55-17:

While manufacturing know-how is of a non-patentable nature it is something that its possessor can grant to another for a consideration. The right to use such know-how is not materially different from the right to use trade-marks, secret processes and formulae.

The affinity, if not synonymity, between "secret" and "confidential" stands out, amongst many others, in *Black's Law Dictionary*<sup>5</sup>'s definition of that adjective:

Confidential: Intrusted with the confidence of another or with his secret affairs or purposes; intended to be held in confidence or kept secret.

Thus the adjective "secret" is resorted to twice to help qualify its related adjective "confidential".

This scrutiny of some known applications of key words in section 6(a) does not, I hope, derogate from the sagacious and oft-quoted directives laid down in *re Partington v. The Attorney-General*<sup>6</sup> wherein Lord Cairns wrote, *inter alia*:

... 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. 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.

There is, surely, a radical distinction to be drawn between searching after "an equitable construction" and inquiring into the current and ordinary applications of the "words of the statute".

On the penultimate page (27) of his argument, appellant's counsel raises as a final submission that:

When considering the language of the Canadian Treaty and whether it could reasonably be extended to include payments for information concerning industrial, commercial or scientific experience or know-how, it should be noted that in three recent treaties which

<sup>4</sup> 209 Fed. Supp. 30.

<sup>5</sup> Fourth ed., 1951.

<sup>6</sup> (1869) L.R. 4 H.L., 100 at 122.

Canada has entered into, these words have been added to the definition of "royalties". The language is quite similar to the language used in some of the United States treaties to which we have referred earlier. The Canadian treaties are:

- Canada—United Kingdom Convention,  
Article XI subsection 5.
- Canada—Japan Convention,  
Article VIII subsection 2.
- Canada—Trinidad & Tobago  
Article X subsection 2.

1969  
WESTERN  
ELECTRIC Co.  
v.  
MINISTER OF  
NATIONAL  
REVENUE  
Dumoulin J.

Article 11(5) of the Canada-U.K. Convention, similar to the other two treaties, is drafted with the italicized addition in the undergoing style:

The term "royalties" as used in this Article means any royalties, rentals or other amounts paid as consideration for the use of, or the right to use copyrights, patents, designs or models, plans, secret processes or formulae, trade-marks or other like property or rights, or for industrial, commercial or scientific equipment, *or for information concerning industrial, commercial or scientific experience* (emphasis in text of citation).

From this, the appellant concludes:

It is difficult to appreciate how the Minister can be heard to argue that treaties which do not have the extended language should be given the same construction as those that do...

A fair suggestion, undeniably, but perhaps open to the retort that the minister's intention to tax scientific experience, extant throughout the preceding treaties, was even more explicitly asserted in the subsequent ones.

Be that as it may, I feel in substantial agreement with respondent's contention that:

In the instant case, the appellant has granted to Northern a restricted right to use confidential, highly valuable technological information. That information is used by Northern in Canada in the manufacture of products sold by it and Northern pays Western a percentage of the sale price of the products sold in precisely the same way as it pays a royalty to Western under its patent licence agreement. To suggest that the payments made by Northern to Western as a percentage of the sale price of products manufactured with the use of the information, are in any intelligible sense different from royalties paid for the right to use a patent or a secret process (both of which are mentioned in section 6(a) of the Protocol) is to ignore commercial reality. It is submitted that in both cases what is paid is plainly a royalty. The confidential information supplied under the technical information agreements in the context of modern industry if not "secret processes" is of precisely the same nature: it is valuable, jealously guarded proprietary information... (cf. respondent's submissions, at pp. 32-33).

1969

WESTERN  
ELECTRIC Co. v.  
MINISTER OF  
NATIONAL  
REVENUE

The above lines had been prefaced by this cursive passage of Justice Henry's notes of judgment in *Mercer v. Attorney-General of Ontario*<sup>7</sup>:

The term "royalties" is of every general import and very comprehensive.

Dumoulin J. For the reasons expounded, I reach the conclusion that this appeal must be dismissed. The appellant, consequently, is ordered to pay to the respondent the joint amounts of \$332,544 and \$46,853.51, a total sum of \$379,397.51 with, in addition, all taxable costs.

<sup>7</sup> (1881) 5 S C R. 538.