

Toronto
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Mar. 31,
Apr. 1, 2, 3
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Ottawa
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Apr. 23

SARCO COMPANY, INC. APPELLANT;

AND

SARCO CANADA LIMITED RESPONDENT.

Patents—Compulsory licence—Appeal from Commissioner of Patents—“Abuse” of patent—Whether “satisfactory reason” for non-working patent—Issues defined by pleadings—Admissibility of evidence of subsequent facts—Whether establishment of “new trade or industry in Canada” prejudiced by refusal of licence—Patent Act, secs. 67(2)(a) and (d), 68(e), 70(1).

In May 1958 respondent was granted a Canadian patent for a trap for removing water etc from steam pressure systems. Appellant owned the US patent for the invention. Because of appellant's persuasions and threats respondent decided not to manufacture traps in Canada but instead imported traps made by appellant in the United States. In late 1963 respondent at length began to manufacture traps in Canada and in that year made 1.4% of its traps here; 19.5% in 1964; 30% in 1965; 33% in 1966, 100% in 1967 and subsequently. Early in 1966 appellant began to make an improved trap in the U.S. but because of respondent's Canadian patent could not make or sell such traps in Canada. In September 1966 appellant applied to the Commissioner of Patents under secs. 67 and 68 of the *Patent Act* for a compulsory licence to use respondent's patented invention on the ground that it was not being worked on a commercial scale in Canada. The Commissioner denied the application, finding there had been no abuse of the patent within the application of s. 67(2)(a) but he did not deal specifically with appellant's contention of abuse under s. 67(2)(d). Appellant appealed to this court where, there being no transcript of the oral testimony heard by the Commissioner, the same witnesses gave evidence. The parties requested the court, if it found abuse of the patent, to exercise the Commissioner's powers under s. 68 by granting or refusing a licence.

Held, dismissing the appeal:—

- 1 No "satisfactory reason" within the meaning of s. 68(2)(a) was shown for non-working of the invention for seven or eight years from the grant of the patent, and abuse of the patent under s. 68(2)(a) was therefore established. Since however applicant was a party to the abuse the object of secs. 67 and 68 would be best attained by making no order for a licence, as s. 68(e) authorized.
- 2 The evidence did not establish appellant's allegation that respondent had refused to grant appellant a licence on reasonable terms within the meaning of s. 67(2)(d), but even if there had been such refusal appellant had not proved its allegation that the establishment of a new trade or industry in Canada was prejudiced thereby. The introduction of appellant's improved trap into Canada would be simply to enter an established trade, which was insufficient.
3. Having regard to the provisions of secs. 70 to 72, which prescribe the procedure to be followed on applications to the Commissioner under secs. 67 and 68 —
 - (a) an application under s. 67(2)(d) founded on the refusal to grant a licence must fully set out the facts on which the applicant relies;
 - (b) evidence is receivable only for the purpose of proving or disproving questions of fact which remain unresolved on reading the application and counterstatement and an applicant cannot obtain relief in respect of facts not set out in his application but which may be established at the hearing before the Commissioner, including matters which have occurred since the application was filed.
- 4 While the questions which arise under s. 67 of abuse and of satisfactory reason for non-working a patent must be determined on the basis of the case put forward in the application, evidence of the situation at the time of the hearing may be relevant to those questions.

Brownie Wireless Co. (1929) 46 R.P.C. 457; *Loewe Radio Co.* (1929) 46 R.P.C. 479; *Robm Electric Lamp Co.* (1915) 32 R. P. C. 202; *James Lomax Cathro* (1933) 51 R.P.C. 75, discussed.

APPEAL from Commissioner of Patents.

Donald F. Sim, Q.C. and *Roger T. Hughes* for appellant.

John W. Brown and *G. R. W. Gale* for respondent.

THURLOW J.:—This is an appeal under section 73 of the *Patent Act* from the refusal by the Commissioner of Patents to order the grant to the appellant under sections 67 and 68 of the Act of a licence to use the invention patented by Canadian patent number 557418.

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The statutory provisions under which the application was made provide as follows:¹

67(1) 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 in the case of that patent that there has been an abuse of the exclusive rights thereunder and asking for relief under this Act.

(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;

...

(d) if, by reason of the refusal of the patentee to grant a licence or licences upon reasonable terms, the trade or industry of Canada or the trade of any person or class of persons trading in Canada, or the establishment of any new trade or industry in Canada, is prejudiced, and it is in the public interest that a licence or licences should be granted;

...

(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.

68. On being satisfied that a case of abuse of the exclusive rights under a patent has been established, the Commissioner may exercise any of the following powers as he may deem expedient in the circumstances;

(a) he may order the grant to the applicant of a licence on such terms as the Commissioner may think expedient, including a term precluding the licensee from importing into Canada any goods the importation of which, if made by persons other than the patentee or persons claiming under him would be an infringement of the patent, and in such case the

¹ The legislative history of these provisions in Canada is commented on by MacLean, P., in *Celotex Corporation et al v. Donnacona Paper Co.* [1939] Ex C.R. 128 at p. 129. The history of the corresponding provisions of the English Act, which was not the same as in Canada, is described by Luxmoore, J. in the *Brownie Wireless* case (1929) 46 R.P.C. 457 at p. 469.

patentee and all licensees for the time being shall be deemed to have mutually covenanted against such importation; ...

- (e) if the Commissioner is of opinion that the objects of this section and section 67 will be best attained by making no order under the above provisions of this section, he may make an order refusing the application and dispose of any question as to costs thereon as he thinks just.

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In his decision the Commissioner found that in view of the conduct of the appellant and the efforts of the respondent no actual abuse of the monopoly rights had been proved and that the respondent had explained the delay but while he considered the case put forward under section 67(2)(a) he did not specifically deal with the case put forward by the appellant under section 67(2)(d). At the hearing of the appeal in this court the grounds of appeal relied on by the appellant were that the material before the court establishes abuses of the patent within the meaning of both of these provisions.

The material which the Commissioner had before him upon which to determine the matter consisted of the application and counterstatement and the affidavits accompanying them together with oral and documentary evidence presented by the parties at the hearing before him. No transcript or notes of the oral testimony were, however, included in the file forwarded to this court by the Commissioner. In the absence of such a transcript or notes the evidence of the same witnesses was heard on the appeal pursuant to leave granted by an order of this court made prior to the hearing. In the course of their testimony some additional exhibits were referred to and received but no additional witnesses were heard. In general, though possibly not in all details, the ground covered by the witnesses seems to have been much the same as that revealed by the findings of the Commissioner but while I do not regard the procedure adopted in this court as having been a complete trial *de novo* it appears to me to be necessary, in the circumstances, for the court to make its own findings of fact on the material before it rather than to examine the material merely to see if particular findings made by the Commissioner are sustainable.

The invention described in the patent specification relates to a disc type trap used to automatically remove water and insoluble gases from steam pressure systems. The trap is

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made of stainless steel and consists of three parts, a body, a disc and a cap. The body is a single steel block having an inlet opening leading horizontally from one side and then upwardly to an opening at the top. The top surface of the body is very finely machined both at the edge of the hole and at its outer edge. Between these finely machined surfaces is a circular depression from which an outlet hole leads to an outlet opening in the side of the body opposite that of the inlet opening. The disc is also a very finely machined piece of steel and rests, when the trap is in its closed position, on the finely machined surfaces of the top of the body, covering them and the tops of both the inlet and outlet holes. The cap fits over the disc and the top of the body but leaves the disc free to rise from the finely machined surfaces of the body to permit water and air to flow from the inlet opening to the circular depression and out the outlet opening. Water or air entering the trap under pressure of the system cause the disc to rise and the water and air are thus forced into the outlet orifice. When the water and gases have been eliminated and steam enters the trap forces generated by its heat and pressure between the cap and the disc and its velocity in passing to the outlet orifice cause the disc to become firmly seated again on the machined surface of the shoulders of the inlet orifice and to prevent the passage of steam from the system. The tops of the bodies and the discs are specially hardened to withstand damage from wear on the finely machined surfaces.

The patent was granted to the respondent on May 13, 1958, on an application which had been made by Ernest L. Midgette, the inventor, on October 6, 1954, and had been assigned by him to the appellant and by the appellant to the respondent on October 11, 1954. The appellant holds the United States patent for the invention and has manufactured traps known as TD-50's, which fall within it, since about 1956 in $\frac{3}{8}$ ", $\frac{1}{2}$ ", $\frac{3}{4}$ ", 1" and some larger sizes at its plant formerly at Bethlehem and later at Allentown in Pennsylvania.

Early in 1966 the appellant began manufacturing in the United States and distributing what it regards as an improved trap known as a TD-52. Instead of having a single hole (or several beside each other) leading from the circular

depression to the outlet opening the TD-52 has three smaller holes spaced equidistantly from each other in the circular depression and these lead to the outlet opening by holes so sized and designed as to equalize the quantity of condensate carried by each of them. Such a trap is said to have the advantage of eliminating unevenness of wear on both the disc and the machined outer ring of the top of the body near the outlet hole and thus to achieve longer serviceability. Such a trap is also operable in systems wherein the back pressure in the outlet system reaches up to 85% of the inlet pressure whereas the TD-50 is operable only when the back pressure does not exceed 50% of the inlet pressure.

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I should add at this point that at the hearing of the appeal the respondent took the position that back pressure was important only in closed outlet systems which are uncommon and that the advantages referred to were offset by the disadvantage arising from the smaller outlet holes being more likely to become blocked by rust or corroded metal or other foreign matter in the system. It also took the position that though the prices of TD-50 and TD-52's of the same size were about the same the TD-52 was in fact a more expensive trap since it took a larger size of TD-52 to discharge condensate to the capacity of a TD-50 and that the reason it could be used successfully in the same size in most TD-50 applications was that the capacity of the TD-50 that had been installed in such applications had been in excess of that required.

The appellant holds a United States patent for the improvement represented by the TD-52 and on April 30, 1967 (that is to say some three months after the decision appealed from) obtained the grant of a patent therefor in Canada. The patent for the improvement is known as the Cusi patent. The TD-52 trap is, however, within the respondent's patent and this prevents the appellant from making or selling such traps in Canada.

While the names of both the appellant and respondent include the word "Sarco", they are not associated or affiliated companies. The explanation for this and possibly for the Midgette patent rights in question in these proceedings being in different hands in Canada and the United States, lies in the fact that prior to 1948 both companies

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were controlled outright by Clement Wells who in or about 1948 caused the shares of the respondent to be transferred to trustees upon certain trusts for the benefit of his brother, Eric Wells, who was president of the Canadian company, and the wife of Eric Wells, for life and ultimately for the benefit of the employees of the Canadian company. Eric Wells died in the latter part of 1958 and Clement Wells died at some later date. He had in or about 1954 sold his interest in the appellant company to its employees. From 1962 to 1964, three-elevenths of the shares of the appellant were held by the respondent but since then there has been no proprietary relationship between them.

Both companies are and have been engaged in the manufacture and sale of a line of heating specialties including steam traps, pipe lines strainers, valves and pressure and temperature controls for heating and pressure systems and for some years after 1948, indeed throughout the remainder of the lifetime of Eric Wells, relations between them were very satisfactory apparently due in part to a sufficiently clear and respected understanding between them that the Canadian operations and market were the respondent's. Under this arrangement the respondent had free access to technical literature, engineering assistance and know-how provided by the appellant for any manufacturing activities it saw fit to undertake in the lines of products manufactured by the appellant and it also had in the appellant a source of supply for items and parts of such products which it was not engaged in manufacturing. Both companies marketed their goods under the trade mark "Sarco" which in Canada was registered as the appellant's mark. After the death of Eric Wells relations between the companies deteriorated and ultimately this and other litigation began, including an application by the respondent which resulted in expungement of the appellant's Canadian registration of the trade mark.

From the time when the TD-50 traps were first produced until late in 1963 the Canadian market for them was supplied entirely by traps manufactured by the appellant in the United States and imported into Canada by the respondent. In the years 1963, 1964, 1965 and 1966 some manufacture of the traps by or for the respondent took place in Canada but the proportion of Canadian made traps to the United States made traps supplied to the Canadian

market was but 1.4%, 19.5%, 30% and 33% in these years respectively. Moreover throughout the period from the grant of the patent there never was any insurmountable technical or economic reason why the traps could not have been produced at a profit in Canada to the extent required to supply the Canadian market. It is therefore, in my view, clear that for the first seven to eight years of its existence the patent, being one for an invention capable of being worked in Canada, not only was not worked in Canada on a commercial scale within the meaning of the definition in section 2(j)² of the Act but as well that in the absence of a satisfactory reason for such nonworking, the onus of proving which rested on the respondent,³ such failure to work the patent constituted abuse of the exclusive rights under the patent within the meaning of section 67(2)(a).

I turn therefore to the evidence offered as constituting a sufficient reason to excuse such nonworking.

In the latter part of 1957 and the early part of 1958, that is to say, prior to the grant of the patent, the respondent made inquiries of two machinery supply companies respecting suitable machinery and equipment for manufacturing the $\frac{1}{2}$ inch size TD-50 trap at its plant at Claremont, Ontario and about a month after the grant of the patent it requested and later obtained from the appellant up to date drawings and information on the production of this trap. These were preliminary steps taken with a view to implementing the respondent's decision to commence manufacturing the $\frac{1}{2}$ inch size of trap in Canada that size of trap being the one marketed in the greatest volume. No equipment had, however, been acquired and

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² 2. In this Act, and in any rule, regulation or order made under it,

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

The extent of the duty of a patentee to work his patent is discussed by MacLean, P., in *Celotex Corporation et al v. Donnacona Paper Co.* [1939] Ex. C.R. 128 at p. 138 and by Luxmoore, J., under the corresponding definition in the English Act in the *McKechnie* case (1934) 51 R.P.C. 461 at p. 468.

³ *Rodi & Wrenenberger Aktiengesellschaft v. Metallflex Ltd.* [1966] S.C.R. 593 per Hall, J. at p. 598.

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no manufacture of the traps had been commenced when shortly after the respondent's request for drawings and information a Mr. Simmonds, the president of the appellant company, came to Canada and persuaded the respondent not to undertake manufacture of the traps. It was said that Mr. Simmonds was upset by the prospect of the respondent undertaking to manufacture the traps, that he was of the opinion that the respondent was not capable of manufacturing them satisfactorily and that he pointed out that the appellant had invested an amount in the order of \$500,000 for machines and equipment for the express purpose of producing the traps in the United States. No threat is alleged to have been made on this occasion but in the result the respondent agreed to purchase its requirements of the traps from the appellant though, it was said, only until the appellant's equipment was being operated at full capacity and the appellant was considering the purchase of additional equipment at which time the respondent would consider itself free to manufacture the traps in Canada. Thereafter the respondent continued to purchase from the appellant and to import from the United States its requirements of TD-50 traps but it continued to make preparations for the purpose of ultimately manufacturing them in Canada. In 1959 it instituted studies in induction heating for the hardening of the top of the trap body and in 1960 it purchased a machine which could be used for carrying out this operation as well as in the manufacture of some other products of the respondent's operations. In 1961 the respondent made inquiries respecting the economic feasibility of having discs for the traps made by a particular method but found it too expensive and did not pursue it. In 1962 the respondent acquired a grinding machine which could be used to finish the top surfaces of the bodies and discs of this kind of trap as well as parts of another type of trap which the respondent was producing.

In October 1962 a meeting of the directors of the respondent took place at which Mr. Simmonds was present. A number of subjects were under discussion and in the course of the meeting he was asked hypothetically what the reaction of the appellant would be to manufacture of TD-50 traps by the respondent. His reply was to the effect that if the respondent began manufacture of the traps in Canada

the appellant would be in the Canadian market the next day. Whether his answer was that the appellant would begin selling in Canada traps made in the United States or would begin manufacturing them in Canada is not clear on the evidence but it is sufficiently clear that by way of reply he was reminded of the respondent's ownership of the patent and that the appellant had no right to enter the Canadian market. It is also clear both that the appellant was adamantly opposed to manufacture of the traps by the respondent and exercised its position and influence to prevent such manufacture so far as it could and that the respondent on its part was not prepared to consider giving the appellant permission to either sell or manufacture the traps in Canada.

As the respondent was dependent on the appellant as a source of supply for small parts for several of its important lines of production its directors concluded that it should not risk an open break with the appellant at that stage and thereupon decided to proceed clandestinely with its plans to start manufacture of the traps in Canada. In November 1962 it ordered a year's supply of name plates and arranged for the printing of instruction sheets to be enclosed with packages containing the traps. In the months that followed it also arranged for a supply of steel and placed orders for the manufacture by Canadian Acme Screw and Gear Ltd. of the three parts of the traps of the $\frac{1}{2}$ inch size. Late in 1963 this resulted in the production of some 200 Canadian made traps representing some 1.4% of the respondent's requirements for the year. In the following year under similar manufacturing arrangements the proportion of Canadian made traps reached 19.5% of the respondent's requirements. At some point during 1965 and 1966 the respondent switched its orders for parts to another Canadian manufacturer, which entailed delays, and in those years the Canadian made traps rose to but 30% and 33% respectively of the respondent's requirements. In the latter part of 1967 as a result of an order placed some months earlier the respondent acquired a machine capable of producing 100% of its requirements and began manufacture of all parts of the traps at its own plant. Supplies of parts from its Canadian supplier had enabled it to reach 118% of its requirements for the first nine months of 1967 and

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there seems to be no question of its capacity to produce the whole of its requirements since then or of its intention to do so.

However, in May 1966 the appellant learned of the respondent's activities and in September of the same year launched its application to the Commissioner for a compulsory licence under the patent. To my mind the evidence of what transpired when the appellant found out that the respondent was manufacturing the traps makes clear (1) that the respondent in fact had been endeavouring to conceal the activity from the appellant, (2) that the appellant on its part would not tolerate manufacture of the traps in Canada by anyone but itself, if it could prevent it; (3) that it considered the manufacture of traps by the respondent to be in breach of an understanding between the two companies; and (4) that the appellant itself had no intention of manufacturing the traps in Canada so long as the understanding was honoured and it was able to keep the entire Canadian market supplied through the purchases and importation of traps from the United States made by the respondent.

The question to be determined on section 67(2)(a), as I see it, is whether the facts which I have related, and which, while stated in somewhat fuller detail, do not, I think, differ materially from those found by the Commissioner, afford a "satisfactory reason" for the non-working of the patent in Canada within the meaning of the statute. In the view I take of the proper interpretation of the statutory provisions this question is to be determined in its relationship to the facts set out in the application as constituting abuse. Thus, if an applicant alleges and establishes non-working of the patent on a commercial scale, for example, in the first five years of the patent's life what the patentee needs to establish is a satisfactory reason for non-working of the patent in that period. If the case put forward by the applicant is one of non-working or insufficient working up to the time of the application for compulsory licence it is that non-working or insufficient working for which a satisfactory reason is required. In either case evidence of the situation at the time of the hearing, if there is a hearing, may be relevant to the whole question whether the abuse as alleged has been made out since it may tend

to confirm or refute the reasons offered for non-working or insufficient working in the period referred to in the application. The situation at the time of the hearing will also be relevant in connection with the exception provided for in section 67(2)(a) which, as I read it, is directed to the question whether for particular reasons non-working or insufficient working even up to the time of hearing should not be regarded as abuse, but to my mind these are the purposes in respect of which the situation at the time of the hearing is relevant in determining whether the alleged abuse has occurred.

That it is the abuse alleged in the petition, rather than the situation at the time of the hearing, which is the subject matter of the enquiry appears to me to follow from the wording of the statute. Section 67(1) provides that the Attorney General of Canada or any interested person may at any time after the expiration of three years... apply to the Commissioner *alleging... that there has been an abuse... and asking for relief...* It seems to me that this language contemplates that the case to be presented for an applicant is to be one in respect of an abuse that has already occurred. Indeed an applicant could scarcely be expected to plead and verify that an abuse was about to take place or that an existing abuse would continue until some indefinite future time when a hearing might take place. Subsection (2) then defines the situations in which a patent shall be deemed *to have been abused* but while the several defining paragraphs are expressed in the present tense there is nothing in them which appears to me to affect or vary the subject matter to be considered on a particular application as being that of whether the abuse alleged in the petition has occurred. Once a conclusion has been reached on whether or not the alleged abuse has occurred it may become necessary to consider which of the powers which section 68 of the statute authorizes the Commissioner to exercise should be exercised in the particular case and at that point again the situation at the time of the hearing may be relevant, particularly in considering whether the power under section 68(e) to make no order would in the circumstances be appropriate. That, however, is an entirely different question from that of whether or not an abuse has been established and both on

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the wording of the statute and in the nature of things it is a question which arises after a conclusion on the question of the establishment of the alleged abuse has been reached.

In the present case the substance of the allegation of abuse under section 67(2)(a) contained in the appellant's application and the affidavit accompanying it was that at the date of its presentation, that is to say in September 1966, the patent was not being worked on a commercial scale in Canada in that the TD-50 trap was not being manufactured by the respondent in adequate or reasonable quantities and that the TD-52 trap was not being manufactured at all. In my view this allegation is supported by the evidence and I find it to be established. It is also my opinion that the facts which I have outlined as having been put forward as a satisfactory reason for such non-working of the invention (in the circumstances described) are not capable of being regarded as a satisfactory reason for such non-working of the invention. As I see it, from the time of the grant of the patent to the time of the presentation of the petition, some eight years later, there had been no legal, technical or economic impediment to the working of the invention in Canada and the failure to manufacture on a commercial scale during this period had been the result of the respondent's decision or decisions to import rather than to manufacture.

The decision taken by the respondent in 1958 not to proceed with manufacture on a commercial scale but to import its requirements of the traps from the United States was, in my view, a clear decision to disregard the conditions on which the patent had been granted and the respondent's subsequent failure to work the invention on a commercial scale up to the time of the presentation of the application and even afterwards flowed from that decision and the respondent's conduct in implementing it. It may be that each step taken by the respondent in the meantime with a view to ultimately manufacturing the traps in Canada can be regarded as steps in the right direction but to my mind the fact that some eight years after the grant of the patent they had resulted in manufacture of but one third of the respondent's requirements characterizes them at best as much too ineffective and quite insufficient in the circumstances. Viewing the matter objectively, therefore, or from the point of view of the public, and with

due respect for the view taken by the learned Commissioner, I do not find it possible to conclude on the evidence before me that there was not abuse of this patent under section 67(2)(a) as alleged in the application.

I turn now to the appellant's case founded on section 67(2)(d). This was based on five separate incidents to which reference will be made which were said to be refusals within the meaning of the paragraph and to amount to a consistent refusal by the respondent to consider licensing manufacture of the traps in Canada on any terms and at any stage both before and since the filing of the application for a compulsory licence. It was then submitted that the establishment of manufacture by the appellant in Canada of TD-52 traps would be a new trade which could not be carried on without a licence under the patent and that it was in the public interest that a licence should be granted to the appellant to manufacture products falling within the appellant's *Cusi* patent.

The only reference to section 67(2)(d) contained in the appellant's application is found in paragraph 3(c) which states that the nature of the abuse (which had been generally alleged in paragraph (1)) was as follows:

- ...
- (c) contrary to section 67(2)(d) of the Patent Act, by reason of the refusal of the patentee to grant a licence upon reasonable terms, the establishment in Canada by the applicant of a new trade is prejudiced.

No facts were alleged indicating the refusal of a licence on reasonable terms in either the application itself or the affidavit which accompanied it. Nor was the "new trade" the prejudice to the establishment of which is the basis for relief under this provision further identified.

Section 70(1) of the Act provides that:

70(1) Every application presented to the Commissioner under section 67 or 68 shall set out fully the nature of the applicant's interest and the facts upon which the applicant bases his case and the relief which he seeks; the application shall be accompanied by statutory declarations verifying the applicant's interest and the facts set out in the application.

As sections 66 to 73 confer rights not known to the common law and at the same time prescribe a procedure for enforcing them I should have thought it was fatal to the appellant's application, so far as it was based on section 67(2)(d), that the facts on which it relied as constituting

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an abuse under that provision had not been fully set out in the application and that as an application for relief based on that paragraph it was entirely void.

Moreover, with respect, I disagree with the submission of counsel for the appellant that an applicant is not confined to the facts set out in his application but can rely upon and obtain relief in respect of any additional facts which may be established at the hearing before the Commissioner including matters which have occurred since the application was filed. In my view the hearing before the Commissioner is not a broad general enquiry into the history of the patent and all matters pertaining to it but is provided for the purpose of determining the issues which remain unresolved on reading the application and the counterstatement and the evidence which is receivable on such an inquiry is evidence that is relevant for the purpose of proving or disproving the disputed questions of fact. That this is the position seems to me to be apparent from sections 70 and 72 which prescribe the procedure to be followed.

Moreover, on an appeal to this court from the decision of the Commissioner, even in circumstances such as pertain in this case with respect to the record of the hearing before him, it is, I think, plain that an incident put forward as a refusal by the patentee to grant a licence which had neither been set out in the application nor established before the Commissioner cannot be relied on for the purpose of reversing his decision. It was for these reasons that I rejected a letter tendered by the appellant in rebuttal as evidence of the terms of a proposal made by the appellant in April 1964 to manufacture the patented traps in Canada which proposal the respondent declined. Evidence was, however, received with respect to the incidents dealt with before the Commissioner and I shall therefore consider them in turn as if they were properly before the court.

In discussing the requirements of the English provision corresponding to section 67(2)(d) Luxmoore J., said in the *Brownie Wireless Co.* case:⁴

It is plain that in order to bring the case within that head the Applicant must establish three things. To take them in the order in which they are mentioned in head (d) the Applicant must prove:

⁴ (1929) 46 R P C 457 at p 472.

(1) That the Patentee has refused to grant to the Applicant a Licence on reasonable terms; (2) The trade or industry either of the United Kingdom or the trade of any person or class of persons trading in the United Kingdom or the establishment of any new trade or industry in the United Kingdom is prejudiced by the refusal of the grant; and (3) That it is in the public interest that a licence should be granted.

The first thing to be noticed about the subclause is the generality of the phrases used in it. The grant of the licence which is refused must be a grant "on reasonable terms," an elastic phrase which can only be construed with certainty with reference to the actual facts of each particular case. No one can hope to lay down any exhaustive rules to enable the question whether the terms of a proposed licence are reasonable or not to be answered with certainty in every case. The answer to the question must in each case depend on a careful consideration of all the surrounding circumstances. The nature of the invention covered by the patent, the terms of the licences (if any) already granted, the expenditure and liabilities of the patentee in respect of the patent, the requirements of the purchasing public, and so on.

With respect to the necessity for the refusal relied on to have taken place before the application for a compulsory licence is made, the same judge said in the *Loewe Radio Co.* case⁵

It is necessary to consider the answer to that letter in reply to the one I have just summarised in which the *Loewe Company* said that it took the *Marconi Company's* letter as a refusal to grant a licence under the particular Patents, and that they would apply for a compulsory licence in consequence. For in the reply to that letter the *Marconi Company* expressed their regret that the *Loewe Company* had broken off negotiations without replying to the question as to the *German Company's* attitude to the pending infringement proceedings. I cannot help thinking that, if this question had been satisfactorily answered, there would have been no difficulty with regard to the query whether the licence should be limited to particular patents, or should comprise the whole group. Indeed I think this position emerged with some clarity during the course of the argument before me. In my opinion there was not in fact a definite refusal to grant a licence, and the time had not arrived for the *Loewe Company* to be in a position to apply for a compulsory licence on the ground that the licence offered was unreasonable, for its terms were never in fact discussed.

The finding is sufficient to dispose of this Appeal, because the jurisdiction to grant a compulsory licence cannot arise until there has been a refusal to grant a licence, and for this reason the appeal must be allowed....

The first of the incidents relied on in the present case as constituting a refusal to grant a licence on reasonable or any terms was that of the meeting already referred to of

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⁵ (1929) 46 R.P.C. 479 at p. 490.

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the directors of the respondent company when Mr. Simmonds, the president of the appellant company, was present in October 1962. Here the alleged refusal to grant a licence is said to be implicit in the fact that the respondent raised its patent rights in answer to Mr. Simmond's statement that the appellant would be in the Canadian market the next day if the respondent began to manufacture TD-50 traps in Canada. I do not doubt that the respondent was reluctant and even unwilling at that or any other stage to give serious consideration to any ordinary licensing of the appellant under the patent to manufacture TD-50 traps in Canada, both because the respondent considered the Canadian market as its own pursuant to the understanding by which the companies were guided and because the respondent feared the economic consequences of having the appellant as a competitor in the Canadian market. However, neither reluctance nor unwillingness by themselves amount to refusal and I do not discern in the evidence of this meeting anything that amounts to a refusal to license. There is no evidence that a licence was requested. It is not even clear that the appellant had any intention or desire to manufacture in Canada at that time and the threat to be in the Canadian market the next day is in my view more like a threat to begin importing into Canada than one to begin manufacture there. In these circumstances the raising by the respondent of its patent rights as an answer strikes me as no more than a reminder that the respondent would not tolerate infringement of its rights.

The next incident relied on was that of April 1964 to which reference has already been made. Not only was this incident neither described in the application nor developed in evidence before the Commissioner but neither the letter which was said to be an admission of it nor any other evidence of it was offered in the presentation of the appellant's case. It arose for the first time in the cross-examination of the respondent's witness on the credibility of his answer to a general question, also put on cross-examination, whether the appellant had ever suggested that it would come to Canada and manufacture TD-50 traps for the Canadian market. While this question and its answer were, as I see it, within the permissible limits of cross-examination on the issues before the court and the appellant was entitled to challenge the answer by calling the particular

incident to the witness's attention I do not think it was open to the appellant to use the incident thus revealed as if it had been pleaded and raised before the Commissioner and introduced in the appellant's evidence in chief as a basis for the relief which it claims. Accordingly though it seems not unlikely that there may have been a refusal to grant a licence on the occasion in question I do not regard it as open to the appellant to rely on it.

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I should add, however, that in the situation as I have described it any request by the appellant for a licence to manufacture in Canada made prior to the events of May 1966 and at a time when the appellant was profiting from supplying the respondent with traps from the United States and which on refusal was not followed promptly by an application for compulsory licence in my view scarcely warrants serious consideration as a refusal by which the establishment of a new trade was prejudiced, in a proceeding commenced more than two years later and only after the appellant's market in Canada for traps manufactured in the United States was endangered by the respondent's commencement of manufacture of them in Canada.

The third incident relied on as a refusal under section 67(2)(d) was a telephone conversation which took place in May 1966 between Mr. Hillmer then vice president of the appellant and a Mr. Powers then president of the respondent. The conversation occurred when Mr. Hillmer learned for the first time that the respondent, in breach of what he regarded as the arrangement between the two companies, had undertaken the manufacture of TD-50 traps. On securing Mr. Powers' reluctant admission that this was so Mr. Hillmer says (and this is not contradicted) that he told Mr. Powers the appellant was now going to manufacture these traps in Canada and that Mr. Powers thereupon said the respondent wouldn't permit it because it had the patent for the TD-50. In my view this conversation cannot be regarded as a request for a licence and I would not regard Mr. Powers' reply as anything more than a reminder that the respondent would not tolerate infringement of its patent rights.

The remaining two incidents relied on consist of (1) a letter written by the appellant's solicitor on April 19, 1967, that is to say some seven months after the commencement

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of the proceedings asking whether the respondent would be prepared to grant a licence and if so to make a proposal, and the respondent's failure to act upon it; and (2) the respondent's resistance of the proceedings.

In my view neither of these can serve as a basis for relief in this proceeding and though the respondent's failure to act on the letter indicates its unwillingness to treat on the subject to my mind the writing of the letter at that stage indicates as well the appellant's awareness that at that time it had no satisfactory case to present of a refusal that would serve the purpose of section 67(2)(d).

Nor do I think the total of these incidents establishes a refusal within the meaning of section 67(2)(d) on which the appellant can rely in this proceeding.

If, however, contrary to the views I have expressed, the conduct of the respondent can be regarded as a refusal to license on reasonable terms within the meaning of section 67(2)(d) the question arises whether it has been established that "the establishment in Canada by the (appellant) of a new trade or industry is prejudiced" thereby. In this connection it is to be observed that the appellant in its application limited the nature of the alleged abuse to be relied on to this particular one of the three subject matters contemplated by section 67(2)(d).

In the *Brownie Wireless* case⁶ Luxmoore, J. in discussing the interpretation of the three expressions in the corresponding provision in the English Act said:

The next important phrase is "the trade or industry of the United Kingdom." This is obviously a phrase capable of the most general interpretation. I think it should be construed in the manner indicated by Lord Warrington in the *Robin Electric Lamp Company Limited's* case in the passage to which I have already referred.

The next phrase is "the trade of any person or class of persons trading in the United Kingdom." This is, in my judgment, not capable of so wide an interpretation as the preceding phrase, for while the word "trade" itself is of general import, the words that follow, "of any person or class of persons trading in the United Kingdom," especially when read with the phrase immediately following, must of necessity limit such generality to the existing trade of some person or class of persons. In view of the decision in the *Robin Electric Lamp Company's* case, and the fact that these words were inserted after (and I think because of) that decision, I am of opinion that the phrase "the trade of any person" must be construed as referring to the existing trade of the applicant.

⁶ (1929) 46 R.P.C 457 at p. 473.

The next phrase is "the establishment of any new trade or industry in the United Kingdom." This again is a phrase capable of the widest possible interpretation. In some senses it might well be said to be almost impossible to establish in the present day "a new trade or industry." Yet, on the other hand, it may well be that the working of a new invention may be of sufficient importance to constitute a new trade or industry, and this may also be so even though the new invention is itself dependent on the working of an existing invention. I only refer to this to show the general elasticity of the phrases used in the head under consideration. In the present case there is no suggestion of the desire of the *Brownie Company* to establish a new trade or industry. It has been admitted both before the Comptroller and in the argument before me that what the *Brownie Company* desire to do is to enter what is an existing trade or industry, namely, the trade or industry of manufacturing and selling broadcast loud speaker receiving sets. Again the phrase used in this connection is that the trade or industry "is prejudiced," an expression which must necessarily depend for its precise interpretation on the facts of the particular case under consideration. Finally, it must be shown that "it is in the public interest that a licence should be granted." Here the phrase to be considered is "the public interest." Is this to be construed in its widest meaning, namely, the interest of the community including every class which goes to constitute that body, namely, the purchasing public, the traders and manufacturers, the patentee and his licensees, and inventors generally, or is it to be construed simply with regard to the purchasing public? In my view the former is the correct view.

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Where, as in the present case, the allegation is that the establishment of a new trade or industry is prejudiced by the refusal to license the first question that arises is whether what the applicant proposes to do would in fact be a new trade. The proposed entry of the applicant into an established trade will not serve the requirement of the statute. The difference between these two concepts is illustrated by the opinions expressed in the *Loewe Radio*⁷ case before Luxmoore J. and the earlier *Robin Electric Lamp Co.*⁸ case before Warrington J. which, though decided on a different statutory provision, involved the same problem. In the *Loewe Radio* case the applicant proposed to manufacture radio sets having valves of a new type which fell within the respondent's patents. Luxmoore J. described the situation thus at page 486:

It is claimed as the result of the experience of the *German Company* in Germany that the manufacture and sale of the *Loewe* multiple valve in Germany has opened an entirely new market and has brought loud speaker reception within the reach of a class of persons who were by reason of the prices charged for ordinary loud speaker receiving apparatus unable to purchase such apparatus. From this and the

⁷ (1929) 47 R.P.C. 479

⁸ (1915) 32 R.P.C. 202.

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fact that there is admittedly at the present time in this country a large class of persons referred to as home constructors who manufacture and sell broadcast loud speaker reception sets without having obtained the necessary licences from the *Marconi Company*, it is argued that, if the *Loewe* multiple valves can be manufactured and sold in this country at a price even approximately approaching that obtained in Germany, a new and entirely unexploited market will be opened in this country which will bring loud speaker reception within the means of a class at present unable to participate in its enjoyment without in any substantial manner interfering with the existing market for the ordinary valve receiving apparatus.

At page 490 Luxmoore J. expresses his opinion thus:

I am satisfied that, having regard to the circumstances of this case, and especially the fact that the inventions covered by the *Loewe* Patents are of great importance, utility and novelty, it is obviously in the public interest that a licence to use the relevant *Marconi* Patents should be granted, because unless that is done, the *Loewe* inventions cannot be used. I am also satisfied for the same reasons that the establishment in this country of a factory for the manufacture and sale of the multiple valves covered by the *Loewe Company's* Patents will constitute the establishment of a new trade or industry in this country within the meaning of sub-section 2(d), Section 27 of the Consolidated Act. But while I agree with the finding of the Comptroller so far as this particular case is concerned, I feel bound to point out that in my opinion he has gone too far in stating as he does that "the working of any patent even for a minor improvement in an existing patent is *prima facie* the establishment of a new industry." In my opinion the whole question whether the working of a patent will constitute a new industry is a question of degree which can only be determined by a careful consideration of all the material facts of each particular case.

In the *Robin Electric*⁹ case what the applicant proposed was to manufacture electric light bulbs fitted with a second filament that could be used when the first one failed thus prolonging the life of the bulb. Warrington J. said at page 216:

Moreover, in my opinion, the trade or industry to be considered is that of the making of tungsten filament electric lamps and the starting by the Petitioners of a trade in their particular lamps would not be the establishment of a new trade or industry. It would be nothing more than the entry of a fresh trader into an existing trade or industry. There is no ground for the suggestion that the trade or industry has been unfairly prejudiced by any act or omission of the Respondents.

Another illustration of the distinction is to be found in the *James Lomax Cathro*¹⁰ case. The facts are described in the headnote as follows:

All the Patents related to screen-grid wireless valves, and the Applications were based upon the allegation that there was no manufacture

⁹ (1915) 32 R.P.C. 202.

¹⁰ (1933) 51 R.P.C. 75.

under the Patents of valves of a particular type, namely, the American type, which alone are suitable for use and replacement in receiving sets of the American type which are in use to some extent in this country and to a considerable extent in certain of the Dominions. The Applicant showed that valves of this type were being imported into this country and that a large demand for them in certain of the Dominions was being met by importation from non-British sources. The Patentees had taken proceedings against importing infringers in this country and in one case had settled the action on substantial terms. Licences covering all the Patents had been granted for manufacture in this country and were unrestricted as to the type of valve to be manufactured, and under these licences there had been large manufactures of British-type valves under the first Patent and a smaller manufacture (which had ceased) of valves for export under the third Patent.

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The Comptroller General in his decision said at page 84:

...“the establishment of any new trade or industry in the United Kingdom” has to be distinguished from the entry of a fresh trader into an existing trade or industry (see the *Brownie* case at page 473 and the *Robin Electric Lamp* case at page 216) and all the Applicant here proposes to do is, in my view, to enter, for the purpose of manufacturing American-type thermionic valves, the trade or industry of the making of thermionic valves or screen grid thermionic valves, just as in the *Robin Electric Lamp* case the Applicant in that case with his double-filament lamp was merely proposing to enter the trade of the making of tungsten filament electric lamps. In short, paragraph (d) does not appear to extend to the case of prejudice resulting merely to the establishment of a new business in an existing trade or industry.

In the present case the advantages attributed to the TD-52 traps, which the applicant wishes a licence to manufacture in Canada, over the TD-50 traps manufactured by the respondent lie in the evenness of wear on the disc and machined surfaces of the body and in the fact that the TD-52 will operate in situations where the back pressure is as much as 85% of the inlet pressure while the TD-50 will not operate satisfactorily where the back pressure is more than 50% of inlet pressure. In some closed systems this could make the difference of the TD-52 being operable in situations where the TD-50 would not operate satisfactorily. Such situations could, it was said, arise from such things as faulty design of the system, additional loading of the system after its installation, discharge of steam into the return system either from faulty steam traps in the system or inadvertently opened valves and encrustation or corrosion of piping in the return system.

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The evidence does not, however, establish that the situations in which TD-52 traps will operate satisfactorily but TD-50 traps will not, form any substantial portion of the Canadian market for steam traps. Indeed such evidence as there is on the point is to the effect that situations wherein the back pressure exceeds 50% are largely laboratory exercises and that there are on the market other types of steam traps which will operate where back pressure is 100% of inlet pressure.

In other situations the evidence is that the TD-52 trap (whether it is as advantageous as described by the appellant's witnesses or as disadvantageous as the respondent contends) will operate satisfactorily wherever a TD-50 trap, whether of the same or a smaller size, will operate. This, coupled with the evidence of the substantial extent to which TD-52 traps have been manufactured in the United States and European countries, in my view makes it clear that the TD-52, though possibly useful in some situations wherein a TD-50 would not serve satisfactorily, is, for practical purposes, a substitute for the TD-50 trap and that the commencement of manufacture of the TD-52 by the appellant in Canada would be simply the entry of a new trader into the existing trade or industry of steam traps (or even more narrowly of disc type steam traps) in Canada and not "the establishment of a new trade or industry in Canada" within the meaning of section 67(2)(d).

The appellant's case in respect of abuse within the meaning of section 67(2)(d) therefore fails.

There remains the question of what, if any, order should be made in view of the finding I have made that there was abuse of the patent within the meaning of section 67(2)(a). As the statute leaves this decision to the Commissioner I would have been inclined in a case such as this, where the view of the court on the question of abuse differs from that of the Commissioner and he has not had occasion to consider the subject of the appropriate disposition of the matter, to refer the matter back to him for that purpose. However, at the hearing of the appeal counsel for both parties asked that in the event abuse were found the court should exercise the authority and give the decision on whether a licence should be granted, referring it to the Commissioner to settle the terms of any licence that might

be granted in the event that the parties could not reach agreement on them. Neither party, however, suggested as being appropriate any order other than to grant or to refuse a licence.

I have cited at the beginning of these reasons the relevant portions of section 68 by which the authority to award or deny relief is conferred. Under section 68(e) relief may be denied where the Commissioner is of the opinion that the objects of sections 67 and 68 will be best attained by making no order under paragraphs (a) to (d) which precede it. It appears to me that the objects of sections 67 and 68, as referred to in section 68(e), are to deter and to give a remedy for the several types of abuse of patent rights described in paragraphs (a) to (f) of section 67(2) by providing for the granting of compulsory non-exclusive or exclusive licences, for the restriction at the same time of rights to import the patented article otherwise exercisable by the patentee and, in appropriate cases, for revocation of the patent. As applied to a case of this kind, that is to say, a case of abuse of the kind described in section 67(2)(a) in failing to manufacture the patented article in Canada on a commercial scale, the object of these provisions is to bring about the manufacture of the patented article in Canada on a commercial scale without undue delay by ordering such licences with or without restrictions on importation by the licensee and patentee or by revoking the patent. This object can only be achieved by the procedure prescribed if, when a patentee is guilty of abusing his exclusive rights, persons interested in manufacturing the patented article in Canada make applications under section 67 and it also seems clear that such applications are not likely to be made unless in the ordinary case after applying and proving the abuse the applicant achieves a situation where he can manufacture the patented article either through his having been granted a licence or by revocation of the patent. Generally speaking, therefore, the object of the sections in a case of this kind will be frustrated if, after applying and establishing the abuse, applications under section 67 do not result in the applicant being put in a position to undertake such manufacture because the failure of an applicant to achieve such a result will discourage interested persons from making such applications. It seems to me to follow from this that the cases in which,

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after an abuse has been proved, it can properly be determined that the objects of sections 67 and 68 will be best attained by making no order, either for a licence or for revocation of the patent will necessarily be rare and unusual ones.

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The present, however, is by no means a typical case. Here the applicant was a party to if indeed it was not the person primarily responsible for the abuse. This party both by persuasion and by threat and for its own purposes sought to avoid and succeeded in avoiding entirely for about five years and partially for another three years manufacture of the patented article by the patentee who early in the life of the patent had decided to manufacture in Canada and who never fully gave up its plans to do so. This applicant only applied for a licence when it found out that its efforts to prevent manufacture in Canada by the respondent had failed. If, in such a case, a licence is granted to the person who in its own interest has been attempting to prevent manufacture in Canada it seems to me that the result will be to lend encouragement to those who wish to serve the Canadian market for patented articles, but prefer to do so, so long as they can, with goods of foreign manufacture, to proceed as the appellant has done. The granting of relief in such a case would, as I see it, be a reward for promoting the abuse of a patent and would tend to encourage those who seek to avoid or prevent manufacture of patented articles in Canada.

On the whole, therefore, having regard to the responsibility of the appellant for the abuse complained of as well as to the conduct of the respondent in endeavouring to establish manufacture of the patented article in Canada and to the fact that the action taken by the respondent prior to the presentation of the application has in the meantime resulted in its achieving manufacture in commercial quantities in Canada I have come to the conclusion that in the present case the objects of sections 67 and 68 will be best attained by making no order for a licence and I shall therefore confirm the Commissioner's decision to dismiss the application.

The appeal will be dismissed with costs.