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May 19.

INTERNATIONAL CONE CO. LIMITED, (PETITIONER) ..... APPELLANT;

AND

CONSOLIDATED WAFER CO. (OPPOSANT) ..... RESPONDENT.

Patents—Appeal from Commissioner refusing to grant license—Patent Act, sec. 40—"Reasonable terms"—Trade or industry "unfairly prejudiced."

Respondent was owner of a patent for a machine for manufacturing cones, and the appellant was carrying on a similar business, manufacturing with a machine of his own make, alleged to be an infringement of respondent's. Rather than fight an action for infringement, appellant applied for a license from respondent, and not being able to come to terms, he applied to the Commissioner of Patents, under sec. 40 of the Patent Act, for a compulsory license, and the Commissioner found that the terms made by the respondent were reasonable and refused to order them to give a license. Thereupon the appellant appealed to this Court.

Held, that the patent in question being upon a machine and not upon a product, the license should be upon the machine, the patented article, and that the respondent by demanding $25,000 for a machine that cost about $5,500, or an annual license fee of $4,000 for the same, failed "to supply on reasonable terms" the patented article within the meaning of the Patent Act.

2. That in deciding whether a certain sum as royalty is "reasonable" within the meaning of the Act, the Court must take into consideration the cost of manufacturing the article and its selling price.

(1) [1842] 9 M. & W. 710.
(2) [1860] 3 L.T.R. 317.
(3) [1872] 41 L.J. Ex. p. 46.
(4) [1879] 41 L.T.R. 93 at p. 95.

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3. That the appellant's business is a trade or industry "unfairly prejudiced by the conditions attached by the patentee" within the meaning of sec. 40, ss. 1 d, ii, and is entitled to ask for an order compelling the patentee to give him a license, at a price to be fixed by the Court.

APPEAL from the decision of the Commissioner of Patents dismissing the appellant's petition for a compulsory license of a patented article on reasonable terms.

Ottawa, March 30th and May 4th, 1926.

Appeal now heard before the Honourable Mr. Justice Audette.

Russell Smart for appellant.

J. A. Macintosh K.C. for respondent.

The facts are stated in the reasons for judgment.

AUDETTE *J.* now this 19th May, 1926, delivered judgment (1).

This is an appeal, under the provisions of sec. 40 of the Patent Act (13-14 Geo. V, ch. 23), from the decision of the Commissioner of Patents, dismissing the appellant's petition to obtain a compulsory license, on reasonable terms, of the patented machines protected by the Bruckman Canadian Patent No. 145379, for an alleged new and useful improvement in "Automatic pastry making machines." The request made by the appellant's petition is for an order under sec. 40 that the patentees are only entitled to a payment of a license fee on each machine to be operated by the appellant * * * and for the determination of the amount of the license fee, under the circumstances.

It is well to state at the outset the circumstances which lead up to the present application. The appellant does not ask for a license to annoy the respondent; but is led to it by the respondent's conduct.

The appellant is a corporation of very limited means that was carrying on its business of making ice cream cones on a small scale, with a machine of its own, when it was attacked by the respondent by an action for infringement upon its patented machine, under the above patent.

However, it is necessary to bear in mind a very important and significant occurrence, related by witness Hayes,

(1) An appeal has been taken to the Supreme Court of Canada.

and which took place sometime before the institution of the action for infringement.

When the latter was in the employ of the International Cone Company (the appellant) Mr. Dubey, the President and General Manager of the Consolidated Wafer Company (respondent) came to the appellant's office and interviewed him with respect to the price of cones. Witness Dubey asked witness Hayes as representing the appellant company, and in presence of Mr. Hayes' brother, to maintain the prices of cones equal to their own, leaving a copy of the list for such prices. At that time Hayes said they would keep the low prices and the dispute came when the respondent began to cut the prices, a proceeding which appellant had to follow.

Mr. Dubey on this occasion told Hayes that if the company did not maintain the prices, they, the respondent, would put them out of business.

All what follows seems to be the result of the realization of this threat.

An action was then taken by the respondent, as assignee of the above-mentioned patent, against the appellant for infringement of their patent by the machine under which the appellant was then manufacturing.

The appellant seems to have endeavoured to settle this action by compromise, and in that attempt offered to pay a royalty on the product of the patent, namely 15 cents per 1,000 cones. That was refused. This rejected offer was made because the appellant was unable, under the circumstances, to carry on a litigation to determine whether or not the appellant's machine was an infringement on the respondent's machine. The offer was made, as said by witness Mitchell, with the object of saving any further costs as the company was not financially able to fight the thing out as to whether or not it was infringing. The offer was made under condition of great stress in an effort to avoid a judgment for infringement.

The appellant then consented to judgment against them, a copy of this judgment is to be found in the departmental fyle filed herein.

These are the circumstances which led up to the present application for a license to use the respondent's machine in manufacturing its cone, since it is now enjoined from using its own machine.

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The appellant's machine costs $2,000 to construct, without taking into consideration the overhead charges. Witness Dubey testified that the respondent's machine, including pattern, tools, and everything, cost $6,000, and counsel conceded the cost of $5,500 during the argument.

It costs appellant $2.46⅔ to manufacture 1,000 cones, not including overhead charges, and the selling price in the list order was $2.55 to $2.85, according to the market. So that from their standpoint 40 cents royalty per 1,000 cones would be prohibitive and unreasonable.

According to Mr. Dubey's evidence, the cost of their cones is about $2.10 a thousand, including everything. In 1925 they ranged from $2.60 a 1,000 to $3.75 according to grade. In 1926, $2.75 to $3.75. Average price in 1925 and 1926, $3. It results also from the evidence that no such machine of its own is leased or licensed in Canada and that in the United States the royalty charged on its machine is 10 per cent of the selling price of the product —and a maximum of 36 cents per 1,000.

It would also appear from the evidence, that the respondent controls between 60 to 75 per cent of the cone production in Canada and it is admitted by Mr. Dubey that operating on a large scale, on large number of machines, as they do, one could operate with a much lower overhead than a person operating only one machine.

When the matter of this appeal came before me, with the object of changing this controversy from a theoretical to an actual basis, I directed that the following questions be put to the respondent:—

1. What will respondent sell a machine for, outright, without royalty?
2. What fixed sum will respondent accept as a license on the machine installed by appellant?
3. What royalty, in lieu of a fixed sum on the machine, is respondent prepared to accept on the product?

Counsel at bar for the respondent desired to consult his client before answering and an adjournment was given for that purpose and counsel subsequently answered the first by stating that his " clients will sell a Bruckman machine outright, without royalty, for $25,000."

2. In answer to the second question: the respondent will accept an annual license fee or royalty on a Bruckman machine of $4,000 during the balance of the life of the patent.

3. And in answer to the third question: the respondent will accept a royalty of 40 cents per thousand on the product of a Bruckman machine.

Counsel for respondent adding, however,

It does not seem to us the Court has any power to direct a license by which your clients (the appellant) can use their infringing machine and that all questions of compensation must be based on our clients' invention and the machine produced by them under the Bruckman patent. If, however, your clients were willing to use their own machine and to pay a royalty on the product, our clients might be willing to make some small concession so far as the amount of the royalty per thousand is concerned.

Yet by the third paragraph of the respondent's answer to the appellant's petition, the respondent avers that it is prepared to furnish the patented machine or to allow the petitioner to use its infringing machine, etc. And counsel for respondent on the second page of the report of the proceedings before the Commissioners, states: "There is only one question and we are willing to give them a license, and the question is what the terms are."

Now by sec. 40 of the Patent Act, it is enacted that every patent, with an exception not coming within the compass of this case, shall be subject to the following conditions:—

(*b*) Any person interested may present a petition to the Commissioner alleging that the reasonable requirements of the public with respect to a patented invention have not been satisfied and praying that the patentee be ordered to *supply the patented article at a reasonable price or grant a license for the use* of the invention on *reasonable terms.*

By sub-sec. (*d*) of the same section, it is further provided that:—

(*d*) For the purposes of this section the reasonable requirements of the public shall not be deemed to have been satisfied,—

(i) if by reason of the default of the patentee to manufacture to an adequate extent and supply on reasonable terms the patented article, or any parts thereof which are necessary for its efficient working, or to carry on the patented process to an adequate extent or to grant licenses on reasonable terms, any existing trade or industry, or the establishment of any new trade or industry, in the Dominion of Canada is unfairly prejudiced, or the demand for the patented article or the article produced by the patented process is not reasonably met; or

(ii) if any trade or industry in the Dominion of Canada is unfairly prejudiced by the conditions attached by the patentee before or after the passing of this Act to the purchase, hire, or use of the patented article or to the using or working of the patented process.

In view of all the circumstances above referred to and the above-mentioned section of the Act, I find first that

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the respondent has failed " to supply on *reasonable terms* " the patented article, when he is demanding $25,000 for a machine that costs about $5,500, or when asking for an annual license fee of $4,000 for the same. And secondly I find that he again fails to comply with the statute when he offers to grant a license at 40 cents a 1,000 cones; that these terms are not " reasonable " when one takes into consideration the cost of manufacturing the same and its selling price; and that the trade or industry in which the appellant is working, is thereby " unfairly prejudiced." Indeed, the appellant, under such conditions, is unable to carry on its trade, to the best possible advantage, unless it can manufacture under the patent to compete with the patentee; and that is made impossible by the patentee demanding such an exorbitant price as $25,000 for the machine, $4,000 for an annual license, or for a royalty of 40 cents per 1,000 cones,—in view of the cost of production and the market price thereof. *In re Levinstein Ltd.* (1).

" Reasonable terms " means a reasonable price in money. *The Copeland-Chatterson Co.* v. *Hatton* (2). The patentee must sell or deliver licenses as required by the statute. *The Toronto Tel. Mfg. Co.* v. *The Bell Tel. Co. of Canada* (3).

The respondent cannot hold its patent for the sole purpose of blocking trade; it must sell or grant a license on reasonable terms. While the object and spirit of the Patent Act is to give a monopoly, yet the statute provides also a remedy to overcome any abuse of such monopoly. The statute provides measures to put a stop to any act which would work as a restraint on business or which would be incompatible with the best interests of trade and commerce.

I find the appellant has made a very strong case for relief.

Moreover, in passing upon the statutory requirements as to reasonableness—which I hold not satisfied—it seems, as said in the *Hulton & Bleakley's case* (4), that the statute left to the Court the power of passing upon it in as wide a measure as possible, because it is always exercised

(1) [1898] 15 R.P.C. 732 at p. 738.
(2) [1906] 10 Ex. C.R. 224 at 239; 37 S.C.R. 651.
(3) [1885] 2 Ex. C.R. 495 at 523.
(4) [1898] 15 R.P.C. 753.

under discretion. In this latter case a compulsory license was ordered upon a royalty of £20 per annum.

The patent in question is upon a machine and not upon a product; therefore the license should be upon the machine, the patented article.

The cost of maintenance of a Bruckman machine amounts to $1,500 yearly in repairs and that must be taken into consideration in fixing the royalty, because it would militate against a high royalty.

The Bruckman patent bears date the 21st January, 1913, and has therefore five years more to run.

After mature consideration I have come to the conclusion that as a Bruckman machine costs about $5,500 that 25 per cent of its cost would constitute a fair and reasonable royalty to cover both profit and a reward for the invention. The price demanded for a license must be reasonable, otherwise it destroys the value of the license altogether. *Goucher* v. *Clayton et al* (1).

Therefore, there will be judgment ordering the respondent to grant to the appellant a license, to take effect from the date hereof, allowing it to make and use a machine constructed under the Bruckman patent, upon the appellant paying to the respondent—on delivery of the said license—the yearly sum of $275. The appellant acquiring thereby the right to use the said machine for the unexpired residue of the term of the said patent. The amount of royalty payable the last year of the term of the patent shall be ascertained on the basis of $275, but determined by the number of days embraced in the said unexpired term of the said patent.

If any difficulty arises as to the form and purport of the said license,—this being the first application of this nature made in Canada,—leave is hereby reserved to either party to apply to the Court, upon notice, for further direction in respect of the same.

If the appellant elect to pay the annual sum of $275 as above mentioned, they will have to give a bond (to the satisfaction of the Registrar of this Court) at the time of the first payment, for the subsequent payments of the royalty for the four remaining unexpired years, as above mentioned.

(1) [1865] 13 L.T. 115.

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If for any reason the said Letters Patent should become void, or should be declared by a court of law to be void, the licensee will be at liberty, with the consent of the Commissioner of Patents, upon notice in writing to the patentee, to revoke the license.

The appeal is allowed and with costs.

Judgment accordingly.

Solicitor for appellant: *R. S. Smart.*

Solicitors for respondent: *Macdonald & Macintosh.*