

1925  
May 16.

IN THE MATTER OF WAR MEASURES ACT 1914

THE SYNTHETIC DRUG COMPANY }  
LIMITED ..... } PETITIONER;

AND

IN THE MATTER of the Custodian under the Treaty of Peace  
(Germany), Order 1920.

*Constitutional law—Treaty of Peace—Custodian—Commissioner of Patents—Patents granted to enemy—Suspension of rights—Royalties.*

In November, 1914, the Commissioner of Patents ordered that certain patents, then the property of the German Nationals, be suspended as regards and in favour of M. & C., under the War Measures Act, 1914, and the Orders and Regulations respecting Patents of Invention, the latter to accept a license, which license was later assigned to the Synthetic Drug Co., Ltd. The licensee was to pay a certain royalty and any moneys paid as such were to be a "debt due from the licensee to His Majesty." Payments were at first made to the Commissioner of Patents, but the moneys paid were subsequently transferred to the Custodian, by whom they are now held. The petitioner asking to have same refunded, the Custodian requested the petitioner to take proceedings under section 41 of the Treaty of Peace (Germany) Order 1920, to ascertain his powers and duties in respect ~~thereto~~.

*Held*, that royalties paid by the licensee from the date of his license up to the expiration of six months from the ending of the war, i.e., to January 10, 1920, were not sums belonging to an enemy, and were not properly in the hands of the Custodian, but should be under the control and direction of the Receiver General or the Commissioner of Patents; and that neither Germany nor German Nationals had any claim upon the royalties paid during such period.

2. That the predetermined policy of the Commissioner of Patents that such license was to continue after the war and the provisions in the same providing therefor was "legislation of an allied power in force at the moment of the signature" of the Peace Treaty as contemplated by paragraph 3 of article 306, but the royalties paid or to be paid after the 10th July, 1920, were properly paid or payable in the hands of the Custodian as a debt due to an enemy, the amount thereof to be agreed upon, and in default of agreement, to be fixed by the Commissioner of Patents.

PETITION for a declaration as to the power and authority of the Custodian under the Treaty of Peace (Germany), Order 1920.

Ottawa, 21st day of April, 1925.

Petitioner now heard before the Honourable the President.

*James F. Edgar* for petitioner.

*G. Wilkie, K.C.* for custodian.

The facts are stated in the reasons for judgment.

MACLEAN J., now this 16th day of May, 1925, delivered judgment.

By an Order of the Commissioner of Patents, dated the 28th day of November, 1914, and made under the Orders and Regulations respecting Patents of Inventions, enacted under the War Measures Act, 1914, it was ordered that four Canadian Letters Patent numbered 133,636, 144,874 and 152,320 respectively, then the property of German nationals, be suspended so far as regards, and in favour of, Messrs. Macallum and Candee, jointly, of Toronto, upon the terms that the Commissioner of Patents should grant and the licensee should accept, a license, in the form set out in the schedule to that Order. Subsequently a license was issued to Messrs. Macallum and Candee, trading under the name of The Synthetic Drug Company, in conformity with the form prescribed by the said Order. This license was later assigned to The Synthetic Drug Company Limited, the petitioner, with the consent of the Com-

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missioner of Patents. Paragraphs 2 and 8 of the license agreement, between the Commissioner of Patents and the licensee are as follows:—

(2) The licensee shall during the continuance of the license hereby granted (hereinafter referred to as this license) pay to the Commissioner half-yearly on every first day of June and first day of December, a royalty at the rate of five per cent (5%) on the gross proceeds of the sale of the products made under said Letters Patent of any of them as may be sold during the present war and six months afterwards; and that on such sales as may be made after the expiration of such six months, royalties of such amounts as in default of agreement may be hereinafter determined by the Commissioner to be paid to the patentees.

(8) Any moneys which may at any time be payable by the licensee under the provisions of this license shall be a debt due from the licensee to His Majesty.

The license prescribed also the price to be charged by the licensee, for the product or preparation made and sold under the Letters Patent, and which product or preparation the licensee was obliged to manufacture and sell in Canada.

The payments of royalty made by the Synthetic Drug Company Limited, the Petitioner, and its predecessors, under the license, were made to the Commissioner of Patents, but were subsequently transferred to the Custodian, by whom the royalties so paid are now held, less an amount refunded to the licensee on account of sales of product manufactured in Canada, but sold in the United States.

For reasons which are clearly set forth in the petition, and which I need not here repeat, the petitioner has requested the Custodian to refund to it the royalties paid, or a portion of the same.

Before dealing with the petitioner's request for a refund of the royalties paid, the Custodian requested the petitioner to institute proceedings in this court, as authorized by sec. 41 of the Treaty of Peace (Germany), Order 1920, to ascertain his powers and duties in respect of such royalties, his accountability therefor, and for a declaration as to the ownership thereof.

The submission of the petitioner is, that the royalties paid under the license are not and never were sums due to a German national, and asks for a declaration that the moneys now in the Custodian's hands are not moneys belonging to an enemy, or alternatively, for a declaration that

the ownership of such money is subject to the right of the Crown, or the Commissioner of Patents, or the Custodian, to rebate, remit or refund the same to the petitioner, in whole or in part, as may appear just and expedient, and that the Custodian is accountable for such part only as shall not have been rebated, remitted or refunded. Such is the question for determination in this proceeding.

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Subject to any legislation to the contrary, and subject to any of the provisions of the Treaty of Peace, and the Treaty of Peace (Germany), Order 1920 (Canada), it may be said that the law of this country does not confiscate the property of an enemy. He cannot claim to receive it during the war, his right to the property is not extinguished but is merely suspended. That is the general principle. It remains therefore for consideration, to what extent this general principle is modified by the Treaty of Peace, the Treaty of Peace (Germany), Order (Canada), or by virtue of any special war measures enacted by Canada.

Article 306 of the Treaty of Peace deals with rights in industrial, literary and artistic property, as such property is defined by the International Conventions therein mentioned, and which it is conceded, covers the property in the patents in question. The first paragraph of this article is the following:—

“Subject to the stipulations of the present Treaty, rights of industrial, literary and artistic property, as such property is defined by the International Conventions of Paris and of Berne, mentioned in Article 286, shall be re-established or restored, as from the coming into force of the present Treaty, in the territories of the High Contracting Parties, in favour of the persons entitled to the benefit of them at the moment when the state of war commenced or their legal representatives. Equally, rights which, except for the war, would have been acquired during the war in consequence of an application made for the protection of industrial property, or the publication of a literary or artistic work, shall be recognized and established in favour of those persons who would have been entitled thereto from the coming into force of the present Treaty.”

(2) “Nevertheless all acts done by virtue of the special measures taken during the war under legislative executive or administrative authority of any Allied or Associated Power in regard to the rights of German nationals in industrial, literary or artistic property shall remain in force and shall continue to maintain their full effect.”

From this provision of Article 306 of the Peace Treaty, it would appear that the beneficial ownership in the patents, is restored to the patentees subject however, to the rights of the petitioner under its license, which is still in

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force and continues to maintain its full effect, by virtue of par. 1, s.s. 2, quoted above. This is not I think subject to doubt.

Paragraph 2 of Article 306 is as follows:—

“No claim shall be made or action brought by Germany or German nationals in respect of the use during the war by the Government of any Allied or Associated Power or by any persons acting on behalf or with the assent of such government of any rights in industrial, literary or artistic property, nor in respect of the sale, offering for sale, or use of any products, articles or apparatus whatsoever to which such rights applied.”

This paragraph clearly and precisely bars any claim by Germany, or any German national, for any use of industrial property during the war by the Government of any Allied or Associated Power, or by any person so doing, with the assent of such government. This I think was intended to cover such a case as the one now under consideration, and it was I think a natural provision to make in respect of the class of property dealt with by this article of the Treaty. There can therefore in my opinion be no basis of claim by Germany or a German national to any portion of the royalties paid during the war by the petitioner or its predecessors.

The issuance of the license was an act done in virtue of the special measures taken during the war, and therefore the license continues to maintain its full effect, as provided by the Treaty. The license provided that the royalty stipulated therein, was to be paid to His Majesty, and was to be paid during the war and for a period of six months thereafter. Paragraph 3 of Article 306 to which I shall later refer, makes it clear that unless legislation of the Allied Powers “otherwise directs” payments made in virtue of acts resulting from the special measures referred to in paragraph 1 of Article 306 shall be dealt with, as other sums due German nationals, are directed to be dealt with. The license being legislation of an Allied Power, and the payments of royalty therein stipulated for, being “otherwise directed,” that is, to His Majesty, such payments are not sums to be dealt with as are “other sums” due German nationals, under the Treaty provisions.

I am of the opinion therefore, that any sums paid under the license in question, up to the time of the expiration of six months from the ending of the war, which has been

fixed as of January 10, 1920, is not properly in the hands of the Custodian, but should be in the possession of or under the control and direction of the Receiver General of Canada, or the Commissioner of Patents. These sums do not constitute property belonging to an enemy. I do not think the royalty payable by the licensee up to this date, was ever intended to accrue to any one else but the Crown, in the right of the Dominion of Canada. The license itself clearly states that any moneys payable thereunder shall be a debt, due from the licensee to His Majesty, and in my opinion it never was intended that the same should ever be payable to any other person.

As to the royalties paid since the expiration of six months from January 10, 1920, namely July 10, 1920, their proper destination perhaps presents greater difficulties. Paragraph three of Article 306 is as follows:—

“Unless the legislation of any one of the Allied or Associated Powers in force at the moment of the signature of the present Treaty have otherwise directed, sums due or paid in virtue of any act or operation resulting from the execution of the special measures mentioned in paragraph 1 of this Article shall be dealt with in the same way as other sums due to German nationals are directed to be dealt with by the present Treaty; and sums produced by any special measures taken by the German Government in respect of rights in industrial, literary or artistic property belonging to the nationals of the Allied or Associated Powers shall be considered and treated in the same way as other debts due from German nationals.”

Is this paragraph of Article 306 applicable to the condition of facts disclosed in this proceeding? In the first place, let me here repeat the latter portion of clause 2 of the license, dealing with the royalties. It says, respecting the payment of royalty after the period following the expiration of six months from the conclusion of war:—

“and that on such sales as may be made after the expiration of such six months, royalties of such amounts as in default of agreement may be hereinafter determined by the Commissioner to be paid to the patentee.”

It would seem from this, as if it had been the predetermined policy of the Commissioner of Patents in respect of the letters patent and the license here in question, that the license was to continue in effect after the war, but that the payments of royalty to be made by the licensee after the expiration of the six months period following the conclusion of the war, were to go to the patentees. It would also appear that the amount of royalty then to be paid,

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was to be the subject of agreement between the licensee and patentee, and in failure of such an agreement, the same was to be fixed by the Commissioner. The word "agreement" here must I think have contemplated an agreement between the licensee and the patentees. This was the policy adopted by Canada in dealing with enemy rights in the industrial property here in question, subsequent to the war.

This provision of the license was "legislation of an Allied Power in force at the moment of the signature" of the Peace Treaty as contemplated by para. 3 of Article 306, and had the licensee and patentee subsequent to the war agreed upon the royalty, or failing that had the Commissioner of Patents fixed the same, such sum fixed would be payable to the Custodian in conformity with the letter and spirit of Article 306 of the Peace Treaty, and in conformity with the license itself, and would be a sum due or paid in virtue of an act or operation resulting from the execution of a special measure as mentioned in the subsection of the first paragraph of Article 306 and section 78 of the Treaty of Peace (Germany), Order 1920.

The royalty to be paid by the licensee to the patentee for the period under discussion, has not been agreed upon between themselves, nor has the same been fixed by the Commissioner. I assume this to be a correct statement of the facts, because the contrary was not suggested at the hearing. The amount of royalty payable not having been fixed it is impossible to determine what portion of the amount paid within this period, is a sum due to an enemy. In essence, what the petitioner desires, is in part a fixing of the royalties for the period following July 10, 1920. In point of fact the amount of royalty payable since that date, should be determined. It is quite clear that the Commissioner of Patents on the application of the licensee, is empowered to fix the royalty payable since July 10, 1920, on failure of the parties themselves to agree. The Custodian is not authorized to do so, and it would be inappropriate that he should. When this is determined, then the Custodian is entitled to the payment of royalty so fixed, and the amount accruing due at such rate, since July 10, 1920. Any amount in excess of this sum in the Custodian's possession, in virtue of payments made by the licensee to the

Commissioner of Patents during this period, is not a sum due an enemy under the Treaty Provisions. I do not think it is necessary for me to decide what is the proper destination of this amount.

I do not think the petitioner is to be prejudiced or bound by reason of the payments made by it over the period I am now dealing with. In order to protect its license, I assume it was obliged to do so, or that it thought it prudent to do so. Apparently the payments were made under protest.

Accordingly the petitioner is entitled to a declaration that the royalties paid by the licensee from the date of issuance of the license, up to the expiration of six months from January 10, 1920, is not a sum of money belonging to an enemy. As to the amounts paid since July 10, 1920, by the petitioner, directly or indirectly to the Custodian, I cannot say they are improperly in the hands of the Custodian. These amounts are as appropriately and rightfully in the Custodian's possession as they would be elsewhere, so far as I can see, and perhaps more so. They are sums of money in which an enemy is interested. Such amounts, however, are there subject to the condition that the exact royalty payable since July 10, 1920, is yet to be fixed by the Commissioner of Patents. The petitioner is entitled to a declaration that if when such royalty is determined, any reduction should be made or ordered in the amount of the royalty at present stipulated in the license, the Custodian is empowered and may rebate and refund accordingly to the petitioner any sum paid by the petitioner during such period in excess of the royalty so fixed by the Commissioner of Patents, and that any such excess is not a sum of money due an enemy.

There shall be no order as to costs.

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