

BETWEEN:

AKTIEBOLAGET ASTRA, APOTE-  
KARNES KEMISKA FABRIKER }

APPELLANT;

1964  
Jun 1, 2, 3, 4  
Jun 9

AND

NOVOCOL CHEMICAL MANUFAC-  
TURING COMPANY OF CANADA }  
LIMITED .....

RESPONDENT.

*Patents—Patent Act R S C. 1952, c 203, ss 19 and 41(3) and (4)—Compulsory Licence—Function of Court on appeal from decision of Commissioner of Patents under s 41 of Patent Act—Decision of Commissioner to be interfered with only if manifestly wrong—Royalty or other consideration in respect of compulsory licence—Function of Court on appeal from determination of royalty by Commissioner of Patents—Medicine to be available to public at lowest possible price but not so as to prevent due reward to inventor—Patentee should adduce evidence before Commissioner to support royalty he claims.*

The appellant, the owner of a patent in respect of an invention for the preparation of a local anaesthetic known as lidocaine, appealed from the order of the Commissioner of Patents granting a licence to the respondent to use the said invention. The appeal was confined to the matter of the grant of the licence and to the amount of the royalty fixed by the Commissioner.

*Held:* That the appeal provided for by s 41(4) of the *Patent Act* extends not only to a "decision" of the Commissioner to grant or not to grant a licence and his decision as to the terms thereof but also to a decision by him as to whether or not "he sees good reason" not to grant a licence.

2. That the decision of the Commissioner as to whether or not he saw good reason not to grant the licence should not be interfered with on

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- appeal unless it was manifestly wrong or the Court comes to the conclusion that no person properly instructed as to the law and acting judicially could have reached the Commissioner's decision on the facts that were before him.
3. That the legislative policy underlying s. 41(3) is that the new substances to which it applies are in the public interest to be free from legalized monopoly.
  4. That the evidence produced by the appellant is insufficient to persuade the Court that the Commissioner was manifestly wrong in deciding to grant the licence.
  5. That the duty imposed upon the Commissioner by s. 41(3) of the *Patent Act* to fix the amount of "royalty or other consideration" in respect of a compulsory licence does not give rise to proceedings between parties with one side or the other having the onus of proof, and, on appeal from the determination thereof by the Commissioner, the Court will refer the matter back to the Commissioner if he did not have sufficient material before him to discharge his duty under the statute.
  6. That evidence that would be relevant in a matter under s. 19 of the *Patent Act* would also be relevant in considering "royalty or other consideration" under s. 41(3), but in addition there must be such evidence, if any, as may be necessary to enable the Commissioner to have regard to the desirability of making the medicine available to the public at the lowest possible price consistent with giving to the inventor due reward for the research leading to the invention.
  7. That the desirability of making the substance available at "the lowest possible price" is only one of the considerations to which the Commissioner must have regard, and, although it may reduce the royalty or other consideration below what would otherwise be fixed, it must not prevent due reward to the inventor for the research leading to the invention and it would not itself reduce the royalty to nothing or a merely nominal amount.
  8. That since there is no adequate evidence as to the value of the invention to those who would be prepared to pay for the right to exploit it commercially, the matter is referred back to the Commissioner for further inquiry with regard to "Royalty or other consideration".
  9. That when the patentee is given an opportunity, after the Commissioner decides to grant a licence, to adduce evidence in support of the royalty he claims, it lies with the patentee, by whatever means are open to him, to present substantial support for such royalty, and if he fails to do so, he will be in a weak position to complain of any holding by the Commissioner.

APPEAL from an order of the Commissioner of Patents.

The appeal was heard by the Honourable Mr. Justice Jackett, President of the Court, at Ottawa.

*Christopher Robinson, Q.C.* and *R. S. Smart* for appellant.

*George H. Riches, Q.C.* and *Peter Robinson* for defendant.

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

JACKETT P. now (June 9, 1964) delivered the following judgment:

This is an appeal from an order of the Commissioner of Patents, made pursuant to subsection (3) of section 41 of the *Patent Act*, R.S.C. 1952, c. 203, granting to the respondent a licence for the use of an invention for the preparation of a local anaesthetic known as lidocaine.

The appellant is the owner of a patent under the *Patent Act* (No. 503,645) in respect of the invention and sells the substance under the trade mark Xylocaine. In 1961, the respondent commenced manufacturing a preparation containing lidocaine and was about to market it under the trade mark Octocaine when it was stopped by a restraining order issued out of the Supreme Court of Ontario in an action brought by the appellant against the respondent for infringement of the appellant's aforesaid patent.

The relevant portion of section 41 of the *Patent Act* reads as follows:

(3) In the case of any patent for an invention intended for or capable of being used for the preparation or production of food or medicine, the Commissioner shall, unless he sees good reason to the contrary, grant to any person applying for the same, a licence limited to the use of the invention for the purposes of the preparation or production of food or medicine but not otherwise; and, in settling the terms of such licence and fixing the amount of royalty or other consideration payable the Commissioner shall have regard to the desirability of making the food or medicine available to the public at the lowest possible price consistent with giving to the inventor due reward for the research leading to the invention.

(4) Any decision of the Commissioner under this section is subject to appeal to the Exchequer Court.

The appellant's first appeal is against the granting of the licence to the respondent. An alternative appeal against the terms of the licence granted by the Commissioner and against the royalty fixed by the Commissioner was restricted during argument to an objection to the royalty fixed by the Commissioner.

Before considering the arguments in support of the appeal against the granting of the licence, it is well to consider what this Court's function is on such an appeal.

Subsection (3) of section 41 directs the Commissioner, in the case, *inter alia*, of a patent for an invention capable of

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being used for the preparation of medicine, to grant a licence to a person applying therefor "unless he sees good reason to the contrary". That is, a licence is to be granted pursuant to such an application unless "he", that is the Commissioner, sees good reason why it should not be granted. Subsection (4) provides that any such "decision" of the Commissioner is subject to an appeal to this Court.

I am of the view that such an appeal extends not only to a "decision" of the Commissioner to grant or not to grant a licence and any decision by him as to the terms of a licence, but also to a decision by him as to whether or not "he sees good reason" not to grant a licence. However, under the subsection, the decision as to whether the Commissioner did or did not see good reason not to grant the licence was a decision for the Commissioner to make and it should not be interfered with on appeal unless it was "manifestly wrong". See *Parke, Davis & Company v. Fine Chemicals of Canada, Ltd.*<sup>1</sup> per Martland J., delivering the judgment of the majority of the Supreme Court of Canada. In other words, the decision will not be interfered with unless "it was manifestly against sound and fundamental principles". See *Pioneer Laundry and Dry Cleaners, Ltd. v. Minister of National Revenue*<sup>2</sup>, quoted in *Minister of National Revenue v. Wrights' Canadian Ropes*<sup>3</sup>.

The significance of this is that, unless it is made to appear that the Commissioner has acted in contravention of some principle of law, the Court cannot interfere even on an appeal. One example of such a contravention is the case where the facts are, in the opinion of the Court, insufficient in law to support the Commissioner's conclusion. The Court can interfere if it comes to the conclusion that no person properly instructed as to the law and acting judicially could have reached the Commissioner's decision on the facts that were before him. Compare *Canadian Lift Truck Co. Ltd v. Deputy Minister of National Revenue for Customs and Excise*<sup>4</sup>. The Court cannot, however, overrule the Commissioner "merely because it would itself on those facts have come to a different conclusion". See *Minister of National Revenue v. Wrights' Canadian Ropes, supra*, at

<sup>1</sup> [1959] S.C.R. 219 at 228.

<sup>2</sup> [1940] A.C. 127 at 136.

<sup>3</sup> [1947] A.C. 109 at 122-3.

<sup>4</sup> (1956) 1 D.L.R. (2d) 497, per Kellock J. at p. 498.

pp. 122-3. I apply this reasoning to the determination of the Commissioner that he "sees no good reason to the contrary" on my understanding of the decision of the Supreme Court of Canada in the *Parke, Davis* case that these words make the Commissioner the sole judge of "good reason to the contrary" in the same sense that the Minister in the *Wright's Canadian Ropes* case was made "sole judge of the fact of reasonableness or normalcy". I may say, with respect, that, in the absence of that decision, I should have reached the same conclusion in any event.

My duty, therefore, on the appeal against the granting of the licence, is to decide whether the Commissioner was manifestly wrong in deciding that he did not see "good reason" not to grant the licence.

A further preliminary comment is that the legislative policy underlying subsection (3) of section 41 is that the new "substances" to which it applies are "in the public interest, to be free from legalized monopoly". See *Parke, Davis & Company v. Fine Chemicals of Canada, Ltd.*, *supra*, per Rand J., delivering the judgment of himself and Abbott J. at p. 222.

The respondent and the appellant each placed material before the Commissioner by way of affidavits. In addition, there was a hearing by the Commissioner during which the principal witnesses were submitted to cross-examination. Written arguments were filed with the Commissioner after the hearing. Full opportunity was given to the appellant to show reasons why the licence should not be granted. There is no suggestion that there is any fault to be found with the Commissioner's conduct of the matter.

The reasons put forward by the appellant in support of its submission that the Commissioner was manifestly wrong in not deciding that "he sees good reason" why the licence should not be granted were advanced under two different headings, namely, the probable effect of granting the licence upon competition and the conduct of the respondent in relation to the product lidocaine. I shall endeavour to summarize the submissions in respect of these reasons.

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With reference to the probable effect of the proposed licence upon competition, the appellant refers to the following facts:

- (a) the respondent is a wholly owned Canadian subsidiary of a United States company, which has been in the dental business since 1911, the Canadian company having been set up in 1926, since which time the parent company has been making and the respondent has been distributing in Canada anaesthetics other than lidocaine;
- (b) upon its application for a licence in respect of lidocaine, the respondent estimated its probable sales of that substance at an amount equal to the total of its current sales of the anaesthetics manufactured by its parent company;
- (c) there are only seven dealers who get the respondent's full line of products and to whom it would supply Octocaine if it gets the licence;
- (d) those seven dealers constitute the full membership of an association that was known as the Canadian Dental Trade Association, and a 1947 report by the Commissioner of Combines concluded that they had been operating a combine in Canada;
- (e) the respondent was originally an associate member of the Canadian Dental Trade Association and subsequently became a full member and, at the time of the Combines inquiry, it did not supply its products to dealers who were not members;
- (f) those seven dealers now control the bulk of the Canadian market for anaesthetics;
- (g) while the Canadian Dental Trade Association was dissolved shortly after the Combines report, the position as between the respondent and the seven dealers is essentially unchanged;
- (h) the seven dealers endeavour to adhere to the respondent's "suggested prices";
- (i) the appellant's distribution policy is quite different from that of the respondent in that it supplies all dealers including cooperatives and so-called independents and, for that reason, the appellant is not in favour with the seven dealers, who control the bulk of the market;

- (j) the appellant is apprehensive that, if the respondent gets a licence in respect of lidocaine, the seven dealers who now have to acquire Xylocaine from the appellant will acquire Octocaine from the respondent, in which event it might become uneconomic for the appellant to continue to distribute Xylocaine in Canada and there is a fair chance that the price competition from the independents and cooperatives would be eliminated, leaving the seven dealers in control of the market where they now have to meet outside competition.

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In this summary, I have set out the facts relied on by the appellant in respect of competition, as I understand the appellant's submissions. I have not attempted myself to weigh the evidence and I do not make any finding as to the facts or as to whether the evidence is such as to justify the conclusions and inferences suggested. Furthermore, I express no opinion as to whether, assuming the correctness of the facts as summarized, there is "good reason" why the licence should not have been granted. I do conclude, however, that, not only was it open to the Commissioner to have concluded that there was insufficient evidence on certain points to justify a finding to the effect contended by the appellant, but, even if he had accepted all of the appellant's points, it was open to the Commissioner to reach the conclusion that the possibility or probability of the elimination of some competition among dealers was not sufficient to constitute "good reason" for withholding a licence that would result in competition among manufacturers as contemplated by subsection (3) of section 41. I cannot conclude, on this branch of the case, that the Commissioner was "manifestly wrong".

The second branch of the appellant's case on the appeal against granting the licence consisted of a detailed examination of statements in publications of the respondent's parent company concerning lidocaine and similar statements in a professional text book of which the President of the respondent was one of the authors. Undoubtedly, some of these statements were designed to raise doubts as to whether lidocaine was a safe product to use as an anaesthetic and they were made at a time when the respondent was selling its anaesthetics in competition with lidocaine. A very strong

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case has also been made out for the view that the author of these statements was deliberately over-stating facts against lidocaine or alternatively was deliberately making misstatements about it. I do not find it necessary to make any finding as to the character of the discrepancies in the statements in question. It may be that an appropriate panel of professional writers would find an acceptable explanation of the conduct criticized or, on the other hand, would find that the writer had not been able to maintain his professional judgment and integrity when it came in conflict with his commercial interests. Assuming, without deciding, that the worst possible description of the conduct of the respondent's officers is the correct one, I still find any conclusion that that conduct presages conduct by the respondent of such a character that it constitutes "good reason" for refusing a licence under subsection (3) of section 41 to be so tenuous that I cannot base on it a decision that the Commissioner was "manifestly wrong" in not acting on it.

I have in mind that the appellant put its reasons forward to be considered cumulatively. I have done that, as well as I can, and I remain unable to reach the conclusion that the Commissioner was "manifestly wrong" in deciding to grant the licence.

The remaining question is whether the Commissioner's decision with regard to royalty is wrong. The Commissioner gave no reasons for that part of his decision issued on May 21, 1963. He simply directed that the royalty be set at 12½ per cent of the net selling price of the crude product before processing for patients' consumption and that, in the event that the respondent should process all of its production for sale as finished product, the royalty payments be based on what would be a fair selling price of the crude product to others. By the Notice of Appeal, the appellant takes the position that there is no adequate foundation in the evidence for such a decision as to royalty.

If the evidence before the Commissioner was inadequate to enable him intelligently to arrive at a royalty that would give due weight to all relevant considerations, the matter must be referred back to the Commissioner to reconsider the decision as to "royalty or other consideration". See *Parke, Davis & Company v. Fine Chemicals of Canada, Ltd.*, *supra*, per Rand J. at p. 223 and per Martland J. at pp. 228-9.



The duty imposed upon the Commissioner by section 19 of the *Patent Act* to determine “reasonable compensation” for use by the Government of Canada of a patented invention and the duty imposed on the Commissioner by subsection (3) of section 41 to fix the amount of “royalty or other consideration” in respect of a compulsory licence do not give rise to proceedings between parties with one side or the other having the onus of proof. On an appeal from a determination by the Commissioner in the discharge of either of these duties, the Court will refer the matter back to the Commissioner if he did not have sufficient material before him to discharge his duty under the statute. See *The King v. Irving Air Chute Inc.*<sup>1</sup> and *Parke, Davis & Company v. Fine Chemicals of Canada, Ltd., supra.*

The necessary material in a case under section 19 is material upon which a finding can be made as to the reasonable royalty or consideration that “would be arrived at between a willing licensor and willing licensee bargaining on equal terms”. See *The King v. Irving Air Chute Inc., supra*, per Rand J. at p. 623, per Estey J. at p. 627 and per Locke J. at p. 634. I do not accept the submission of the appellant that the royalty should be designed to approximate the appellant’s profits on sales. A “willing licensee” would not pay for the licence an amount that would approximate the whole of the profit from the use of the invention. Some help can be obtained in determining the nature of the relevant evidence by reference to the reasons for judgment in the latter case and particularly those of Rand, Estey and Locke JJ.

In my view, the evidence relevant in a section 19 matter would also be relevant in considering “royalty or other consideration” under subsection (3) of section 41. In addition there must be such evidence, if any, as may be necessary to enable the Commissioner to have regard “to the desirability of making the . . . medicine available to the public at the lowest possible price consistent with giving to the inventor due reward for the research leading to the invention”. The requirements of the subsection were stated succinctly in *Parke, Davis & Company v. Fine Chemicals of Canada, Ltd., supra*, at p. 228 by Martland J. as follows: “. . . the royalty allowed should be commensurate with the mainte-

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<sup>1</sup> [1949] S.C.R. 613.

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nance of research incentive and the importance of both process and substance”.

The application of the latter part of subsection (3) of section 41 might, in some circumstances, give rise to difficulty. Read literally, it requires consideration to be given to the desirability of making the food or medicine available at “the lowest possible price” consistent with giving the “inventor” due reward for the research leading to the invention. Does this mean, for example, that, if the particular inventor has already had “due reward” for the research, or if there was no research leading to the particular invention, or if the inventor has no interest in the patent because he had assigned his invention, the desirability of making the substance available at “the lowest possible price” must prevail and that the royalty or other consideration must, to achieve that objective, be nothing or merely nominal? I am of the view that that question should be answered in the negative. The consideration spelled out in the subsection is only one consideration to which the Commissioner must “have regard”. It must be allowed to influence the decision but it does not displace consideration of matters that would otherwise determine the result. Regard for the desirability of making the substance available at the lowest possible price may reduce the “royalty or other consideration” below what would otherwise be fixed on the principles laid down in the *Irving Air Chute* case (but not so as to prevent due reward to the inventor for the research leading to the invention). To allow this factor to operate to eliminate what would otherwise be a substantial royalty would not, however, in my view, be a proper discharge of the Commissioner’s duty to fix “royalty or other consideration”.

I have ventured to say so much about this very difficult question of interpretation in the hope that it may be of some assistance to the Commissioner in the performance of the duty imposed on him by this subsection.

My task is relatively simple. In the absence of adequate evidence, and I find there is none, as to the value of the invention to those who would be prepared to pay for the right to exploit it commercially, I must allow the appeal and refer the matter back to the Commissioner for further inquiry with regard to “royalty or other consideration”.

Evidence may also be necessary concerning the factor described by Rand J. in the *Parke, Davis* case, *supra*, at p. 223, as “the maintenance of research incentive”. Whether or not that is required in this case is a matter for consideration by the Commissioner on which I express no opinion.

I should not leave the case without referring to two other points mentioned by Rand J. in the *Parke, Davis* case at p. 223.

While there was no onus on the appellant to see that there was before the Commissioner upon the application for the licence evidence sufficient to enable the Commissioner to fix “royalty or other consideration”, so that the appellant does not fail on this appeal for not having discharged an onus of proof, nevertheless, when the patentee is given an opportunity, after the Commissioner decides to grant a licence, to adduce such evidence, “it lies with the patentee, by whatever means are open to him, to present substantial support for the royalty which he claims” and if he fails to do so, “he will be in a weak position to complain of any holding by the Commissioner”. This being the position, the Commissioner might consider, in future cases under subsection (3) of section 41, after he decides that the case is one for a licence, to afford the parties an opportunity of presenting evidence on the question of “royalty or other consideration” before deciding that question. See *Parke, Davis & Company v. Fine Chemicals of Canada, Ltd.*, *supra*, per Rand J. at p. 223.

Secondly, I draw attention to the observation made by Rand J. in the same part of his judgment, with reference to this question of “royalty or other consideration” that “it is not sufficient for the patentee to sit back and, if they only are available, keep important facts undisclosed as being private and confidential”.

As success is divided there will be no costs.

*Judgment accordingly.*

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