

Ottawa
1967

Sept. 18-20

BETWEEN:

SMITH KLINE & FRENCH INTER-
AMERICAN CORPORATION . . . }

APPELLANT;

AND

MICRO CHEMICALS LIMITED RESPONDENT.

Patents—Compulsory licence—Decision of Commissioner—Appeal from—Retroactivity of royalty and other terms, whether valid—Terms fixed by Commissioner—Whether error—Patent Act, s. 41(3) and (4).

On June 21st 1966 the Commissioner of Patents granted a compulsory licence effective that day under s. 41(3) of the *Patent Act* but the royalty and other terms were not fixed by him until February 3rd 1967 though made retroactive to June 21st 1966. The patentee appealed from the decisions of both dates.

Held: (1) An appeal under s. 41(4) lies only from a decision which fixes the royalty and other terms. *Hoffmann-La Roche Ltd. v. Delmar Chemicals Ltd.* [1966] Ex. C.R. 713, followed.

(2) A decision under s. 41(3) cannot be made retroactive and hence a term of the licence of February 3rd 1967 that royalties should be paid on sales subsequent to June 21st 1966 must be struck out. *Hoffmann-La Roche Ltd. v. Delmar Chemicals Ltd.*, ante p. 209 followed; *Hoffmann-La Roche Ltd. v. Delmar Chemicals Ltd.*, ante p. 63, distinguished.

(3) The Commissioner did not err (1) in directing that the licensee reimburse the patentee's expense of employing an accountant to inspect the licensee's books only on certain conditions; (2) in failing to fix certain conditions proposed by the patentee for the public safety (*Hoffmann-La Roche Ltd. v. Delmar Chemicals Ltd.* [1965] 1 Ex. C.R. 611, [1965] S.C.R. 575, referred to); (3) in failing to find good reason to refuse the licence where the patentee was manufacturing the drug in Canada in every form, meeting the Canadian demand at a reasonable price, exporting the drug, and carrying on research in Canada; (4) in fixing the royalty at 15% of the net selling price. (*Hoffmann-La Roche Ltd. v. Bell-Craig Pharmaceuticals Division of L. D. Craig Ltd.* [1966] S.C.R. 313, referred to).

APPEAL from Commissioner of Patents.

Gordon F. Henderson, Q.C. and *R. G. McClenahan* for appellant.

Hon. J. T. Thorson, P.C., Q.C. for respondent.

JACKETT P.:—This is an appeal by the patentee under section 41 of the *Patent Act* arising out of an application by the respondent under that section in the case of Canadian patent No. 612,204 (which is a patent for an invention

intended for or capable of being used for the preparation or production of a drug) for a licence for the use of the invention.

The application was filed with the Commissioner under subsection (3) of section 41, which 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.

At the request of the patentee, the Commissioner agreed that the parties should restrict their presentations to him, in the first instance, to the question whether there was "good reason" why he should not grant the licence sought and leave their presentations on the royalty and other terms for such a licence until such time, if any, as the Commissioner should decide to grant a licence.

Upon both parties having availed themselves of full opportunity to make their presentations on the question of "good reason", the Commissioner delivered a decision on June 21, 1966, reading in part as follows:

The patentee has objected to the grant of a licence and has filed a counterstatement. The applicant has filed a reply. The parties have filed additional material in support of their statements.

I have carefully reviewed the application, the counterstatement, the reply and other material on the file. I have come to the conclusion that no valid reasons to refuse the application have been advanced. The objections of the patentee do not contain anything new over the reasons advanced by the patentees over the years in similar applications.

I do hereby grant a non-exclusive licence, effective as of this day, to the applicant Micro Chemicals Limited to carry out the patented process in Canada in its own establishment and to sell the resulting product for the sole purpose of the preparation or production of medicine but not otherwise.

On the question of royalty and other terms of the licence, I order that the patentee file his submission with me, and a copy to the applicant, within thirty days and the applicant will have also thirty days thereafter to file his own submission and comments. Upon consideration of the submissions I shall finalize the licence with effect as of the date of this decision.

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On September 2, 1966, the patentee appealed to this Court from "the decision of the Commissioner of Patents in this application for a compulsory licence..." The appeal was presumably launched under subsection (4) of section 41, which reads as follows:

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

On February 3, 1967, after both parties had filed their submissions on the question of royalty and other terms of the licence, the Commissioner issued a decision in which he settled the terms. In particular he fixed the royalty at 15 per cent of the licensee's net selling price to others of the product prepared or produced pursuant to the licence and sold by it and stipulated that such royalty be paid on all sales made by the licensee subsequent to June 21, 1966.

On May 2, 1967, the patentee appealed to this Court from the decision of the Commissioner in this application for a licence "comprising" his order of June 21, 1966 and his order of February 3, 1967.

The proceedings in this case reflect the confusion surrounding proceedings under section 41 which was apparent in an application that is the subject matter of my decision in *Hoffmann-La Roche Limited v. Delmar Chemicals Limited*¹ where I discussed the problem arising there in the following passage:

On May 20, 1965, the appellant filed in this Court a "Notice of Appeal" by which it purports to appeal

- (a) from the "decision" of the Commissioner made on May 7, 1965, refusing the appellant the opportunity of submitting further evidence and submissions, and
- (b) from the "decision" of the Commissioner made on May 14, 1965 "ordering the grant of a licence to the respondent".

The respondent's application to the Commissioner was made under subsection (3) of section 41 of the *Patent Act*, which reads as follows:

41. (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

¹ [1966] Ex. C.R. 713.

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.

The only provision upon which the appellant relies for authority for its appeal is subsection (4) of section 41, which reads as follows:

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

Having regard to section 17 of the *Patent Act*, which provides that whenever an appeal to this Court from "the decision" of the Commissioner is permitted under that Act, notice of his decision shall be mailed by registered letter and "the appeal shall be taken within three months from the date of mailing", and to the characterization by the Commissioner of the document that he issued on May 14, 1965 as a "decision", it is not surprising that the appellant concluded that it was necessary to appeal from the "decision" contained in that document to avoid the risk of losing its right to appeal from that "decision". This risk is apparently enhanced by the fact that the practice under section 41(3) has been, in some cases at least, for the Commissioner to purport to grant the licence, when its terms are ultimately settled, with effect retroactive to the date when he announced that he had concluded that the grant of a licence should be ordered. Nevertheless, I have come to the conclusion that there is no "decision" in this case from which there can be an appeal under subsection (4) of section 41.

Subsection (4) of section 41 provides for an appeal from a "decision of the Commissioner under this section". The only authority conferred on the Commissioner by section 41 to make a decision is that impliedly conferred by that part of subsection (3) thereof which requires him "unless he sees good reason to the contrary" to "grant" a "licence" to any person applying for one. The balance of this subsection makes it clear that he will ordinarily include various terms in a licence including a provision for royalty or other consideration. What is contemplated by that subsection, therefore, is

- (a) an application by an applicant for licence, and
- (b) a decision by the Commissioner
 - (i) refusing the application, or
 - (ii) granting a licence containing appropriate terms and providing for royalty or other consideration.

In my view, it is that "decision" that is subject to an appeal to this Court. It is of course true that, before the Commissioner reaches the point of making a decision disposing of an application by refusing it or granting a licence, the application will have given rise to the necessity of his making many decisions, which are impliedly authorized by subsection (3) of section 41. He must decide on the procedure to be followed in processing the application; he must decide whether there will be an oral hearing; he must decide the disposition of applications to hear further evidence or argument; and, indeed, he must decide each of the preliminary questions that arise in the course of formulating his decision as to the disposition of the application.

In my view, however, Parliament did not contemplate a whole series of appeals in the course of the hearing of the rather simple application contemplated by subsection (3) of section 41. Parliament did not, therefore, contemplate that there should be an appeal either from the Commissioner's refusal to hear further evidence and submissions or from his conclusion on the question whether a licence should

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be granted. (The formulation of such conclusion is, of course, only a part of the process of deciding what disposition to make of the appeal.²) Both these matters can be brought under review in an appeal from the ultimate decision disposing of the application.

It follows, therefore, that, in my view, the appeal is a nullity and should be quashed.

As indicated in the passage that I have just read, my view of section 41(3) is that it contemplates a decision of the Commissioner refusing an application or a decision by the Commissioner "granting a licence containing appropriate terms and providing for a royalty or other consideration", and that those are the only decisions from which there can be an appeal under section 41(4). In my view, therefore, the appeal of September 6, 1966 is a nullity and I shall, accordingly, ignore it, and the appeal of May 2, 1967 is, in effect, an appeal from the decision granting the licence containing the terms and royalty provision as settled by the Commissioner. I propose to deal with the latter appeal only.

The patentee's attacks on the grant of the licence under section 41(3) may be summarized as follows:

- (a) The Commissioner erred in principle or was manifestly wrong in not seeing "good cause" why the licence applied for should not be granted;
- (b) The Commissioner erred in principle or was manifestly wrong in fixing such a low royalty;
- (c) The Commissioner erred in principle in including in the terms of the licence a term reading as follows: "The said royalty shall be paid on all sales of the product made by Micro Chemicals Limited subsequently to June 21, 1966";
- (d) The Commissioner was manifestly wrong, when he settled a term (Term 7) under which the licensee must reimburse the patentee, in certain circumstances, for the expense of employing an independent accountant to inspect the licensee's books, in requiring that the patentee be so reimbursed only if the cost of production as determined by such accountant is over 20 per cent greater than that used by the licensee and not whenever the amount determined by the accountant exceeds that used by the licensee;

² The word "appeal" here is a mistake. It should have been "application".

(e) The Commissioner was manifestly wrong in not including in the terms certain provisions proposed by the patentee for the safety of the public.

In addition, the patentee made an attack on the last sentence of Term 13 of the terms as settled by the Commissioner, but counsel for the licensee has consented to judgment deleting that sentence so that it is unnecessary for me to reach a decision on the point.

I might say at this point that, as far as Term 7 is concerned, and as far as the additional terms concerning public safety for which the patentee contended are concerned, I see no reason to interfere with the Commissioner's decision and I do not see any need to discuss such terms further. I might just add that, as far as the use of terms in the licence to protect public safety is concerned, I see no difference in principle between a contention that the Commissioner is bound to include such terms in a licence under section 41 and a contention that the Commissioner is bound to inquire into similar considerations as a possible "good reason" for refusing a licence. As the latter class of contention was rejected in *Hoffman-La Roche Limited v. Delmar Chemicals Limited*³ per Thurlow J. at page 617 (affirmed on appeal for reasons expressed differently⁴), it follows, in my view, that the contention that the Commissioner ought to have included terms to ensure public safety in the licence should also be rejected. Reference was made by counsel for the patentee to a recommendation made by a committee of doctors to the Minister of National Health and Welfare that such terms be included in such a licence. Such a recommendation should, of course, be given consideration in considering a possible amendment to the statute. It cannot be of any weight in considering the effect of the present legislation.

That leaves the first three attacks on the Commissioner's decision as enumerated above to be dealt with.

I turn first to the appeal in so far as it relates to the Commissioner's decision to grant the licence. The attack by the patentee took two forms; first, that the decision was manifestly wrong and that it should therefore be quashed, and, alternatively, that the Commissioner did

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³ [1965] 1 Ex. C.R. 611.

⁴ [1965] S.C.R. 575.

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not give the matter the consideration that he ought to have given to it, and that the matter should therefore be returned to him for re-consideration.

The attack commences with a reference to that part of the Commissioner's reasons, as quoted above, where he says first that he has "carefully reviewed the application, the counterstatement, the reply and other material on file" and that he has come to the conclusion that no valid reason to refuse the application has been advanced, and then says: "The objections of the patentee do not contain anything new over the reasons advanced by the patentees over the years in similar circumstances". The second stage of the attack consists in underlining certain allegations put before the Commissioner in the material that the patentee filed before the decision of June 21, 1966, which are summarized in paragraph one of the notice of appeal of May 2, 1967 as follows:

The patentee was manufacturing in Canada every form of the drug. It was supplying every form of the drug in accordance with the Canadian demand at a price reasonable having regard to its costs. The patentee was manufacturing the drug in Canada for export to other countries. The patentee was carrying out research in Canada applicable to this drug and other drugs made by it.

The third stage of the attack is the contention that the Commissioner was manifestly wrong in not seeing "good reason" for refusing a licence where

- (a) the patentee was manufacturing in Canada every form of the drug,
- (b) the patentee was supplying every form of the drug in accordance with the Canadian demand at a price reasonable having regard to its cost,
- (c) the patentee was manufacturing the drug in Canada for export to other countries, and
- (d) the patentee was carrying out research in Canada applicable to the drug in question, and other drugs.

Counsel for the patentee went so far as to argue that section 41(3) contemplates the existence of "good reason" for not granting a licence, that it follows that there must be something that a patentee can do to put himself in a position to show "good reason" why licences should not be granted in respect of his patent under section 41(3), that it is impossible to visualize anything that a patentee could do to establish a case for "good reason" in addition

to what the patentee has done in this case and that it follows that what the patentee has done in this case must, therefore, be "good reason" for refusing a licence under section 41(3).

I do not accept any of the steps in this chain of reasoning. In particular, I do not think that it follows from the wording of section 41(3) that Parliament was saying that there is, in respect of every patent, a possible state of affairs that is "good reason" for not granting any licence. The provision is framed so as to allow for the possibility that there may be "good reason" for not granting a particular licence, which is quite a different matter. I also reject the view that section 41(3) contemplates that a patentee should be able himself to create a set of circumstances which will constitute "good reason" why no licence should be granted in respect of his patent under section 41(3). Finally, I cannot accept the conclusion that the particular circumstances set out in paragraph one of the notice of appeal are of such a character as to be necessarily "good reason" even if it be assumed that there must be some circumstances that would constitute "good reason". In *Parke, Davis & Co. v. Fine Chemicals of Canada Ltd.*⁵, a contention that the Commissioner was wrong in not finding "good reason" in the fact that the Canadian market for the drug was already adequately served by the patentee was rejected. I cannot satisfy myself that, from the point of view of section 41(3), what is enumerated in paragraph one of the notice of appeal is so different in character that it is manifestly wrong not to have seen it as "good reason".

For the above reasons, I reject the contention that this is a case in which it can be held that the Commissioner was manifestly wrong in not seeing "good reason" for not granting the licence.

The appellant's alternative contention was that, even if it cannot be held that the Commissioner was manifestly wrong in not seeing "good reason" for not granting the licence, it should be held that the Commissioner has demonstrated that he has not considered the material that was put before him and that the matter should therefore be sent back to him for consideration.

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⁵ [1959] S.C.R. 219.

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This contention is based upon the statement by the Commissioner that "the objections of the patentee do not contain anything new over the reasons advanced by the patentees over the years in similar circumstances", which, it is said, shows that he could not have carefully reviewed the material put before him, which contained the "reasons" summarized in paragraph one of the notice of appeal which I have already quoted and which, it is contended, are "reasons" for not granting a licence that should at least have been considered.

I also reject this contention. After I had reviewed the material that had been filed with the Commissioner before he issued his conclusions on June 21, 1966, I reached the conclusion that, if I had been doing so in the role of Commissioner, I would have concluded that there was in that material nothing really new over what I had read and heard in a recent similar case in which I was involved in so far as "good reason" for not granting a licence is concerned.

I turn now to the attack on the Commissioner's decision as to *quantum* of royalty.

My basic difficulty in considering arguments in relation to royalty, and I assume the difficulty that faces all others involved in these matters either as counsel or otherwise, is that it seems improbable that there is a "market" to which one can turn for direct evidence as to what a willing licensee would pay to a willing licensor for a licence for the particular drug containing the particular terms. (Compare *Aktiebolaget Astra, Apotekarnes Kemiska Fabriker v. Novocol Chemical Manufacturing Company of Canada, Limited*⁶ at page 963.) I assume that there is no person with sufficient experience in such a specialized "market", either as a party to such transactions or as a broker, that he is competent to assist the Court by expressing an opinion based on his experience as to what royalty would be reached by arm's length negotiation between a willing licensor and a willing licensee for this licence for this drug. In the absence of such assistance, the tribunal, in this case the Commissioner, must form the best conclusion that he can as to what would be the result of such negotiations in the light of all the evidence

⁶ [1964] Ex. C.R. 955.

of factors that would affect the bargaining parties and must then apply the statutory direction contained in the latter part of section 41(3). This is what I assume was done in the case of *Hoffmann-La Roche Ltd. v. Bell-Craig Pharmaceuticals Division of L. D. Craig Ltd.*⁷ where the material available was very much the same as that available to the Commissioner in this case and where his determination was upheld by the Supreme Court of Canada. I have given careful consideration to the differences between the two cases that have been urged on me. In the first place it was urged that the result in this case is that the licensee will pay a much smaller proportion of his proceeds of sale as royalty. I have no basis for making that a ground for interference. Then I have been pressed with a United Kingdom decision in relation to the same drug. That is a decision, as far as I know, on different evidence and with reference to a licence containing different terms. In any event, I know of no principle whereby it can be said that this Court should accept the finding of an official of another country in relation to a licence under the legislation of that country in preference to the judgment of the Commissioner of Patents in this country. Reference was made to the evidence of certain doctors concerning the necessity for the appellant incurring certain expenses during its distribution of the drug. I cannot see the relevance of that evidence to the question of royalty. Finally, there is evidence in this case of a licence negotiated by the patentee with a third party at a substantially higher royalty. That evidence was before the Commissioner and I assume that he gave it such weight as, in his opinion, it was worth.

The appeal in respect of royalty is therefore rejected.

I come finally to the attack on the term requiring that the royalty be paid by the licensee on sales of the product made subsequent to June 21, 1966.

I dealt with a similar term in a licence under section 41(3) in my decision in *Hoffmann-La Roche Limited v. Delmar Chemicals Limited*⁸ as follows:

Paragraph numbered four in the licence provides that the royalties payable pursuant to the licence are to be paid on sales made by the

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⁷ [1966] S.C.R. 313.

⁸ *Ante* p. 209.

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licencee during the period between the Commissioner's decision to grant the licence and the actual grant of the licence. As I am of opinion that a licence cannot be made retroactive, and as this licence does not purport to be retroactive, I am of opinion that it was wrong in principle to make the royalty payable in respect of a period prior to the effective date of the licence. The respondent resists the attack on paragraph 4, even though that clause has the result of increasing the amount of royalty payable by it. I gather from argument of its counsel that it is contemplated that the licence with paragraph 4 in it may be of some use to it in infringement proceedings. That is not a valid reason for retaining a clause that is contrary to principle.

It was urged on me that there was a difference between the facts in this case and the facts in the earlier case in that, there, the Commissioner, in the first instance ordered that a licence be granted, whereas here, by his first decision, on June 21, 1966, he said: "I do hereby grant a non-exclusive licence, effective as of this day..." It was contended that there was therefore in this case a licence in effect from June 21, 1966 and that there is therefore no retroactivity involved in the term under attack.

It is clear, however, from the Commissioner's decision of June 21, 1966, that the purported grant of a licence on that day was not a completed act because, immediately after stating that he was thereby granting a licence effective that day, he used these words:

On the question of royalty and other terms of the licence, I order that the patentee file his submission with me, and a copy to the applicant, within thirty days and the applicant will have also thirty days thereafter to file his own submission and comments. Upon consideration of the submissions I shall finalize the licence with effect as of the date of this decision.

By these words, the Commissioner makes it quite clear that, at some time in the future, he proposed to "finalize" the licence with effect as of that earlier time.

As I have already indicated, as I read section 41, what the Commissioner is required to do is to "grant" a "licence", which licence is to have "terms" that are to be settled by the Commissioner having regard to the statutory direction in the latter part of section 41(3). As I see it, what he grants is a licence containing the terms and, therefore, until the terms are settled, he cannot grant it.

Reference was made to the fact that there have been a number of cases where the Court has upheld the grant of the licence but has sent the matter back to the Com-

missioner to reconsider the royalty so that, in the intervening time, a licence has existed without a valid royalty clause. That is, of course, if it be so, a necessary consequence of the Court's jurisdiction to review the matter by way of appeal. When the Commissioner corrects his original finding on a reconsideration pursuant to a judgment of the Court, it is of the same effect as if he had decided it correctly in the first instance. That is quite a different matter from saying that there can be a licence before the terms on which it is granted have been settled. Compare *Hoffmann-La Roche Limited v. Delmar Chemicals Limited*⁹ per Thurlow J. (May 16, 1967).

My judgment is, therefore, that paragraph 3 of the Terms of the licence be deleted¹⁰ and that, the parties consenting, the last sentence of paragraph 13 be deleted. Subject thereto, the appeal is dismissed. The respondent will have two-thirds of the taxed costs of the appeal. (I have fixed this percentage on the basis that the appellant has been approximately one-sixth successful.)

⁹ *Ante* p. 63.

¹⁰ The pronouncement also contains other changes in the licence consequential upon the last conclusion that I expressed.

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