1932

Mar. 21.
April 4.

BETWEEN:—

WILLIAM J. McCRACKEN AND CONCRETE PIPE LIMITED ..... } PLAINTIFFS;

AND

THOMAS WATSON, CARRYING ON THE BUSINESS AS WATSON MACHINERY COMPANY ..... } DEFENDANT.

Patents—Infringement—Licences—Breach of contracts—Property and Civil Rights—Jurisdiction

Plaintiff W. J. McC. was the owner of a patent relating to improvements in tile making machines. In 1919, he granted to the defendant and one B. the sole and exclusive right of manufacturing and selling the machines in question throughout Canada. In 1922, the defendant and B. granted to Independent Concrete Pipe Co. Ltd., the sole right to manufacture tile on the patented machine within a limited area, on certain stated terms and conditions, the machine to be supplied by the defendant and B. To this agreement the owner of the patent was a party. In 1930, the I.C.P. Co. Ltd. assigned all its rights under the last mentioned agreement to C.P. Co., the other plaintiff. Plaintiffs now claim that the defendant has infringed the patent in question by constructing the machine and selling the same in the territory defined in the second agreement, and they pray for injunction, etc.

Held that, as the issue between the parties was one relating to an alleged breach of contract or contracts, affecting property and civil rights, this Court had no jurisdiction to hear or entertain such an action.

2. That subsection (*c*) of section 22 of the Exchequer Court Act means that where the subject matter of the action primarily, but not incidentally, concerns a patent of invention, trade-mark or copyright, the Court may grant any appropriate remedy known to the common law or equity.

This action came on before the Court upon the question raised by motion of the defendant that the Court had no jurisdiction to hear and entertain the action, and for judgment dismissing the action.

The question of law so raised was heard before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa.

H. A. Aylen for plaintiffs.

O. M. Biggar, K.C., for defendant.

The questions of law and the issues raised by the pleadings on the motion are stated in the Reasons for Judgment.

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THE PRESIDENT, now (April 4, 1932), delivered the following judgment.

This is a motion to dismiss this action on the ground that the statement of claim does not disclose any cause of action which this Court has jurisdiction to entertain; the real substance of the controversy here is of importance from the standpoint of procedure.

The relevant facts which must be stated, are are follows. The plaintiff McCracken was the owner of a Canadian patent relating to improvements in Tile Making Machines, and in August, 1919, he, by an agreement in writing, and upon terms therein stated, granted to Thomas Watson the defendant, and one Bertrand Blair, the sole and exclusive right of manufacturing and selling in the Dominion of Canada what is described in the agreement as the McCracken Drain Tile Machine, and the McCracken Sewer Pipe Machine, the subject matter of the patent mentioned, together with repairs and attachments of such machines. This agreement is still in full force and effect except as modified by another agreement which I shall at once explain.

In February, 1922, an agreement was entered into between Watson and Blair of the first part, McCracken of the second part, and The Independent Concrete Pipe Co., Ltd., the assignor of Concrete Pipe Ltd., one of the plaintiffs herein, and which I shall for the time being refer to as the company, of the third part, wherein it was agreed by the company, in consideration of being given the sole right to manufacture concrete sewer pipes on the McCracken patented machines—two of which it had already purchased —within a described territory in the provinces of Ontario and Quebec, to pay to Watson and Blair for the joint account of themselves and McCracken, in lieu of royalties, a principal sum stated in the agreement and which was payable in instalments. The company also agreed to pay to the same parties a specified sum as the estimated profits to which they were entitled in connection with what is designated in the agreement as a No. 3 machine, and which Watson and Blair agreed to construct and deliver to the company. In consideration of these payments Watson and Blair, and McCracken, agreed that they would not "lease,

sell or allow to be used," the McCracken Sewer Pipe Machine within the territory defined in the agreement, and they agreed to waive and cancel all royalties or licence fees on a machine designated as No. 1 machine, then operated by the company at Woodstock, Ont., and to cancel all royalties accrued under past agreements. The company agreed not to move or use the machines acquired by them outside the described territory without the consent of Watson and Blair, and McCracken, and to purchase all repair parts from Watson and Blair. It will be seen therefore that Watson and Blair to start with had the sole and exclusive right or licence to manufacture and sell the McCracken machines anywhere within Canada, but this was limited by the second agreement in so far as the sale of the machines was concerned, but not their manufacture. By the terms of the second agreement the company was given the exclusive right to manufacture within the defined territory concrete sewer pipe on the patented McCracken machines, to be supplied it by Watson and Blair, but the company was not authorized to manufacture the machines. Watson and Blair were not obligated to refrain from manufacturing the McCracken machines within the defined territory, they merely agreed not " to lease, sell or allow to be used " these machines within that territory. I assume that means that Watson and Blair could not sell or lease machines for use within the defined territory, but they might make and sell within that territory machines that were to be used outside that territory. McCracken became a party to the agreement of February, 1922, only I think, because it varied the financial terms mentioned in the prior agreement with Watson and Blair, and also the terms upon which two machines had been already sold to the company, and he had therefore to be a consenting party to such variation of the terms of the first agreement. In December, 1930, the company sold and transferred to Concrete Pipe Limited, one of the plaintiffs, its business and undertaking, and also purported to assign its right, title, interest and demand in the agreement of February, 1922. I shall hereafter refer to Concrete Pipe Limited as the company.

The statement of claim pleads the granting of the patent to McCracken, the licensing agreement to Watson and Blair, the agreement of February, 1922, and then alleges

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that the defendant Watson without the licence or permission of the plaintiffs had "made use of and sold to others to be used in the Dominion of Canada tile making machines, which embody the invention" described in the McCracken patent; it also pleads that the defendant is estopped from denying or disputing the validity of the letters patent—because he was a licensee, I assume. The statement of claim also defines the territory within which the company's predecessor was to have the right of manufacturing and selling concrete sewer pipe made on the McCracken machines. The particulars of breaches allege, (1) that the defendant had constructed at his factory at Woodstock, Ont., tile making machines which infringed certain claims of the McCracken patent, and (2) had sold such machines among others to parties named residing in Kitchener and Ottawa in the province of Ontario, and Montreal in the province of Quebec, all within the territory defined in the second agreement. The whole of the statement of claim with the exception of the paragraph alleging infringement, suggests an action based upon a breach of contract. The statement of defence admits the agreements of 1919 and 1922 but denies that the latter agreement conferred upon The Independent Concrete Pipe Company Limited any right to make or sell the subject matter of the McCracken patent within the territory mentioned in the second agreement, and further denies that the defendant used, or sold to others to be used, machines embodying the invention described in the patent to McCracken, except with the licence of the plaintiff. McCracken. There is no denial of the validity of the patent.

It is clear, I think, from the agreements that defendant Watson could lawfully manufacture the McCracken tile making machines anywhere in Canada, and could sell or lease the same anywhere in Canada except within the territory defined in the second agreement. To say that the defendant has manufactured machines in the city of Woodstock, Ontario, which infringe certain claims of the patent, as does paragraph one of the particulars of breaches, is to deny the existence of the licence to Watson and Blair,—which the plaintiffs plead—who, under that licence were authorized to manufacture such machines strictly in con-

formity with the specification of the patent, anywhere in Canada. There could not possibly be infringement so long as the agreements mentioned continue in force, but there might be a breach of contract. Then to say, as does the second paragraph of the particulars of breaches, that the defendant had sold three machines to persons within the prohibited territory, does not suggest infringement but possibly a breach of contract. No issue was raised upon the hearing of the application as to the respective interests of Watson and Blair under the licence, or the right of Watson alone to manufacture and sell the McCracken machine. I understood Mr. Aylen, for the plaintiffs, to say that the acts complained of consisted in the sale of McCracken machines by the defendant for use within the defined territory mentioned in the agreement of 1922.

The issue between the parties is therefore, in my opinion, one relating to an alleged breach of contract, or contracts, affecting property and civil rights, and this court, I think, has not jurisdiction to entertain such an action, and the issue between the parties must be determined, if at all, in the Provincial Courts. But Mr. Aylen contended to the contrary and urged that Chap. 23, sec. 3, ss. (*c*) of the Stat. of Canada, 1928, amending sec. 22 of the Exchequer Court Act, bestowed jurisdiction upon this Court to entertain an action of this nature, and that raises an important point. Sec. 22 of the Act as amended reads as follows:

> The Exchequer Court shall have jurisdiction as well between subject and subject as otherwise,
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> (*a*) in all cases of conflicting applications for any patent of invention, or for the registration of any copyright, trade-mark or industrial design;
>
> (*b*) in all cases in which it is sought to impeach or annul any patent of invention, or to have any entry in any register of copyrights, trade-marks or industrial designs made, expunged, varied or rectified; and
>
> (*c*) in all other cases in which a remedy is sought under the authority of any Act of the Parliament of Canada or at Common Law or in Equity, respecting any patent of invention, copyright, trade-mark, or industrial design.

Subsection (*c*), the one under consideration, prior to the amendments appeared as follows in the Revised Statutes of Canada, 1927:

> (*c*) in all other cases in which a remedy is sought respecting the infringement of any patent of invention, copyright, trade-mark or industrial design.

The amended sec. 22 (*c*) of the Exchequer Court Act, which is claimed to give jurisdiction to the court in this

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case, seems rather confusing when one is obliged to apply it, particularly having in mind the legislative powers assigned to the provinces, and those assigned to the Dominion, under the British North America Act. The preceding subsections of sec. 22 of the Act, relate to cases specifically bearing upon any patent of invention, trade-mark, copyright or industrial design. If sec. 22, ss. (*c*) of the Act is to be construed so broadly as to give this court jurisdiction in a case of contract between subject and subject, just because the contract incidentally relates to something which is a patented invention, then my view would be that the legislation is ultra vires, because it invades the jurisdiction of the provincial legislatures in respect of property and civil rights. Construing the subsection literally, I think, it means that where the subject matter of the action primarily, but not incidentally, concerns a patent of invention, trade-mark or copyrights, the court may grant any appropriate remedy known to the common law or equity. That, I do not think is this case, which primarily has to do with a contract and its alleged breach, at least that is my view of the case. If, upon a trial, a breach of contract was proven, or failed to be proven, the judgment of the court could not confirm the validity of the patent, or annul it, or find that there was or was not infringement, it could only construe the contract, or contracts, and ascertain whether or not there was a breach of the same. The fact that the McCracken machine was patented, was the cause the contract was entered into, but the patent is not the subject matter of the contract; it is the use of the invention described in the patent, which is another thing altogether. Nothing here arises under the patent law of Canada. The issue arises out of a contract. The contract may be rescinded by mutual agreement or by a decree of the courts, but until it is so rescinded or set aside, it is a subsisting agreement, which, whatever it is, or may be shown to be, must be the foundation of any relief sought from the courts. There is no denial of the force or validity of McCracken's patent nor of his right to the monopoly, except in so far as he has parted with that right by contract. In this case, where the defendant admits validity and his use of the patent granted to McCracken, and a subsisting contract is shown governing the rights of the parties in the use of the

invention, then the issue is upon the contract and not upon the letters patent, and consequently I do not think the provision of the statute relied on by the plaintiff is here applicable.

The application to dismiss the action, upon the pleadings and the documentary evidence adduced on the application, is granted with costs of the action to the defendant to the date of the application, and the costs of the application.

Judgment accordingly.