1963
Oct. 2, 3
1964
Jan. 6

BETWEEN:

RHONE-POULENC, S.A. .... APPELLANT;

AND

MICRO CHEMICALS LIMITED .... RESPONDENT.

Patents—Compulsory licence—Patent Act, R.S.C. 1952, c. 203, s. 41(3) and (4)—Variation of terms of compulsory licence.

The appellant, a French corporation, was the plaintiff in *Rhone-Poulenc, S.A. v. Micro Chemicals Limited, et al., ante,* p. 816 and the respondent was one of the defendants therein, and is the holder of a compulsory licence granted by the appellant and which was the subject of that action. This is an appeal by the licensor from the order of the Commissioner of Patents settling the terms of the licence on the grounds that the licence as issued does not effectively limit the use and sale of medicine made pursuant to the licence to Canada only and that the licence does not limit the net sale price, on which the royalty is based, to a selling price to purchasers with whom the licensee is dealing at arms length, or otherwise to a selling price representing a reasonable and usual advance over cost.

Held: That the grant clause should be amended to make it clear that the licence permits the licensee to prepare or produce the medicine to be used in Canada only and a paragraph should be added to the licence document requiring the licensee to label every container of the medicine as follows—"Licensed under Canadian Patent No. 519,525 but not for export".

2. That the licence document should be amended by revision of certain provisions thereof and the addition of other provisions to which the parties have agreed.

3. That since such a licence is personal only and does not give the licensee the right to grant sub-licences or to assign its licence, the provision in the licence dealing with its non-transferability is unnecessary and should be deleted.

4. That there should be added to the licence a provision that purchasers of the medicine prepared or produced by the respondent pursuant to the licence are not precluded from using the medicine in any way they choose for their own personal consumption.

APPEAL from a decision of the Commissioner of Patents.

The appeal was heard before the Honourable Mr. Justice Noël at Ottawa.

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

David M. Rogers for respondent.

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

NOËL J. now (January 6, 1964) delivered the following judgment:

In these proceedings, Rhone-Poulenc S.A., a French corporation of Paris, France, has appealed from a decision and order of the Commissioner of Patents dated May 31, 1962 by which the Commissioner settled the terms of a licence granted to Micro Chemicals Limited, a Canadian company under Canadian patent No. 519,525, the property of the appellant under the compulsory licensing provisions of s. 41(3) of the *Patent Act*.

This appeal is based on s. 41(4) of the *Patent Act* which reads as follows:

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

The patent in question relates to a process and a process dependant product and deals with new phenthiazine derivatives having valuable therapeutic properties and to processes for their preparation and, therefore, falls within the terms of s-s. 3 of s. 41 of the Act.

The notice of appeal sets out the reasons of appeal as follows:

(1) The Commissioner did not limit the licence to the use of a patented invention for purposes of the preparation or production of medicine, for human use;

(2) The Commissioner did not include provisions in the licence which would be fully effective to limit the sale and use of any medicine, made pursuant to the licence to sell and use in Canada only;

(3) The Commissioner did not in the licence limit the net sale price of the product produced pursuant to the licence, on which royalty is based, to a selling price to purchasers with whom the licensee is dealing at arms length, or otherwise to a selling price representing a reasonable and usual advance over cost.

Before dealing with the contestation of this appeal, I might say here that counsel for the appellant stated at the hearing that he was withdrawing the reasons covered in paragraph (1) thereof and we are, therefore, left with those contained in paragraphs (2) and (3) only.

I might also add that with respect to appellant's second ground of appeal, in order to make fully effective what

1964

RHONE-POULENC, S.A. v. MICRO CHEMICALS LIMITED

Noël J.

is clearly the intention of the Commissioner in framing the licence as he did, namely, that any medicine produced by Micro Chemicals under the present licence should be used only in Canada (as I held in a judgment rendered this day, bearing No. A-1408 of the files of this Court, involving amongst others the appellant and the respondent and dealing with the same licence document but with respect to the matter of infringement, the reasons therein applying *mutatis mutandis* to the present appeal), the comma after the words, "so prepared or produced by it", in the tenth line of the grant clause on p. 2 of the licence document shall be deleted and placed instead after the words, "to be used in Canada", on the same line; the said grant clause shall contain the words, "with notice of such restriction" inserted after the said words, "to be used in Canada", and the following paragraph shall be added immediately after the grant clause as a new para. 1:

> Micro Chemicals Limited shall apply to every container of medicine prepared or produced by it and sold pursuant to this licence, a notice reading "Licensed under Canadian Patent No. 519,525 but not for export".

and the old para. 1 shall become para. 1A.

Counsel for the appellant has suggested that the words "for use in Canada only" be applied on every container. However, I do feel that the above words "but not for export", which I have inserted, would be as effective and more appropriate than the words "for use in Canada", which would have the effect of confusing the purchaser for personal medicinal consumption who might at times, when out of the country, have to use this medicine. Furthermore, the verb "export" implies a trade outside of the country which is really what the Commissioner intended to prohibit in the licence document.

With respect to appellant's third ground of appeal, i.e., that the Commissioner did not, in the licence, properly limit the net selling price of the product on which the royalty is based, respondent in its notice of contestation states that it is and has at all times been willing to agree to the inclusion in the licence of a clause insuring that the royalty is based on a fair and reasonable selling price, adding however, that the price on which royalty is paid must be definite so that the licensor cannot harass the licensee and involve the latter in disputes as to the amount

of royalty, and the price upon which royalties are paid must not be so high as to prevent the licensee from competing in the market.

It is, however, not necessary to go into this matter as the parties, through their respective counsel, have agreed to the insertion of a text which will cure whatever difficulties existed:

1. By revising the second paragraph of section 1A to read as follows:

The term "net selling price" employed herein shall mean,

(*a*) in the case of a sale to a purchaser other than Paul Maney Laboratories Ltd., or Gryphon Laboratories Ltd. and with whom MICRO CHEMICALS LIMITED is dealing at arms length (such a purchaser being referred to hereafter as an arms length purchaser), the net price received by MICRO CHEMICALS LIMITED (which expression as used herein means the price actually received less any allowances for returns and any sales or other tax forming part of the price and remitted by MICRO CHEMICALS LIMITED to any governmental authority),

(*b*) in the case of a sale to a purchaser other than an arms length purchaser, either

(i) the average of the net prices received in the preceding three months on sales in the ordinary course of trade to arms length purchasers, or if there have been no such sales in such period to such purchasers,

(ii) MICRO CHEMICALS LIMITED's cost of production of the active product (including a reasonable amount for overhead) plus 50% of such cost, provided that the net selling price so calculated shall not be less than $33.00 nor more than $53.00 per kilogram of active product.

2. By revising section 3, line 7, by cancelling "selling price" and inserting instead, "net selling price" (and in the case of sales purchasers other than arms length purchasers whether such price is calculated under section 1(*b*)(i) or 1(*b*)(ii).)

3. By revising section 5 by inserting:

"(*a*)" after the number, so that the section number becomes "5(*a*)" and by revising line 7 of the said section

1964
RHONE-POULENC, S.A.
v.
MICRO CHEMICALS LIMITED
Noël J.

by inserting after "statements" the words, "(otherwise than in respect of any cost of production used pursuant to section 1(*b*)(ii) as a basis of calculation of net selling price)" and by adding the following subparagraph:

"5(*b*) If, within six months after the receipt of a statement in accordance with paragraph 3 which shows that a cost of production has been used pursuant to section 1(*b*)(ii) as a basis of calculation of net selling price, RHONE POULENC gives notice to MICRO CHEMICALS LIMITED that it wishes to have such cost of production determined independently, then MICRO CHEMICALS LIMITED shall give to Messrs. Thorne, Mulholland, Howson and McPherson, chartered accountants, promptly upon the latter's request, all facilities of inspection of any of its records and operations which the said chartered accountants may require for the purpose of determining the cost of production, provided that MICRO CHEMICALS LIMITED has first received from the said chartered accountants a statement in writing that the said chartered accountants will disclose to no one any information obtained from such inspection except for the disclosure to RHONE POULENC and MICRO CHEMICALS LIMITED of the cost of production thus determined."

4. By adding the following section immediately following section 5:

5A (*a*) If a cost of production determined and reported by Messrs. Thorne, Mulholland, Howson and McPherson pursuant to section 5(*b*) is higher than that used by MICRO CHEMICALS LIMITED as the basis of calculation of net selling price in the statement with respect to which RHONE POULENC gave notice, then MICRO CHEMICALS LIMITED shall, within two months of such report, pay to RHONE POULENC the difference between the royalty paid with such statement and the royalty calculated on the basis of the cost of production determined by Messrs. Thorne, Mulholland, Howson and McPherson. (*b*) A determination of cost of production pursuant to section 5(*b*) shall be at the expense of RHONE POULENC, but if the cost of production so deter-

mined by Messrs. Thorne, Mulholland, Howson and McPherson is over 20% greater than the cost of production used by MICRO CHEMICALS LIMITED as the basis of calculation of net selling price in the statement with respect to which RHONE POULENC gave notice, then MICRO CHEMICALS LIMITED shall reimburse RHONE POULENC for such expense within one month after receiving from RHONE POULENC the receipted account of Messrs. Thorne, Mulholland, Howson and McPherson showing such expense.

Now in view of my finding in the judgment rendered this day and bearing No. A-1408 of the files of this Court to which I have already referred, it is not necessary to deal with the respondent's contestation and counter-appeal that (1) if it was proper for the Commissioner to limit the licence to sale and use of the patented invention in Canada, the provisions of the licence granted by the Commissioner are sufficient for that purpose; that (2) the Commissioner exceeded his authority in limiting the licence to sale of the patented medicine to be used in Canada; or that (3) the limitation that the patented medicine be sold "to be used in Canada" should not have been included in the licence granted by the Commissioner since it would have the effect of preventing the respondent from producing the medicine in Canada in volume and at a price competitive with imported products and, therefore, should be deleted; or that (4) the limitation that the patented medicine be sold "to be used in Canada" is not necessary to satisfy the requirements of section 41(3) of the *Patent Act*, other than to say that all these matters have been dealt with extensively in the above judgment and anything that I might say in this regard would be repetitious.

I might however reiterate what I had occasion to say in the above referred to judgment, that had the Commissioner of Patents felt on the evidence before him that the licensee should have the right to sell outside the country in order to meet the requirements of s. 41(3) of the *Patent Act*, it would have been an easy matter to so express it in the licence document by giving it the right to export, which he did not do, and I am not prepared on the evidence before me to substitute my finding on this for his.

1964
RHONE-POULENC, S.A.
v.
MICRO CHEMICALS LIMITED
Noël J.

Now as a licence such as this is personal only and does not give the licensee the right to grant sub-licences or to assign its licence, that part of paragraph 8 which deals with the non-transferability of the licence is unnecessary and therefore shall be deleted. Furthermore, in view of the interpretation given to this paragraph in the judgment referred to above and which deals with the infringement action, i.e., that the use and sale by purchasers from Micro Chemicals Limited is permitted but conditioned by the grant clause which, as we have seen, restricts use to Canada only, the balance of the said paragraph can also be removed.

I would, however, allow the purchasers for personal medicinal consumption of the product or medicine to use it as required whether it be in this country or outside of this country and with this in view would replace paragraph 8 by a new paragraph 8 as follows:

> 8. Nothing herein contained shall preclude purchasers of the medicine prepared or produced by Micro Chemicals Limited pursuant to this licence from using the medicine in any way they choose for their own personal consumption.

The appeal from the terms of the licence will, therefore, be allowed to the extent hereinabove indicated and the respondent's request that the licence be varied by cancelling the words, "to be used in Canada", is dismissed.

The appellant will have the general costs of the appeal.

Judgment accordingly.