1969

Ottawa June 24-25

July 31

SMITH KLINE & FRENCH INTER-AMERICAN CORPORATION ..... PLAINTIFF;

AND

MICRO CHEMICALS LTD, PAUL MANEY LABORATORIES CANADA LTD and GRYPHON LABORATORIES LTD ..... DEFENDANTS.

Patents—Compulsory licence of process for making medicine—Use of invention in research pending licence—Whether infringement—Determination of royalty postponed at patentee's instigation—Whether damages affected under the Patent Act, s. 41(3).

In the course of research *M* made a small quantity of a medicinal compound by plaintiff's patented process and later applied under s. 41(3) of the *Patent Act* for a compulsory licence of the invention. Pending a decision thereon *M* made additional batches of the compound by plaintiff's process during further research designed to put *M* in a position to use the licence as soon as it was granted; and substantial quantities of the compound manufactured by *M* and put in tablet form by *G* were delivered by *P* free of charge to two hospitals in Manitoba for medical evaluation. On June 21, 1966, the Commissioner of Patents granted a licence effective that date, but at plaintiff's request postponed proceedings for determination of the royalty, which on February 3, 1967, he fixed at 15% of sale price on sales from June 21, 1966. On September 20, 1967, it was however held by this court ([1968] 1 Ex. C.R. 326) that the licence dated only from February 3, 1967. Between June 21, 1966, and February 3, 1967, *M* sold *G* a large quantity of the compound. Plaintiff sued *M*, *G* and *P* for infringement of its patent.

Held: (1) In using plaintiff's patented process both before and after the application for a licence, not for the purpose of improving on the invention but to satisfy itself that it could produce the product commercially by that process as soon as a licence was granted *M* infringed the patent. Nothing in s. 41(3) of the *Patent Act* warranted such use of the invention. The damages, if any, suffered by plaintiff from such infringement were, however nominal.

Frearson v. Loe (1878) 9 Ch.D. 48; *Hoffmann-La Roche v. Delmar Chemicals Ltd* [1965] 1 Ex. C.R. 611; *Hoffmann-La Roche Ltd v. Bell-Craig Pharmaceuticals Division of L. D. Craig Ltd* [1965] 2 Ex. C.R. 266; *Gibney v. Ford Motor Co. of Canada* [1967] 2 Ex. C.R. 279; *United Telephone Co. v. Sharples* (1885) 2 R.P.C. 28; *Proctor v. Bayley and Son* (1889) 6 R.P.C. 106 at 109, referred to.

(2) In supplying the compound free of charge to hospitals with a view to expediting commercial sales of the compound at the earliest possible moment after a licence was granted defendants infringed the patent; but plaintiff's damages were nominal.

Dunlop Pneumatic Tyre Co. v. British and Colonial Motor Car Co. (1901) 18 R.P.C. 313 at 315; *British Motor Synd. v. Taylor & Son* [1901] 1 Ch.D. 122 at 133, referred to.

(3) Defendants' use of the invention between June 21, 1966, and February 3, 1967, was an infringement of the patent, and although the Commissioner's postponement of his decision on royalty was instigated by the plaintiff it did not necessarily follow that the damages should be based on the amount of royalty fixed on February 3, 1967.

Meters Ltd v. Metropolitan Gas Meters Ltd (1911) 28 R.P.C. 157 at 164-65; *F. Hoffman-La Roche & Co. A.G. and J.R. Geigy S.A.'s* patent referred to.

In accordance with an agreement of the parties the plaintiff's damages should be the subject of a reference.

ACTION for infringement of patent.

R. Graham McClenahan and *David E. Clarke* for plaintiff.

Hon. J. T. Thorson, Q.C. for defendants.

WALSH J.:—This is an action by plaintiff against defendants for infringement of its Canadian letters patent No. 612204 granted for a period of 17 years from January 10, 1961, for a process for the manufacture of trifluoperazine (and salts thereof) which is the generic name for a useful medicinal compound. On or about March 25, 1965, (the agreement as to facts refers to the date as March 30, 1965) the defendant Micro Chemicals Ltd applied to the Commissioner of Patents under section 41(3) of the *Patent Act* for a compulsory licence authorizing it to make and sell trifluoperazine dihydrochloride, hereinafter referred to simply as trifluoperazine, and after considerable correspondence and extensive submissions by both parties he issued a decision on the application on June 21, 1966, granting a non-exclusive licence "effective as of this day". On the question of royalty and other terms of the licence he ordered the patentee to file its submission with a copy to the applicant within 30 days and the applicant would then have another 30 days to file its own submission and comments and upon consideration of the submissions the Commissioner indicated he would then finalize the licence with effect as "of the date of this decision" (Exhibit 12).

The licence was finalized on February 3, 1967, when the Commissioner settled the terms of the licence, fixing the royalty at 15% of the applicant's net selling price to others

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of the product prepared or produced pursuant to the licence and sold by it, with the said term "net selling price" being defined in the said licence (Exhibit 16).

The statement of claim alleges that before the effective date of the said licence on February 3, 1967, and without the licence, permission, or assent of plaintiff and subsequent to the 10th day of January, 1961, defendant Micro Chemicals Ltd commenced to carry out the said invention in Canada and with the other two defendants commenced to use and sell the resulting trifluoperazine in Canada, in infringement of the plaintiff's exclusive right, privilege and liberty by virtue of its Canadian letters patent, and asks for a declaration that, as between the parties for the purposes of this action Canadian letters patent 612204 is valid, that it has been infringed by the defendants, and for damages or an accounting of the profits as it may elect, for a direction that all necessary accounts may be taken and inquiries made for the purpose of ascertaining the damages or profits to which plaintiff is entitled, and for costs of the action and such further and other relief as may seem just.

By judgment of President Jackett dated September 20, 1967, in proceedings between the plaintiff *Smith Kline & French Inter-American Corp.* and defendant *Micro Chemicals Ltd*[1] it was decided that a decision under section 41(3) cannot be made retroactive and hence a term of the licence of February 3, 1967, that royalty should be paid on sales subsequent to June 21, 1966, must be struck out. This judgment followed his earlier decision in the case of *Hoffmann-La Roche v. Delmar Chemicals Ltd*[2], in holding that under section 41(3) of the *Patent Act* the decision of the Commissioner can either refuse the application or grant a licence containing appropriate terms and providing for royalty or other consideration, and it is only one of these decisions that is subject to an appeal to the court. The Commissioner's decision of June 21, 1966, and the purported grant of the licence on that day was not a completed act as the terms of the licence and royalty had not yet been settled.

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[1] [1968] 1 Ex. C.R. 326.

[2] [1966] Ex. C.R. 713.

Plaintiff filed as Exhibit 1 at the hearing an agreement as to facts to which solicitors for both parties had agreed, to which was annexed photostats of all the exhibits referred to therein. Plaintiff also read into the record certain portions of the evidence given at the examination for discovery of John Cook as an officer of defendant Paul Maney Laboratories Ltd during the course of which it was agreed by counsel for defendants that this should also be regarded as being an examination of Mr. Cook as an officer of defendant Gryphon Laboratories Ltd and of defendant Micro Chemicals Ltd with the same questions, answers and objections applying in the case of all three defendants. Most of the material read into the record in connection with this examination is already covered in the agreement as to the facts.

The only witness called at the hearing was Paul Landt Diosady called as a witness by defendants. He has been a professional engineer for 30 years with a chemical engineering degree and has been a consultant for defendant Micro Chemicals Ltd since 1958 when that company was incorporated. He testified that some time prior to the application of defendant Micro Chemicals Ltd on March 25, 1965, for a licence, they had been carrying out research for the production of small quantities of similar substances. In 1958 they had explored the possibilities of promazine, one of the phenothiazine products. They next experimented with chloropromazine and obtained a licence for the production of this. They then experimented with the production of promethazine and finally tried to produce trifluoperazine, the drug we are now dealing with. As a preliminary to this they researched the literature and tried to make it and in March 1963 made 10 grams during the course of research. Between March 25, 1965, and prior to January 1966 research and preparation for operation of the licence the company had applied for continued. They wanted to determine how to get the best yield out of the process. The various batches made would be kept by them for reference. The statement in paragraph 9 of the licence application (Exhibit 2) indicating that the applicant had already produced trifluoperazine according to the specifications of the pat-

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ent and by the process described, on a trial or pilot scale and that it can do so with equivalent safety and quality equal to the product produced by the patentee and on a sufficiently large commercial scale and at a substantially lower price than that charged for stelazine (the name used for plaintiff's product) was based on the experiments made prior to the application. Exhibit 20 which he referred to is a schedule of the various small batches which they experimented with between November 1, 1965, and January 22, 1966, showing the size of the batches and the results attained. No attempts were made to develop a different process but the experiments were with a view to successfully duplicating the process set out in the patent. He explained that, even following the patent, it was often difficult to reach satisfactory results and they wished to be in a position to use the licence as soon as same was granted. Even now stability studies are continuing to check on storage, effects of various conditions on the product and similar information which is important in connection with the marketing. After succeeding in producing 10 grams in March 1963 no more of the product was manufactured until the experiments recommenced in November 1965. Experiments were carried on with intermediary materials in the interval. It was not until January 4, 1966, that larger scale experiments were attempted using 675 grams but the first results had to be discarded. On January 25, 1966, 3.2 kilograms were made however. Some of the earlier small batches were retained for analytical tests to prove the quality to the Food and Drug Directorate, which approval had already been obtained however, in 1963.

Defendants in their statement of defence declare that defendant Micro Chemicals Ltd had the right to produce the product on a trial or pilot scale according to the specifications of the patent and by the process described prior to its licence application on March 25, 1965, in furtherance of its said application in order to prove to the Commissioner of Patents that it could produce the substance safely and with a quality equal to the plaintiff's product and on a sufficiently large commercial scale as alleged in its licence application. Subsequent to March 25, 1965, and prior to

January 22, 1966, continued research and preparation was for purposes of eventual operation under the licence which it reasonably expected would be granted and the manufacture was still in small quantities consisting of approximately 30 batches of about 20 grams each. Between January 1966 and prior to June 21, 1966, it manufactured, as it had the right to, three batches, one of three kilograms on January 25, 1966, one of 10 kilograms on March 16, 1966, and one of 26.5 kilograms on May 26, 1966. (These figures were later corrected in the agreed statement of facts to 3.2 kilograms, 9.8 kilograms and 26.5 kilograms respectively.) The defence further alleges that prior to 1966 defendant Micro Chemicals Ltd had reason to expect the licence would soon be granted but the long illness of the Commissioner of Patents resulted in a deferment until June 21, 1966. On March 2, 1966, the Province of Manitoba invited the defendant Paul Maney Laboratories Ltd. to submit a quotation for a six months' supply of trifluoperazine tablets for use in its hospitals for mental diseases at Brandon and Selkirk. Defendant submitted its quotation. Subsequently and before any acceptance of it by the Province of Manitoba the medical superintendent of the hospital for mental diseases at Brandon on March 28, 1966, requested defendant Paul Maney Laboratories Ltd to supply a quantity of trifluoperazine tablets on a no charge basis for chemical evaluation and a similar request had previously been received from the office of the medical superintendent of the hospital for mental diseases at Selkirk. As a result of these requests, 10,000 5 milligram tablets were sent to the Selkirk hospital on March 14, 10,000 10 milligram tablets on March 18, and a further 10,000 10 milligram tablets and 5,000 5 milligram tablets on June 3, 1966. (The defence refers to 20,000 10 milligram tablets on June 3 but this is not borne out by Exhibit 28). Also, 5,000 5 milligram tablets and 20,000 10 milligram tablets were sent to the hospital at Brandon on March 30, 1966 (Exhibit 25). All of these tablets were provided free of charge for experimental purposes, the trifluoperazine having been delivered by defendant Micro Chemicals Ltd to defendant Gryphon Laboratories Ltd which put the contents into tablet form and supplied the tablets so

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formed to the defendant Paul Maney Laboratories Ltd who made the actual shipments. Defendant Micro Chemicals Ltd did not sell any of the product to defendant Gryphon Laboratories Ltd., nor did Gryphon Laboratories Ltd. sell it to Paul Maney Laboratories Ltd, all being supplied on a no charge basis prior to June 21, 1966. Defendants further plead that subsequent to June 21, 1966, after the Commissioner of Patents "had granted to the defendant Micro Chemical Laboratories Ltd the licence for which it had applied" and prior to February 3, 1967, "the date on which the Commissioner of Patents settled the terms of the said licence and fixed the amount of the royalty payable by the said defendant" defendant sold a total of 70 kilograms of trifluoperazine which was manufactured to the defendant Gryphon Laboratories Ltd for the sum of $16,800 and that pursuant to paragraph 13 of the terms of the licence defendant Micro Chemicals Ltd paid the sum of $2,520 into the Exchequer Court in payment of the royalty payable by it on the said sales. On January 3, 1968 the defendant Micro Chemicals Ltd consented to the payment out of court to the plaintiff of the said sum of $2,520 and interest thereon and also the sum of $1,008 paid into court on July 7, 1967, in payment of the royalties payable in respect of sales made by defendant Micro Chemicals Ltd during the period from February 4, 1967, to June 30, 1967, with interest thereon. Defendants further plead that during the period subsequent to June 21, 1966, and prior to February 3, 1967, each of them acted in the *bona fide* belief that the Commissioner of Patents had on June 21, 1966, granted to defendant Micro Chemicals Ltd a valid licence and that each of them might lawfully act as they respectively did and that plaintiff is estopped by its conduct from denying that the licence granted by the Commissioner of Patents "on June 21, 1966", was a valid licence. They further plead that the plaintiff is not entitled to claim a greater amount than the amount of royalty that the Commissioner of Patents would have been likely to fix in the ordinary course when he granted the defendant Micro Chemicals Ltd the licence for which it had applied, if he had not been requested by the plaintiff to postpone the fixing of the royalty until after he had

decided to grant the licence. They further plead that recently plaintiff has fixed the amount of compensation to which it is entitled in respect of sales of trifluoperazine tablets to hospitals by a voluntary arrangement which was made with Mowatt and Moore Ltd., granting that corporation a licence under Canadian letters patent No. 612,204 pursuant to which the royalty paid by it to the plaintiff on its sales of trifluoperazine products to hospitals should be at the same rate as that payable by the defendant Micro Chemicals Ltd to the plaintiff as fixed by the Commissioner of Patents on February 3, 1967. In conclusion they deny that plaintiff has suffered any loss or that defendants or any of them have made any profit from the alleged wrongful acts, or at all. They admit that Canadian letters patent No. 612,204 is valid as between the parties hereto and for the purposes of this action.

It should be reiterated here that the decision of President Jackett (*supra*) which was not appealed from definitively settles the question that the licence dates from February 3, 1967, and not June 21, 1966, but maintains the Commissioner's decision granting the licence and fixing the royalty at 15% of the net selling price as defined therein. Although two of the defendants, Paul Maney Laboratories (Canada) Ltd and Gryphon Laboratories Ltd, were not parties to that action and defendants had at first contended that the decision was therefore not *res judicata* as against them, I reject this argument. The judgment fixed the date of the licence as February 3, 1967, and that is no longer subject to dispute.

The alleged infringements break down into four periods which should be considered separately as follows:

1. Actions of Micro Chemicals Ltd prior to March 25, 1965, the date of application for the licence.

2. Actions of Micro Chemicals Ltd between November 1, 1965 and January 22, 1966, when experimental batches were prepared.

3. Actions of all three defendants between January 25, 1966, and June 21, 1966, consisting of the transfers of the material from Micro Chemicals Ltd to

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Gryphon Laboratories Ltd, the manufacture of tablets by Gryphon Laboratories Ltd, and the activities of Paul Maney Laboratories (Canada) Ltd.

4. Actions of the defendants between June 21, 1966, and February 3, 1967.

Before dealing with the four different time periods during which alleged infringements took place, defendants' counsel in argument dealt with the background of the licence application explaining the delays in granting same, and what the court had found to be a legal error on the part of the Commissioner in granting a licence on June 21, 1966, subject to the later fixing of the royalty and subsequently when same was fixed on February 3, 1967 making it applicable retroactively to the June 21, 1966 date. He referred to a letter written by counsel for plaintiff on May 3, 1965, to the Commissioner of Patents (Exhibit 3) in reference to defendants' application for a compulsory licence which quoted from the judgment of Mr. Justice Rand in the case of *Parke, Davis & Co. v. Fine Chemicals of Canada Ltd*[3] stating as follows:

> . . . once the commissioner decides the case to be one for licence, it lies with the patentee, by whatever means are open to him, to present substantial support for the royalty which he claims; in the absence of that he will be in a weak position to complain of any holding by the commissioner.

The letter therefore suggests that the patentee should not present its position as to royalty until a decision has been made on the merits of the application. A copy of this letter was sent to defendants' counsel. (It should be noted that the judgment referred to merely decided that insufficient evidence had been made before the Commissioner to enable him to form a valid finding as to the amount of royalty and referred the matter back to him, but is not authority for a proposition which has since been rejected, that the Commissioner can proceed in two stages, first granting the licence, and then settling the royalty and terms subsequently.) In reply to this letter the Commissioner wrote on May 5, 1965, (Exhibit 4) suggesting,

[3] [1959] S.C.R. 219 at 223.

somewhat tentatively, that in order to shorten the time required to arrive at a decision concerning the order for the granting of the licence or refusal, he might agree to obtain submissions on the royalty subsequently, and that therefore he was not insisting that this question be dealt with in the patentee's counter-statement provided it would file same within one month from service of the statement rather than 60 days. Plaintiff's counsel replied saying that this would not be possible and that they would require a 60-day period, reiterating their request that the royalty submission be withheld pending the decision on the merits of the licence to avoid prematurely revealing confidential financial information which, if the application were refused, there would have been no need to have revealed. The Commissioner agreed to this. Lengthy counter-statements, replies and correspondence followed until November 3 and finally, on November 8, counsel for defendants wrote the Commissioner of Patents suggesting that it would now be appropriate to deal with the question of royalty and requesting a hearing on November 29. Counsel for plaintiff in answer to this wrote the Commissioner of Patents suggesting that the hearing of the issue be deferred until the government received a report from the Hilliard Committee, and objecting to a royalty hearing until a decision had been reached as to the granting of the licence (Exhibit 9). Defendants' counsel answered this, and two letters of the Commissioner of Patents dated November 17, 1965, (Exhibits 11 and 11A) indicated that he had decided that a hearing on the question of royalty would not be in order prior to his decision on the merits of the application, and that he felt no oral hearing was necessary on the application. He indicated that he hoped to reach a decision at an early date. On January 31, 1966, counsel for defendants wrote him again, asking when a decision could be made and the reply indicated that the Commissioner had been ill for some time which had delayed the decision. Defendants' counsel made further submissions in a letter of March 7, 1966, and this was answered by plaintiff's counsel on March 30, 1966. On May 19, 1966, defendants' counsel sent the Commissioner of Patents a copy of a letter dated

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April 5, 1966, from the Food and Drug Directorate indicating that there was no objection to Paul Maney Laboratories (Canada) Ltd marketing triflurin (trifluoperazine) tablets in Canada and approving the drafts of the proposed physicians' index card and physicians' brochure. The letter asks for the source of the trifluoperazine hydrochloride used as raw material and information that the dosage forms meets B.P. standards together with the method of assay. In a subsequent letter defendants' counsel explained to the Commissioner that the source of the trifluoperazine referred to was Micro Chemicals Ltd., the applicant for the licence, and a further letter from the Food and Drug Directorate dated June 6, 1966, to the Commissioner of Patents indicates that Micro Chemicals Ltd manufacture the chemical and supply it to Gryphon Laboratories Ltd who turn the chemical into the finished dosage drug referred to as triflurin tablets which is marketed by Paul Maney Laboratories Ltd, all three companies having a common ownership, and that they have adequate manufacturing facilities and controls and comply with the Food and Drug Regulations (Exhibit 11P). It was following this that the Commissioner issued his decision of June 21, 1966.

In addition defendants' counsel pointed out that in the submission of March 30, 1966, made by plaintiff to the Commissioner of Patents, reference was made to a voluntary licence which it had concluded with Mowatt and Moore Ltd for the manufacture and sale of products containing trifluoperazine and in plaintiff's subsequent submission respecting royalty reference was again made to this with an indication that the said Mowatt and Moore Ltd would sell a volume equivalent to 10% of that of plaintiff. This was supported by an affidavit from the President of Mowatt and Moore Ltd (Exhibit 14C1).

While plaintiff undoubtedly had the legal right to grant this voluntary licence during the pendency of defendant Micro Chemicals Ltd's application for a compulsory licence, its motivation in doing so and then attempting to use this as a further argument against the granting of the compulsory licence Micro Chemicals had applied for long pre-

viously, is, to say the least, open to suspicion, and the Commissioner very properly did not allow this to affect his eventual granting of a compulsory licence to defendant Micro Chemicals Ltd.

Dealing now with the first alleged infringement by defendant Micro Chemicals Ltd, resulting from the experimental manufacture of 10 grams, using plaintiff's process prior to March 25, 1965, the date of application for the licence, the facts concerning this were dealt with in the evidence of the witness Diosady, already referred to, the manufacture having taken place in March 1963 when the said defendant was experimenting with this and other similar products. Defendants' counsel cited the old English case of *Frearson v. Loe*[4] to the effect that "When articles which are the subject of a patent are made without a licence from the patentee simply for the purpose of *bona fide* experiments those who so make them are not necessarily liable to an action, but when they are made and used for profit, or with the object of obtaining profit even to a limited extent, such making and using constitute an infringement of the patentee's rights..." He further submitted that defendant Micro Chemicals Ltd had the right before applying for the licence to establish that it could satisfactorily manufacture the product so the Commissioner would not be in a position to refuse the granting of the licence for this reason. He admitted that there is no onus on the applicant to show that he is entitled to the licence but that under section 41 (3) of the Act the Commissioner is required to grant it unless he sees good reason to the contrary. He contended that nevertheless an applicant would be imprudent if he was not prepared at the time of the hearing on the application to show that he was in a position to produce the product. He pointed out that paragraph 9 of defendant Micro Chemicals Ltd's application for licence pointed out that it had already produced trifluoperazine according to the specifications of the patent and by the process described on a trial or pilot scale and that it could produce it with a quality equal to that of the

[4] (1878) 9 Ch. D. 48.

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product produced by the patentee on a sufficiently large commercial scale and at a substantially lower price than that charged by the patentee for stelazine, the trade name of its product, and that this application is supported by the affidavit of the general manager of the company who could not make this statement unless the product had already been produced on a trial scale as had been done. Moreover, even if there was an infringement resulting from such production no harm was done to the plaintiff as the quantity produced did not enter into commerce.

Against these arguments plaintiff's counsel cited section 46 of the *Patent Act* which grants the patentee and his legal representatives "the exclusive right, privilege and liberty of making, constructing, using and vending to others to be used the said invention". He cited the case of *Hoffmann-La Roche Ltd v. Delmar Chemicals Ltd*[5] quoting from the judgment of Thurlow J. at page 615 to the effect that:

> . . . there is no statutory requirement that an applicant prove anything to entitle him *prima facie* to the licence for which he applies In particular there is no statutory requirement that he prove that he is competent to produce the food or medicine or that he is possessed of the equipment, know-how and resources to do so, though the Commissioner may consider it of some importance, depending on the facts of the case, to be informed of the applicant's qualifications and if he thinks necessary to inquire into them.

A similar holding was made in the case of *Hoffmann-La Roche Ltd v. Bell-Craig Pharmaceuticals Division of L. D. Craig Ltd*[6]. He stated that there is no Canadian case on the use of a patented process for purposes of experimentation by parties other than the inventor but cited the case of *Gibney v. Ford Motor Co. of Canada*[7] which deals with the use of an invention by way of experiment and in order to bring it to perfection, which does not apply in the present case, as the process for producing the product had already been perfected and the product was on the market. The British case of *United Telephone Co. v. Sharples*[8], in which a teacher bought from abroad telephones for his

[5] [1965] 1 Ex. C.R. 611.
[6] [1965] 2 Ex. C.R. 266.
[7] [1967] 2 Ex. C R 279
[8] (1885) 2 R.P.C. 28

pupils to take apart and experiment with, claiming he could not afford the royalty-paid instruments, held that this was a "user for advantage". He argued that this is similar to the present case where the experimentation both during the first and second periods enabled defendants to prepare for eventual manufacture and sale of the product when the licence was obtained and hence was a "user for advantage" by defendant Micro Chemicals Ltd. The case of *Proctor v. Bayley and Son*[9], refers to the case of *Frearson v. Loe* (*supra*), as follows:

> .. The authority of *Frearson v. Loe* was referred to—a case reported in 9, Chancery Division—to justify the assertion that that which is really an experimental user is not an infringement of the patent, nor within the mischief contemplated by the Statute of Monopolies, because if a person takes a patented article for the purpose of seeing whether he can improve upon that patented article, not practically using the patented article, but testing and trying from that patented article whether he can invent a better thing for the public, he cannot tell that, without having the thing before him which he can take to pieces and have before him for the purpose It would be a very unwise thing to say that such a user as that would be within the meaning of the patent law, or entitle the patentee to an injunction.

He argued that while section 34 of the *Patent Act* contemplates improvement, it does not contemplate the right to make, use, or sell "the original invention and that the onus would be on the defence to establish that its use was purely experimental with a view to making improvements".

In the light of this jurisprudence and on the evidence before me I cannot conclude that defendants' experimental use of the process during the period prior to its application for a licence on March 25, 1965, was experimental in the sense of being for the purpose of attempting to improve on the invention, but find that it was rather for the purpose of satisfying itself that it could satisfactorily produce the product on a commercial basis by use of the patented process. As the witness Diosady explained, even when following the process set out in the patent, a number of experiments were required in order to get it to work satisfactorily. The experiments made were primarily for the purpose of making trifluoperazine by the patented process.

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[9] (1889) 6 R P C 106 at 109

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The arguments and jurisprudence cited in connection with the first period apply with even greater force to the second period in question from November 1, 1965, to January 22, 1966. During this period defendant Micro Chemicals Ltd recommenced its experiments in the manufacture of trifluoperazine making in all some 26 batches (Exhibit 20) many of which yielded no results or were discarded. Others were unsatisfactory with respect to the quantity of the finished product obtained from a given quantity of starting material. Most of these batches were made using quantities of 25 or 27 grams of the starting material but on January 4, 1966, two batches of 675 grams each were attempted but the resulting product was discarded in both cases. By January 22 the chemists were satisfied with the tests, when they obtained 19.1 grams and 20 grams respectively of the finished product from two 27-gram batches. It was admitted that the purpose of these experiments was to explore the procedure and conditions of manufacture in order to get increased yield and to establish that Micro Chemicals Ltd could produce the product economically. Defendants' counsel argued that such experiments were clearly within the intention of section 41(3) of the Act which states that "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". The trifluoperazine produced by these experiments was put in bottles and kept for the defendant Micro Chemicals Ltd, and never entered into commerce so that no damage was suffered by plaintiff and no profits made by the said defendant as a result of these experiments. As already indicated in dealing with the first period, these experiments, though undoubtedly expedient from the point of view of defendant, constituted a technical infringement of the patent as they were not carried out for the purpose of improving the process, but to enable the defendant Micro Chemicals Ltd to produce it commercially as soon as the licence it had applied for could be

obtained. The fact that such experiments were necessary and useful to defendant Micro Chemicals Ltd is evident from the fact that when Mowatt and Moore Ltd was given a voluntary licence by plaintiff on February 23, 1966, to manufacture and sell pharmaceutical compounds containing the active ingredient trifluoperazine manufactured pursuant to plaintiff's patent, it incurred expenses in excess of $12,000 to prove the biological equivalency of its product to that of the patentee, and in the preparation of medical information, materials and the education of its representatives in informing physicians regarding the use of trifluoperazine (Exhibit 14C1), and, moreover, plaintiff's counsel in a letter to the Commissioner of Patents on May 6, 1966 (Exhibit 11L), referring to his client's submission of March 30, 1966, in which it had been stated that the said licencee, Mowatt and Moore Ltd, was ready and anxious to commence selling immediately after its licencing agreement had been signed (several weeks previously), now stated he has learned from the licencee that quality controls which the agreement forces on it necessitate additional clinical testing now in progress and the use by doctors of the licencee's brand of trifluoperazine in the place and stead of that of the patentee and that it will be another month before the sale of the licenced trifluoperazine can be commenced.

It is therefore clearly advantageous to a would-be licencee to place itself in a position where it can immediately commence commercial sales of the product as soon as the licence is obtained without incurring a delay of several months thereafter while tests and experiments are conducted, but this expediency does not, in my view, justify the manufacture, even on an experimental basis, of a patented product for which a licence has not yet been obtained, nor can this intent be read into the wording of section 41(3) of the Act.

The third period of alleged infringement dates from January 25, 1966, when a batch of 3.2 kilograms was manufactured by defendant, Micro Chemicals Ltd, this being the first manufacture in commercial quantity, to June 21, 1966, when the Commissioner indicated that he was granting the

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licence. During this period for the first time the other two defendants, Gryphon Laboratories Ltd and Paul Maney Laboratories (Canada) Ltd, entered into the picture. Defendant Micro Chemicals Ltd admits that it transferred trifluoperazine to defendant Gryphon Laboratories Ltd during this period and that ownership passed at the time of the transfer though it was only invoiced to that company on June 30, 1966, and July 15, 1966. The total quantities involved amounted to 39.5 kilograms (Paragraphs 61, 62 and 63, Statement of Facts, and Exhibits 21 and 22). Gryphon on its part during this period made tablets from the bulk material. Meanwhile defendant Paul Maney Laboratories (Canada) Ltd had a sales representative in the Province of Manitoba who called on officials of the hospitals for mental diseases at Brandon and at Selkirk to solicit orders for the product. On March 2, 1966, the Province of Manitoba purchasing bureau requested it to submit a quotation for a six-months' supply of trifluoperazine tablets for use in the said hospitals and the said defendant in due course submitted the said quotation which was delivered at Winnipeg on March 9, 1966. This quotation is on a standard form of the purchasing bureau for the Province of Manitoba and the said defendant offered to make delivery on April 1, with the balance on request in connection with some of the items quoted, and in other cases uses the term "deliver on request after April 1" (Paragraphs 65, 66 and 67, Agreement as to Facts, and Exhibit 23). Subsequently between March 14 and June 3, 1966, various sample lots of 5 milligram and 10 milligram tablets were sent to the Selkirk and Brandon hospitals for experimental purposes, free of charge, on request of the Medical Superintendents of those hospitals (Paragraphs 68, 69 and 70, Agreement as to Facts, Exhibits 25, 26, 27 and 28). These tablets had been transferred to defendant Paul Maney Laboratories (Canada) Ltd by defendant Gryphon Laboratories Ltd. The total amount so furnished was less than three-quarters of a kilogram and no actual order was received for the purchase of any of the tablets until June 30. Defendants' counsel quoted T. A. Blanco White *Patents for Inventions,* 3rd Ed. at p.

82, to the effect that "Mere possession, transport or storage is not 'use' for this purpose . . .". The same statement continues however on page 83 to the effect that "Possession for the purpose of use in a business, however, will create a presumption of use (or at least of a threat to use) . . ." and cites among others the case of *British United Shoe Machinery Co. v. Simon Collier Ltd*[10]. The author further states on page 83: "The expression 'vend' includes not only sale, but commercial dealing generally. For instance, although mere purchase and possession is not infringement, acquisition and possession of infringing articles 'with the intention of using them in trade' is 'vending' (and consequently infringement) . . .". Again "Exposure for sale is infringement and so is attempted sale of articles manufactured for the purpose (*British Motor Synd. v. Taylor,* at 17 R.P.C. 729,731 (C.A.)), but a mere offer for sale, unaccompanied by possession, amounts, it would seem, to a mere threat to infringe." Plaintiff's counsel cited the case of *Dunlop Pneumatic Tyre Co. v. British and Colonial Motor Car Co.*[11] where cars were innocently shown at an automobile show having upon them imported tires which infringed the patent. It was not disputed that the motor cars were exposed for sale and would normally be sold with tires, but it was conceded that if a sale was made the tires would have been changed before actual delivery and the tires which the vendors were entitled to use would have been installed. It was only while the machines were on display therefore and presented to the possible customer or spectator that there was any infringement. The court nevertheless held that: ". . . if a person uses an invention to present his goods for sale, and intending the thing exhibited to represent what he is going to sell, and if part of that thing is an article which is an infringement and is serving a useful purpose during that time by being exhibited as part of the machine, I think it is a user of the invention." The case of *British Motor Synd. v. Taylor & Son*[12] held "Whether pos-

[10] (1910) 27 R P C. 567 at 572
[11] (1901) 18 R P C. 313 at 315.
[12] [1901] 1 Ch. D 122 at 133.

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session constitutes a user must depend upon the nature of the article: it may amount to a user, and it may not: here it is said that it did not amount to a user. But there was acquisition and possession of these articles for trade purposes with the intention of using them in trade; and in my judgment such an acquisition and such possession of an article, whatever its nature may be, is a user." Defendants' counsel argued that cases such as these are not applicable to licences under section 41(3) of our *Patent Act* though they might, but for this section which creates a special case, constitute an infringement under section 46 of the Act. I find no jurisprudence to support this contention and I do not believe that the intention of section 41(3) of the Act with respect to the desirability of making the medicine available to the public at the lowest possible price is sufficient to justify what would otherwise be an infringement of the patent made with the view of expediting commercial sale of the medicine by the licencee at the earliest possible moment after the licence is granted. I find therefore that there was an infringement by all three defendants during this period.

Finally we come to the fourth period following June 21, 1966, when the Commissioner purported to grant a licence to defendant Micro Chemicals Ltd to manufacture and sell the product subject to the later fixing of the terms of the licence and of the royalty, which decision by the Commissioner was subsequently found by the court not to constitute the granting of a licence as of that date. While defendant had not formally objected to this procedure when it was suggested to the Commissioner by solicitors for plaintiff in their letter of May 3, 1965 (Exhibit 3), it is clear that it was on the instigation of the plaintiff's counsel that the Commissioner adopted this procedure. Moreover, before the Commissioner reached his decision on the granting of the licence, defendants' counsel wrote him on November 8, 1965, suggesting that it would now be appropriate to deal with the question of royalty (Exhibit 8) and this was objected to by plaintiff's counsel in a letter to the Commissioner dated November 12, 1965 (Exhibit 9).

Defendants' counsel claimed that his clients acted in good faith in the belief that the licence was effective as of

June 21, 1966, and that therefore plaintiff is entitled only to fair and reasonable compensation. He cited the case of *English and American Machinery Co. v. Union Boot and Shoe Machine Co.*[13] to the effect that the amount of damages is to be ascertained by inquiring what amount of profits from licences plaintiffs have been deprived of by the action of the defendant. In that case plaintiffs had granted a number of voluntary licences which could serve as a basis for calculating the royalty they would have received had the infringing use been licensed. He also referred to the case of *Meters Ltd v. Metropolitan Gas Meters*[14], in which Lord Justice Moulton stated:

> There is one case in which I think the manner of assessing damages in the case of sales of infringing articles has almost become a rule of law, and that is where the patentee grants permission to make the infringing article at a fixed price—in other words, where he grants licences at a certain figure. Every one of the infringing articles might then have been rendered a non-infringing article by applying for and getting that permission. The Court then takes the number of infringing articles, and multiplies that by the sum that would have had to be paid in order to make the manufacture of that article lawful, and that is the measure of the damage that has been done by the infringement. The existence of such a rule shows that the Courts consider that every single one of the infringements was a wrong, and that it is fair—where the facts of the case allow the Court to get at the damages in that way—to allow pecuniary damages in respect of every one of them. I am inclined to think that the Court might in some cases, where there did not exist a quoted figure for a licence, estimate the damages in a way closely analogous to this. It is the duty of the defendant to respect the monopoly rights of the plaintiff. The reward to a patentee for his invention is that he shall have the exclusive right to use the invention, and if you want to use it your duty is to obtain his permission. I am inclined to think that it would be right for the Court to consider what would have been the price which —although no price was actually quoted—could have reasonably been charged for that permission, and estimate the damage in that way. Indeed, I think that in many cases that would be the safest and best way to arrive at a sound conclusion as to the proper figure. But I am not going to say a word which will tie down future judges and prevent them from exercising their judgment, as best they can in all the circumstances of the case, so as to arrive at that which the plaintiff has lost by reason of the defendant doing certain acts wrongfully instead of either abstaining from doing them, or getting permission to do them rightfully.

[13] (1896) 13 R P C. 64 at 67

[14] (1911) 28 R.P.C. 157 at 164-65.

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The case of *Watson, Laidlaw & Co. v. Pott, Cassels, and Williamson*[15] approved the judgment of Lord Moulton in the aforementioned *Meters Ltd.* (*supra*) case.

The Canadian case of *Dominion Manufacturers Ltd. v. Electrolier Mfg. Co.*[16] also approved the finding in the *Meters Ltd.* (*supra*) case, and followed it.

Defendants' counsel contended that but for the postponed fixing of the royalty at the request of plaintiff's counsel, the whole matter would have been settled by June 21, 1966, and on the basis of the eventual royalty set by the Commissioner, and that therefore this is the sum which defendant Micro Chemicals Ltd should pay on its sales of the product following June 21, 1966. He said further that plaintiff's estimate that Mowatt and Moore Ltd would sell 10% as much as it did under the voluntary licence issued to Mowatt and Moore Ltd and that the royalties plaintiff would receive on such sales would be based on this estimated volume (since the royalty payable in this voluntary licence fluctuated with the volume and the product mix (Exhibit 14A-1, Addendum 1)) is misleading in that the plaintiff was always subject to a compulsory licence under section 41(3), any number of which could be ordered and this was not subject to its control.

Plaintiff's counsel also cited a number of cases on this point. In the English case of *F. Hoffmann-La Roche & A. G. and J. R. Geigy S.A. v. Inter-Continental Pharmaceutical Ltd.*[17], which dealt with a somewhat similar section respecting compulsory licences in the English Act, defendants applied for a compulsory licence and without awaiting the result made an offer for sale and issued a catalogue of the goods including the drug in question. Plaintiffs then sought an injunction. In the meantime the Comptroller wrote a letter saying that *prima facie* the defendants would be entitled in due course to a compulsory licence. At page 233 Harman L.J. states:

> . . . In my view, on the true construction of the Act, the licence must be valid from the day when it is granted, and not before It would

[15] (1914) 31 R.P C 104 at 120 [16] [1939] Ex C R 204
[17] [1965] R P C 226.

need very strong words, in my judgment, to allow the Comptroller to pour a pot of whitewash over the applicant who has been infringing, say, for two years, and to tell the injured party that nothing can be done over that period, and that subject to payment of a royalty, no remedy is open to him.

At pages 234-35, Diplock L.J. states:

In considering whether an interlocutory injunction should be granted, a point which, in my view, we have to decide (or at any rate to make up our minds upon) is whether or not as contended for by the defendants here, the Comptroller has any power or jurisdiction under section 41 to grant a licence with retrospective effect from a date prior to the date of the grant If, upon the true construction of the section, he had such power, so that the effect of a licence when granted by him could be to change the legal character of what had been an infringement at the time it was done so that it was no longer an infringement, but a lawful act, then I think that the court would be bound to hesitate a long time before granting an interlocutory injunction to restrain something which was a breach of the law at the time that it took place, but ceased retrospectively to have been a breach of the law at some later date.

I am, however, quite satisfied that there is no such power on the part of the Comptroller to grant a licence of that kind

The case of *Geigy S.A.'s Patent*[18] held that if the Comptroller by his decision settled all the terms of the licence, merely leaving the parties to put into exact words what had already been decided, the date of the decision would be the date of the licence, but conversely if he sent the parties away to agree to terms no licence would be granted on such terms as he thought fit until he had seen those terms and approved them. Lord Parker L.C.J., in rendering judgment, stated at page 265:

I would only add that in my judgment, my understanding of the law as it seems to me accords with common-sense, that there can be no licence or indeed contract until the terms have been agreed.

In the light of these decisions and of the Canadian decision in *Hoffmann-La Roche v. Delmar Chemicals Ltd* (*supra*), plaintiff's counsel argued that defendants could not have believed in good faith on June 21, 1966, that the Commissioner's decision granting a licence without fixing the terms thereof or the amount of the royalty was proper, and in any event the notice of application to the Commissioner of Patents to delete all reference to the granting of a licence

[18] [1966] R.P.C. 250.

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from his order of June 21, 1966, and to direct defendants to make no distribution of the drug until such time as the licence with all the terms thereof had been granted, which notice was dated July 4, 1966 (Exhibit 13) was sufficient warning to defendants to destroy their argument that they continued to deal in the product in good faith and in the *bona fide* belief that they could act on the licence. He further cited the case of *Young and Neilson v. Rosenthal & Co.*[19]:

> . . . Intention is not a part of infringement.

In the case of *British Motors Synd. v. Taylor* (*supra*), where the defendants were innocent in the sense that they were ignorant of plaintiff's patent rights when they purchased the infringing articles, it was held nevertheless that their ignorance was no defence. See also the case of *Unwin & Heath*[20], where it is stated:

> ...There may be an indirect infringement, as well as a direct one, though the intention of the party be perfectly innocent, and even though he may not know of the existence of the patent itself.

He argued further that to whitewash the defendant would encourage drug manufacturers to experiment in the manufacture of various patent drugs in order to decide which would be most profitable before even applying for a licence, and that in the present case defendants deliberately disregarded the patentee's rights, weighing the consequences against the profits as a business risk. He pointed out that defendants were already using the trade name triflurin tablets for their trifluoperazine product as of March 31, 1966, as appears from the letter of the Food and Drug Directorate dated April 5, 1966 (Exhibit 11M).

At the opening of the hearing it was agreed between the parties that the question of damages would be settled by a reference after trial and that the court would order accordingly in accordance with the provisions of Rule 154A(2). Rule 154A(1)(c) refers to such a reference under Rule 177 "if it then appears that such issue requires to be de-

[19] (1884) 1 R.P.C. 29 at 39.

[20] (1854-5) 5 H. of L. 505 at 537.

cided". In argument at the conclusion of the trial defendants' learned counsel claimed that no reference was necessary and that the court if it found that an infringement existed, particularly with respect to the fourth period in question, could itself fix the damages by basing them on the amount of the royalty eventually fixed on February 3, 1967, and which would undoubtedly have been fixed in the same amount at June 21, 1966, had the Commissioner established the royalty in his decision of that date. Plaintiff's counsel contended however that it was his clear understanding that there would definitely be a reference with respect to the damages after the trial in the event that plaintiff succeeded in establishing the existence of the alleged infringements, and that for this reason he had produced no evidence whatsoever as to the amount of damages which plaintiff would claim. He pointed out that his client has the option of claiming an accounting for profits and that in order to determine whether it wished to exercise this option it would be necessary for it to examine officers of the defendant corporations further. He pointed out that damages might be assessed against Paul Maney Laboratories (Canada) Ltd, on the basis of its sales price rather than against defendant Micro Chemicals Ltd, there having been infringements by the three defendant corporations at three different levels and that his client is not required to accept minimal damages.

Without going into the question of the amount of damages here I believe that a reference should be made as agreed. It is clear that the damages suffered in the first two periods in question, if any, were merely nominal though plaintiff's rights as patentee are entitled to full protection, and as previously stated, I find that they were infringed during both of these periods. With respect to the third period when all three defendant corporations were active in preparing for the eventual sale of the product as soon as it was licensed, there was also infringement of patentee's rights but again no sales to third parties or profits by defendants on which any calculation of damages could be based, so again the damages would be merely nominal dur-

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ing this period. With respect to the fourth period following June 21, 1966, however, and before the final licence on February 3, 1967, established the royalty payable subsequent to that date, substantial sales were made by defendants and I cannot accept the contention of defendants' counsel that the only amount which could be claimed as damages resulting from these sales was the same royalty which was eventually fixed on February 3, 1967. To do so would be equivalent to saying that although it has been settled that the Commissioner was wrong in making the royalty take effect retroactively to June 21, 1966, the court must nevertheless award damages in exactly the same amount as if this decision of the Commissioner had been correct. I do not so find and I believe therefore that the question of damages during this period remains open, and while one of the options would be to allow damages in the same amount as if the royalty had taken effect June 21, 1966, this need not necessarily be the basis for the damages to be allowed.

I direct that the matter of establishing the amount of the damages resulting from the infringements of plaintiff's patent No. 612204 by defendants be referred to the Registrar for inquiry and to report; the whole with costs against defendants to be taxed.