

BETWEEN:

Ottawa
1967

CURTISS-WRIGHT CORPORATION SUPPLIANT;

Nov. 28-30

AND

Dec. 11

HER MAJESTY THE QUEEN RESPONDENT.

Crown—Patents—Compensation payable for use of patent on Crown's indemnity—Defence Production Act, R.S.C. 1952, c. 62, s. 20—Whether Crown precluded from disputing patent's validity.

Contracts—Licence to use patents—Acknowledgment of patent's validity and undertaking not to contest—Whether binding after termination of agreement—Estoppel in pais and promissory estoppel.

Suppliant applied to the Commissioner of Patents to fix the compensation payable by the Crown under s. 20(3) of the *Defence Production Act*, R.S.C. 1952, c. 62 for the infringement or use of certain patents relating to flight training apparatus by a company which the Crown had in 1958 contracted to relieve from payment of royalties therefor. The Crown denied validity of the patents and the Commissioner suspended proceedings on the claim until the matter was decided by a court. Suppliant filed a petition of right in this court

In 1952 suppliant had licensed the same company to use the patents for five years subject to termination by either party after two years. The licensing agreement provided that on its expiration the parties should be in the same position with respect to the apparatus as before the agreement and in clause 16 thereof the licensee acknowledged the validity of the patents and agreed not to be an adverse party to any suit disputing their validity.

Certain questions of law were set down for hearing before trial.

Held, the licensee was not precluded by clause 16 of the licensing agreement from denying the validity of the patents in infringement proceedings brought by the suppliant after expiration of the agreement. It could not be concluded that the parties to the agreement must have intended as a matter of business practicality that the licensee so bound itself by clause 16 (*The Moorcock*, (1889) 14 P.D. 64; *Campbell v. G. Hopkins & Sons (Clerkenwell) Ltd.* (1931) 49 R.P.C. 38, distinguished). Neither was clause 16 a representation of fact by the licensee which induced the licensor to enter into the agreement so as to raise an estoppel in *pais* against the licensee; nor was it a representation of the licensee's state of mind so as to give rise to the doctrine of promissory estoppel.

Held also, even if the licensee was precluded as aforesaid the Crown was not precluded from disputing the validity of the patents by way of defence to a claim under s. 20(3) of the *Defence Production Act*.

ARGUMENT of questions of law before trial.

I. Goldsmith and *R. S. Caswell* for suppliant.

Keith E. Eaton and *G. A. Macklin* for respondent.

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JACKETT P.:—Certain questions of law that were set down for hearing and disposal before the trial of this Petition of Right have been argued and are ready for disposition.

The Petition of Right is based on a right to compensation that the suppliant asserts by virtue of section 20 of the *Defence Production Act*, R.S.C. 1952, chapter 62, which reads as follows:

20 (1) The Minister may, on behalf of Her Majesty, contract with any person that Her Majesty will relieve that person from any claims, actions or proceedings for the payment of royalties for the use or infringement of any patent or registered industrial design by that person in, or for the furnishing of any engineering or technical assistance or services to that person for, the performance of a defence contract.

(2) A person with whom the Minister has contracted under subsection (1) is not liable to pay royalties under any contract, statute or otherwise by reason of the infringement or use of a patent or registered industrial design in, or in respect of engineering or technical assistance or services furnished for the performance of a defence contract and to which the contract under subsection (1) applies.

(3) A person who, but for subsection (2), would have been entitled to a royalty from another person for the infringement or use of a patent or registered industrial design or in respect of engineering or technical services for which a royalty would be payable but who by reason of subsection (2) is not so entitled, is entitled to reasonable compensation from Her Majesty for the infringement, use or services and if the Minister and that person cannot agree as to the amount of the compensation, it shall be fixed by the Commissioner of Patents and any decision of the Commissioner under this section is subject to appeal to the Exchequer Court of Canada under the provisions of the *Patent Act*.

This section should be read with the following portions of section 2 of the same Act:

2. In this Act,

. . .

(m) "Minister" means the Minister of Defence Production;

. . .

(p) "royalties" includes licence fees and all other payments analogous to royalties, whether or not payable under any contract, that are calculated as a percentage of the cost or sale price of defence supplies or as a fixed amount per article produced or that are based upon the quantity or number of articles produced or sold or upon the volume of business done, and includes claims for damages for the infringement or use of any patent or registered industrial design; and

. . .

According to the allegations in the Petition of Right:

(a) by a letter dated July 8, 1958, the Department of Defence Production agreed, on behalf of the Minister

of Defence Production, to relieve and indemnify Canadian Aviation Electronics Limited (otherwise known as "CAE") from and against claims for payment of certain "royalties";

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- (b) CAE has, since that date, among other things, made use of inventions embodied in patents of which the suppliant is the owner or exclusive licensee without the licence or consent of the suppliant;¹
- (c) the suppliant applied to the Commissioner of Patents for compensation under section 20 of the *Defence Production Act*;
- (d) the respondent denied the validity of the patents and the use of the inventions embodied therein; and
- (e) the Commissioner suspended proceedings on the suppliant's claim until the matter is decided by a court of competent jurisdiction.

In these circumstances, this Petition of Right to determine the suppliant's right to compensation is presumably based on principles established by *The King v. Bradley*.²

The questions of law that have to be disposed of were set down for hearing before trial by an order dated October 6, 1967, which provided that the questions are to be disposed of (a) on the basis that the facts alleged in the Petition of Right and Reply shall be assumed to be correct for the purposes of such hearing only (excluding any pleading as to the effect of certain agreements referred to as the "Licensing Agreement" and the "Know-How Agreement" respectively), and (b) on the basis of the "Licensing Agreement" and the "Know-How Agreement". Accordingly, I will, in these reasons, discuss the facts as though the allegations of fact in the suppliant's pleadings had been established.

While the claim under section 20 of the *Defence Production Act* is based on an agreement entered into between

¹ The other things that CAE is alleged to have done as a consequence of the letter of July 8, 1958, are not material to the questions of law that have to be determined, although claims for compensation under section 20 of the *Defence Production Act* based on them are contained in the Petition of Right.

² [1941] S.C.R. 270.

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the Crown and CAE in 1958, an understanding of the questions of law that have to be disposed of depends on a knowledge of the earlier contractual relations.

It appears that the suppliant was a United States manufacturer of equipment used in the training of flyers variously referred to as "Flight Simulators" or "Flight Training Apparatus" and that, in order that CAE could manufacture such equipment in Canada for defence purposes, CAE and the suppliant on December 3, 1952, entered into the "Licensing Agreement", under which CAE obtained a licence to use certain patented inventions and was to be provided with technical information and assistance, and the Crown and the suppliant on December 31, 1952 entered into the "Know-How Agreement", under which the suppliant agreed with the Crown that it would provide technical assistance to CAE. Each agreement was for a five-year period.³ Under the "Know-How Agreement", the Crown was to pay as consideration to the suppliant two amounts of \$50,000, and, under the licensing Agreement, CAE was to pay to the suppliant "Licensor's cost, plus . . . twenty . . . percent" for the technical assistance and royalties of 7½ per cent. of selling price on the apparatus made under the agreement.

No question arises, at this stage in any event, as to the legal effect of these agreements in respect of things that were done during their respective terms, but there is a sharp difference between the parties as to the legal effect of the "Licensing Agreement" in respect of things done after the expiration of the term of that agreement. The clauses that must receive particular attention in that connection are the following:⁴

X—CANCELLATION OF AGREEMENT

(a) Licensor may cancel and terminate this Agreement if Licensee fails or refuses to comply with any of its obligations or covenants hereunder for any reason and does not remedy and make good such failure within sixty (60) days of the date of the receipt by Licensee from Licensor of written notice of such failure or refusal.

³ One of the agreements was extended in a limited respect but it is agreed that this extension does not affect the matters that I have to decide at this time

⁴ Paragraph XVII provides that the agreement must be interpreted under the law of the State of New York, but it is common ground that this must be assumed to be the same as the law of Ontario.

(b) Licensee may at any time after two (2) years from date hereof, terminate this Agreement by written notice delivered to Licensor at least six (6) months prior to the date such termination is to become effective.

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(c) If in any year after the two (2) year period mentioned above payments by Licensee to Licensor of royalties under this Agreement are less than a total of thirty-thousand (\$30,000) dollars, Licensor may then and in that event by notice in writing to Licensee cancel or terminate this Agreement, such termination to be effective sixty (60) days after the date of delivery of such notice, unless Licensee within said sixty (60) days pays to Licensor an amount equal to the difference between the total of all amounts both accrued and paid during the said year and the said sum of thirty-thousand (\$30,000) dollars.

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(d) Licensee further agrees that it will not, after the expiration or termination or cancellation of this agreement (1) manufacture, sell, lease or otherwise dispose of the flight training apparatus licensed hereunder or any part thereof embodying any one or more features of the design of said flight training apparatus or any manufacturing methods employed by or peculiar to the design or manufacture of the said licensed flight training apparatus or (2) communicate to any other company or corporation or to any other person or persons any information furnished hereunder to Licensee by Licensor.

XI—RIGHTS UPON EXPIRATION, TERMINATION OR CANCELLATION

It is the intent of the parties hereto that, upon the expiration, termination or cancellation of this Agreement (herein sometimes collectively referred to as "Termination"), Licensor and Licensee shall then be, in respect of the manufacture, use and sale of flight training apparatus, in the same position as that which they occupied prior to the effective date of this Agreement, except that:

- (i) Rights of the parties hereto under Article VI shall continue;
- (ii) Licensor shall be paid any amounts accruing to it up to the time of termination;
- (iii) Any claim which either party hereto may have against the other, at the time of termination, for damages arising out of any prior breach of this Agreement or any obligation either party may have arising out of circumstances and acts prior to termination shall survive such termination, and
- (iv) Upon such termination, Licensee agrees forthwith to deliver to Licensor any and all working drawings, blueprints, specifications and/or other papers and data (except data on exclusive Licensee developments) and all copies thereof in its possession or under its control, applicable for use in connection with the manufacture of the licensed flight training apparatus.

. . .

XV—TERM OF AGREEMENT

This Agreement shall continue for a period of five (5) years from the date hereof unless sooner terminated under the provisions of Article X or extended by mutual agreement of the parties.

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XVI—VALIDITY OF PATENTS

Licensee hereby acknowledges the validity of the patents made the subject of this Agreement, and under which Licensee is now or hereafter licensed and agrees not voluntarily to become an adverse party, directly or indirectly, to any suit or action disputing the validity of said patents or any of them.

While the order setting questions of law down for hearing before trial contained three questions that were to be disposed of during the trial, it has been decided, the parties consenting, not to answer the first question.

The two questions that remain to be disposed of have to do with a claim by the suppliant under section 20(3) of the *Defence Production Act* for the use by CAE, after the letter of July 8, 1958, from the Department to CAE, of "inventions" described in "patents" to which the "Licensing Agreement" applies. The suppliant's position is that, by virtue of the "Licensing Agreement", in any infringement action by the suppliant against CAE for a use of any such "invention", after the expiration of the term of the "Licensing Agreement", in respect of which there is no agreement under section 20(1), CAE would be precluded from raising as a defence that the "patent" is invalid, and that it follows that the Crown, in a claim by the suppliant under section 20(3) based on such a use in respect of which there is an agreement under section 20(1), cannot raise the invalidity of the patent as a defence. The relevant part of the Court's order of October 6, 1967, reads as follows:

1. IT IS ORDERED that the following questions of law be set down for hearing and disposal prior to the trial hereof on the basis that the facts alleged in the Petition of Right and Reply shall be assumed to be correct for the purposes of such hearing only (excluding any pleading as to the effect of the Licensing Agreement and the Know-How Agreement) and on the basis of the Licensing Agreement and the Know-How Agreement attached hereto as Appendices "A" and "B" respectively, *viz.*:

. . .

- (2) Whether, on the true construction of the Licensing Agreement, as between the Suppliant and CAE, CAE would be precluded in any proceedings by the Suppliant for patent infringement after the expiration of the Licensing Agreement from denying the validity of any patents to which the Licensing Agreement applies.
- (3) If the answer to the question raised in paragraph 2 hereof is in the affirmative, whether, on the true construction of s. 20 of the *Defence Production Act* the Respondent is precluded from raising an issue as to the validity of any of the patents referred to in paragraph 2 hereof by way of defence to the Suppliant's claim

for compensation under that section for the alleged use by CAE of such patents, regardless of whether such alleged use constitutes a breach of the Licensing Agreement.

I shall deal now with the first of these two questions.

Put very briefly, the Crown's basic position on the first question, which revolves around paragraph XVI of the "Licensing Agreement", is that, whatever may be the correct interpretation of that paragraph, it operates only as a contractual provision the operative effect of which is restricted to the term of the agreement, and it can therefore have no application in relation to proceedings for patent infringement alleged to have taken place after the expiration of the term of the agreement. Reliance is placed by the Crown on paragraph XI which makes it clear that the parties intended that, upon the expiration of the agreement, the licensee should then be, in respect of the manufacture, use and sale of flight training apparatus, in the same position as that which it occupied prior to the agreement, and upon the fact that, while there are exceptions to this general intent, of which some are spelled out in paragraph XI and at least one is spelled out specifically in another paragraph (paragraph X(d)), paragraph XVI is not covered by any such specific exception. The Crown's contention is that it follows from the clear words of paragraph XI that it was intended that the licensee should be in exactly the same position after the termination of the agreement if, in the course of "manufacture, use and sale of flight training apparatus", it infringed the patents referred to in the agreement as it would have been had it done the same thing before the agreement, and that position was that it would have been liable for any infringement of one of those patents if, and only if, the patent was valid.

That analysis of the matter would certainly seem to me to be a correct appraisal of the effect of the agreement in so far as that can be gained from a straightforward reading of the agreement giving full effect to the words chosen in drafting what appears to be an attempt to deal explicitly with various eventualities. In particular, it would explain the language used in that part of paragraph XVI whereby the licensee agrees "not voluntarily to become an adverse party, directly or indirectly to any suit or action disputing the validity of said patents or any of them". This language seems to contemplate, primarily if not exclusively,

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an impeachment action—"any suit or action disputing the validity of said patents"—rather than a suit or action for infringement. The licensee would not, of course, be sued, in respect of anything done during the term of the agreement, for infringement of the patents because it was, during that period, a licensee under the patents,⁵ and so, if the paragraph was intended to operate only during that term, what the licensor sought was protection against the licensee making use of the information obtained under the agreement to be a party, directly or indirectly, to an attack on its patents. If what was contemplated was protection for the suppliant against the licensee pleading invalidity in an infringement proceeding in respect of something done after the termination of its licence, I should have thought that the language would have been directed to such a plea and would have made express reference, as paragraph X(d) does, to the period after the termination of the agreement. It seems difficult to escape the contention of counsel for the Crown that paragraph XVI is merely an undertaking by CAE not to be a plaintiff in an impeachment action; and, while this is not quite so clear, it would seem that the undertaking relates only to the period during which the agreement was in force. The suppliant had, therefore, as it seems to me, to assume a very heavy burden in any attempt to put some other construction on the effect of paragraph XVI than the one put on it by the Crown. Counsel for the suppliant nevertheless assumed such burden and endeavoured to make his position good by a very skilful argument.

In the first place, the suppliant contended that paragraph XVI, properly understood, is an agreement by CAE, *inter alia*, that it will not in any proceeding, before or after the termination of the term of the agreement, challenge the validity of the patents covered by the agreement. This was referred to by counsel, at times, as contractual estoppel.⁶ Whatever it may be correctly called, there is no doubt

⁵ A licensee, during the term of the licence agreement, is estopped from disputing the validity of the patent but that estoppel ends upon the termination of the licence. See *Coyle v. Sproule*, [1942] O. R. 307, per Hogg J. at pages 309-10

⁶ In this connection he referred to *Manitoba Assurance Co. v. Whittle*, (1904) 34 S.C.R. 191, per Sedgewick J at page 207, where, as it seems to me, what was being discussed was an agreement as to an existing state of facts.

that, if a licensee has agreed by a provision in a binding contract that it will not raise a defence of validity to an infringement proceeding, the Court will give effect to such contract and will not permit the defence to be raised. Compare *Campbell v. G. Hopkins & Sons (Clerkenwell) Ltd.*⁷

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In the second place, the suppliant says, in effect, that there is to be found in paragraph XVI as contained in the Licensing Agreement a common law estoppel *in pais* that operates to prevent CAE from raising a defence of invalidity in any action that the suppliant may bring against it for infringement of one of the patents in question.

In the third place, the suppliant says that, if this is not an example of common law estoppel *in pais*, it is a case of "promissory estoppel", the doctrine which is usually associated with the judgment of Denning J. in *Central London Property Trust Ltd. v. High Trees House Ltd.*⁸ Compare *Lyle-Meller v. A. Lewis & Coy. (Westminster) Ltd.*⁹ and "Estoppel by Representation" by Spencer, Bower and Turner, Second Edition, chapter IX, on "Promissory Estoppel".

Put briefly, as I understood counsel for the suppliant, his argument for construing paragraph XVI as a promise by the licensee never to raise an issue as to the validity of the patents covered by the agreement, although it is not so worded, was, in effect, that the parties must, as a matter of business practicality, have intended that result even though they did not say so by the words used in the agreement. In support of this contention, counsel submitted, in effect, that no sensible business man in the suppliant's position would have put himself in the position of fully instructing a licensee in the intricacies of working out his complicated patents (and thus of appreciating, as no other third person could, the ways in which they might most effectively be attacked) under an agreement which the licensee could terminate after a period of two years (and therefore before, in the ordinary course of things, the licensee would have had sufficient production to entitle the patentee to any substantial revenue under the agreement for payment of royalties) without, at the very least.

⁷ (1931) 49 R.P.C. 38

⁸ [1956] 1 All E.R. 256n, [1947] K.B. 130

⁹ [1956] R.P.C. 14.

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protecting himself against the licensee being entitled thereafter to make use of such instruction to use the patented inventions as an infringer relying on a challenge to validity. For that reason, as I understood him, counsel contended that the parties must have intended that the licensee was binding itself not to challenge the validity of any of the patents if it should ever be sued by the suppliant for infringement of one of them.

Attractively as this argument was put, I cannot accept it. The principle involved is put in *The Moorcock*¹⁰ per Bowen L.J., at page 68, as follows:

The implication which the law draws from what must obviously have been the intention of the parties, the law draws with the object of giving efficacy to the transaction and preventing such a failure of consideration as cannot have been within the contemplation of either side; and I believe if one were to take all the cases, and they are many, of implied warranties or covenants in law, it will be found that in all of them the law is raising an implication from the presumed intention of the parties with the object of giving to the transaction such efficacy as both parties must have intended that at all events it should have.

The principle has no application here, in the first place, because it is not necessary to imply the wording contended for in order to achieve the objective of the parties in entering into the agreement, and in the second place, it was not even suggested that both parties must have had in mind that this protective clause would be in the agreement for the protection of the patentee. It is sufficient to contrast the argument put in this case with the decision of Farwell J. in *Campbell v. G. Hopkins & Sons (Clerkenwell) Ltd.*¹¹ where he had occasion to apply the principle laid down by Bowen L.J. in *The Moorcock, supra*. In that case, the whole purpose of the agreement that was under consideration (which was an agreement to resolve disputes between two patentees each of whom was claiming that the other was infringing his patent) would have been defeated, having regard to the way in which the settlement was worked out if an agreement by each not to challenge the validity of the other's patent had not been implied in respect of infringements alleged to have taken place in the period before the settlement agreement was entered into, even though it was not expressly directed to that period.

¹⁰ (1889) 14 P.D. 64.

¹¹ (1931) 49 R.P.C. 38.

In my view, paragraph XVI of the Licensing Agreement does not have the effect contended for by the suppliant.

I can dispose of the alternative arguments based on estoppel more shortly notwithstanding the very illuminating arguments on the principles applicable to that doctrine.

Put shortly, the suppliant's contention is that, by the words in paragraph XVI, "Licensee hereby acknowledges the validity of the patents made the subject of this agreement", CAE made a representation of fact intending that the suppliant act on it, that the suppliant did act on it to its prejudice, and that CAE is therefore estopped from denying the correctness of that fact in any litigation between CAE and the suppliant.¹²

In my view, this contention fails at the threshold because the words in question do not constitute a representation of fact (I am putting aside without expressing any view on it, the question whether, if it were a representation, it would be one of fact or law). These words must be read in their context. They are found in an agreement granting a licence to use patented inventions and the licensee says to the licensor that he "hereby acknowledges the validity of the patents". As of that time, having regard to the whole purport of the agreement, there can be no question of the licensee making any representation to the licensor as to the factual situation bearing on the validity of the patents. Presumably, there was nothing that, at that time, the licensee could tell the licensor concerning his own patented inventions. This was not a representation of fact; this was part of a contractual provision concerning the validity of the grantor's title. In my view, paragraph XVI must be read as a whole and comes to this that the licensee says that he acknowledges the validity of the patents and agrees not to become a party to an action attacking their validity. I do not think that the parties can be presumed to have meant anything more than they said. An *acknowledgment* of a fact is not a *representation* of a fact.

The alternative estoppel submission is, in my view, even weaker. That was that the words "Licensee hereby acknowledges the validity..." was a representation of fact as to the state of the licensee's mind. I do not think this is a

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¹² See authorities cited in "Estoppel by Representation" by Spencer, Bower and Turner, Second Edition, pages 4-5.

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realistic appraisal of these words in this contract. This was not a recital of facts upon the representation of which one party or the other was induced to enter into the contract. Paragraph XVI is an incidental protective clause and serves no other purpose. The so-called acknowledgment, by its terms, applies to patents not yet in existence and concerning which CAE can have had no knowledge when it entered into the agreement.¹³ Notwithstanding its hybrid nature, which I can only attribute to the draughtsman's desire for a little variety of style, paragraph XVI must be interpreted as a whole and is neither more nor less than an agreement by the licensee not to do certain things.

My view that paragraph XVI must be considered as a whole and as being nothing more than an agreement by the licensee that is part of the contract, and is therefore supported by consideration, eliminates any application of the so-called doctrine of promissory estoppel, which is a doctrine that, for limited purposes and for a limited time, gives some effect to a promise that is not supported by consideration. See "Estoppel by Representation" by Spencer, Bower and Turner, Second Edition, chapter XIV, "Promissory Estoppel", at pages 332 *et seq.*

My answer to the first of the two questions (being that raised in the paragraph numbered (2)) is therefore in the negative.

I come to the second question, which I repeat here for convenience:

- (3) If the answer to the question raised in paragraph 2 hereof is in the affirmative, whether, on the true construction of s. 20 of the Defence Production Act the Respondent is precluded from raising an issue as to the validity of any of the patents referred to in paragraph 2 hereof by way of defence to the Suppliant's claim for compensation under that section for the alleged use by CAE of such patents, regardless of whether such alleged use constitutes a breach of the Licensing Agreement.

Assuming that my answer to the first question is correct, the order setting down the questions of law for hearing does not require any answer to this question, and my judg-

¹³ Paragraph II of the Licensing Agreement grants a licence in respect of patents and applications for patents "issued or to be issued". Reading the agreement as a whole, it is impossible to escape the conclusion that CAE was acquiring a licence in respect of patents concerning which it was going to be educated by the suppliant under the terms of the agreement.

ment will therefore be to that effect. Nevertheless, it may be more convenient that I set out what my conclusions would be concerning the answer to this question if I had come to the conclusion that the first question should be answered in the affirmative.

In what follows, therefore, I will be assuming that paragraph XVI of the Licensing Agreement contains an agreement by CAE that it will not challenge the validity of any of the patents in question if it should ever be sued by the suppliant for infringement of it, although I have come to the conclusion that it contains no such agreement.

It is important as a preliminary step to indicate the nature of the problem.

The question has to do with a situation where it is necessary that a person use a patented invention¹⁴ for the performance of a defence contract and has, at some previous time, bound himself by contract with the patentee that he will never challenge the validity of the patent.

Clearly the Minister may, by a contract under section 20(1) of the *Defence Production Act*, relieve such a contractor from any liability for damages for infringing the patent if the patent is valid. The first question that has to be considered is whether the Minister can also relieve him from the judgment that can be obtained against him for using the "invention" even though the patent is invalid because he is contractually bound not to raise the invalidity. If the Minister cannot relieve him from the liability for such a judgment, it would seem clear that there can be no claim for compensation in respect of such liability under section 20(3). If, however, the Minister can and does relieve the contractor from such liability, a further question will arise as to whether the patentee can, even so, have any claim under section 20(3) if his patent is, in reality, invalid.

To put in specific terms related to this case the problem that I have endeavoured to describe in general terms:

1. The suppliant has a patent that may or may not be invalid.

¹⁴ While it may lack precision, the word "invention" is here used, as it frequently is, to include whatever is contained in a claim in a patent whether or not the claim is invalid because it extends to something that does not comply with the requirements of the definition of "invention" so that it is not an invention.

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2. CAE has contracted not to challenge the validity of that patent.
3. The Minister can, under section 20(1), relieve CAE from any liability to the suppliant for infringement of the patent *if it is valid* and if CAE uses the patented invention in carrying out a defence contract; and, if he does so, the suppliant has a claim under section 20(3) for compensation.
4. The first question is whether the Minister can, under section 20(1), relieve CAE from the legal liability to have a judgment go against it for infringement of the patent *if it is invalid* and if CAE uses the patented invention in carrying out a defence contract.
5. The second question is whether, if the Minister can, and does, under section 20(1), relieve CAE from such a liability, *whether or not the patent is valid*, the suppliant has a right to compensation, under section 20(3), in a case where the patent was invalid.
6. If the answer to this second question is in the affirmative, the validity of the patent would be immaterial and, in accordance with the ordinary rules of pleading, the respondent would be precluded from raising the issue of validity of the patents as a defence to the suppliant's claim to compensation in this case so that the second question (the one numbered (3)) would have to be answered in the affirmative.

I apologize for taking so long to set up the question that has to be answered as I understand it, but I find the question difficult to appreciate and to express and, for that reason, I have found it impossible to express it at less length.

Before examining section 20 of the *Defence Production Act* with a view to reaching a conclusion as to the answers to these questions, it may be that some help can be properly obtained from a brief review of earlier provisions that might be regarded as part of the statutory history leading up to these provisions.

In the first place, it is of course clear that, apart from some special statutory provision, the Crown can use a patented invention without infringing the rights of the

patentee (*Feather v. The Queen*¹⁵), but use by a person who is manufacturing to fill the requirements of the Crown would not fall within such exception to a patentee's monopoly (*Dixon v. London Small Arms Co. Ltd.*¹⁶) unless he were manufacturing under a contract that made him, as contractor, an agent of the Crown when carrying out the manufacturing process (*Montreal v. Montreal Locomotive Works Ltd.*¹⁷)

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The main statutory inroad on this legal state of affairs is a statutory provision under which the Crown's right to use a patented invention is recognized but which, at the same time, confers on the patentee a right to compensation in respect of such user. This is done in Canada, quite succinctly, by section 19 of the *Patent Act*, R. S. C. 1952, chapter 203, which reads as follows:

19 The Government of Canada may, at any time, use any patented invention, paying to the patentee such sum as the Commissioner reports to be a reasonable compensation for the use thereof, and any decision of the Commissioner under this section is subject to appeal to the Exchequer Court.

This section was considered by the Supreme Court of Canada in *Bradley v. The Queen, supra*, in 1941, which decision establishes that section 19 of the *Patent Act* confers a legal right to compensation on the patentee whose invention has been used by the Crown, but makes it quite clear that such right is conferred only "if the patentee has a valid patent".¹⁸

In England, prior to the Second World War, there was a somewhat broader statutory provision—section 29 of the *Patents and Designs Acts, 1907 (Imp.)*, which read:

29. A patent shall have to all intents the like effect as against his majesty the king as it has against a subject:

Provided that any government department may, by themselves, their agents, contractors, or others, at any time after the application, use the invention for the services of the crown on such terms as may, either before or after the use thereof, be agreed on, with the approval of the treasury, between the department and the patentee, or, in default of agreement, as may be settled by the treasury after hearing all parties interested.

¹⁵ (1865) 6 B. & S. 257.

¹⁶ (1876) 1 App. Cas. 632.

¹⁷ [1947] 1 D.L.R. 161.

See also *Pfizer Corporation v. Ministry of Health*, [1965] A. C. 512.

¹⁸ See the judgment of the Court, delivered by Duff C.J.C., at page 273.

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Early in the war, by Order in Council P.C. 6982 of December 4, 1940, made under the *War Measures Act*, R. S.C. 1927, chapter 206, it was provided that "if the Minister of Munitions and Supply . . . agrees to indemnify . . . any person . . . against any claims for the infringement of any patent . . . based upon use of the invention covered thereby in the production or sale of munitions of war . . . by such person then no claim . . . for the infringement of any such patent . . . based upon such use shall be made . . . against such person . . . ; but His Majesty shall pay to the owner of any such patent . . . which is valid such compensation as the Commissioner of Patents reports to be reasonable for the use aforesaid of the invention . . . covered by the patent . . .".

An indemnity agreement under P.C. 6982 could have been so worded as to purport to protect a person indemnified against any action for infringement of a patent but, according to the latter part of the clause, the patentee would only have had a right against His Majesty for compensation in respect of use of an invention covered by a "patent . . . which is valid". In effect, this is the same as the situation under section 19 of the *Patent Act* where the use is by the Crown, and goes as far as any patentee could properly expect it to go. In place of an absolute monopoly, which would give him a right to sue the Crown or the Crown's contractor for infringement in case of use without a licence, he has a qualified monopoly plus a right to compensation for use by the Crown or the Crown's contractor, but such right to compensation, just like the right to compensation for infringement, exists only if his patent is valid.

On December 8, 1942, by Order in Council P.C. 11081 made under the *War Measures Act*, P.C. 6982 was amended *inter alia* to extend the scheme outlined above to include words whereby the Minister could by an agreement with a contractor take away a patentee's right to royalties under a licensing agreement between the patentee and the contractor, and substitute therefor a right in the patentee against the Crown for compensation for use of the invention. As amended, the original Order in Council read in part as follows: ". . . if the Minister . . . agrees to indem-

nify . . . any person . . . against any claims . . . for the infringement of any patent . . . based upon the use of the invention . . . covered thereby in the production or sale of munitions of war or supplies . . . or for the non-payment, in accordance with any contractual obligation, of any royalties for or in respect of such use by such person . . . then no claim . . . for the infringement of any such patent . . . based upon such use or the non-payment, in accordance with any contractual obligation of any royalties for or in respect of such use, shall be made . . . against such person . . . ; but His Majesty shall pay to the owner . . . of any such patent . . . which is valid such compensation as the Commissioner of Patents reports to be reasonable for the use aforesaid of the invention . . . covered by the patent . . . ”.

Here we find explicit words under which the Minister can, by indemnity agreement, deprive a patentee of his right under a contract to payment of royalties for use of a patented invention and which substitute therefor a right to compensation for the use of the invention covered by the patent, but confers such right only on the owner “of any such patent . . . which is valid”. This language seems clearly to have been designed, in this wartime situation, to deprive a patentee of any contractual right to royalties in respect of use of an invention covered by an invalid patent without giving him any right to compensation for being deprived of such right. Furthermore, even in the case of a valid patent, P.C. 6982, as amended by P.C. 11081, quite clearly takes away a contractual right to royalties and substitutes a right to “reasonable” compensation “for the use . . . of the invention”, which compensation might be in an amount that is greater or smaller than the value of the contractual royalty.¹⁹

What is dealt with then in section 19 of the *Patent Act* and these two wartime Orders in Council may be classified as follows:

- (a) acts by Her Majesty that would be infringement of a patent if committed by an ordinary person,

¹⁹ By P.C. 449 of January 24, 1944, the scheme of P.C. 6982 was further extended *inter alia* to contracts for engineering and other technical assistance but the general scheme does not otherwise appear to have been changed in any relevant particular.

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- (b) acts by a Crown contractor that would be infringement of a patent if committed by an ordinary person, and
- (c) amounts that would be payable under contract as royalty in respect of use of a patented invention, whether or not the patent is valid, if the person who contracted to pay them was not a Crown contractor.

What I have to deal with must be described, somewhat differently, as acts committed by a Crown contractor that would *not* be infringement of a "patent" if committed by an ordinary person but for which he can be successfully sued as if they were such an infringement by virtue of a contract between him and the patentee. Such a case seems to be covered expressly by P.C. 6982 when attention is directed at words other than those that I have selected above. That Order in Council says that "... if the Minister agrees to indemnify... any person... against any claims, actions or proceedings for the infringement of any patent... based upon the use of the invention covered thereby... then no claim, action or proceeding for the infringement of any such patent... based upon such use shall be made or instituted against such person". Those words would seem to give express protection to a contractor against being sued at all for infringement based upon the use of the "invention" so that the patentee would never be in the position of invoking the agreement by the contractor not to challenge the validity of the patent. The words that follow are, however, equally specific in that they make it clear that the only patent owner who is entitled to compensation thereunder is one who is the owner "of any such patent... which is valid". The wartime Order in Council seems to have enabled the Minister to protect a contractor such as CAE without having conferred any right on the owner of the patent to compensation for the contractual right of which he would have been deprived, if the patent turns out to be invalid.

If the foregoing survey of other provisions does nothing else, it may at least make it more likely that, in studying section 20 of the *Defence Production Act*, the applicability of the words used to the different classes of case will be more apparent than it might otherwise have been.

I now repeat section 20 omitting words that are clearly unnecessary to the determination of the question and substituting "damages" for royalties where that seems to be warranted by section 2(p) of the *Defence Production Act*.²⁰ Furthermore, inasmuch as what we are concerned with is infringement of a patent, and not "use" of the invention covered by the patent as in the case of a royalty agreement, I omit all references to "use".

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20 (1) The Minister may... contract with any person that Her Majesty will relieve that person from any claims, actions or proceedings for the payment of *damages* for the... infringement of any patent... by that person in... the performance of a defence contract.

(2) A person with whom the Minister has contracted under subsection (1), is not liable to pay *damages*... by reason of the infringement... of a patent... in... the performance of a defence contract and to which the contract under subsection (1) applies.

(3) A person who, but for subsection (2) would have been entitled to *damages* from another person for the infringement... of a patent... but who, by reason of subsection (2) is not so entitled, is entitled to reasonable compensation from Her Majesty for the infringement...

One view of the application of section 20 to the problem raised by the second question that I have to decide might be expressed as follows:

- (1) the Minister was authorized by section 20(1) to contract with CAE to relieve CAE from any claims, actions or proceedings for the payment of damages for the infringement of the patents in question in the performance of a defence contract;
- (2) assuming that there was such a contract, by virtue of section 20(2), CAE is not liable to pay damages by reason of the infringement of any such patents in the performance of the defence contract; and
- (3) as CAE is, by virtue of its agreement with the suppliant, bound not to challenge the validity of the patents in question, the suppliant is a person who, but for section 20(2), would have been entitled to damages from CAE for the infringement of the patents in ques-

²⁰ It will be remembered that section 2(p) provides that, as used in the *Defence Production Act*, the word "royalties" includes, *inter alia*, "claims for damages for the infringement or use of any patent". Section 20 does not distinguish, as the orders in council referred to do, between "infringement" of the "patent" and "use" of the "invention". It would seem that "use" of a "patent" in that section must be taken to mean use of the patented invention.

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tion even though they were invalid, but who, by reason of section 20(2), is not so entitled, and is, therefore, by virtue of section 20(3), entitled to reasonable compensation from Her Majesty for the infringement.

In support of this view of the effect of section 20 in relation to our hypothetical facts, it could be recalled that, in this context "patent" has the meaning in which the word is used in the *Patent Act*, R. S. C. 1952, chapter 203, namely, "letters patent for an invention", that a patent is *prima facie* valid (section 49 of the *Patent Act*) and that, as long as a patent remains unimpeached (section 62), an action may be brought for its infringement (section 56), to which action a plea of invalidity of the patent is a defence. It could therefore be reasoned that, when sections 20(1) and (2) contemplate a contractor being relieved from claims or proceedings for damages for infringement of a patent, it applies just as much to claims based on a patent that ultimately turns out to be invalid as it does to claims based on a patent that ultimately turns out to be valid. Indeed, it might well be thought that, from a practical point of view, that must be what was intended, because the contractor is to tender on the basis that he will pay no royalties for the process or product described in the patent and that he will be faced with no legal proceedings for alleged infringement of the patent. On this view of the matter, therefore, the contractor is given a simple defence to any action based upon alleged infringement of a patent covered by such an agreement, *viz.*—the statute (section 20(2)) says that he is not liable to pay damages for infringement of that patent. On that view, validity would be irrelevant to his defence. Finally, in support of this view, it would have an element of equity in that, while the patentee would be deprived of a right to obtain judgment for "infringement" of its invalid patent by virtue of its contract with CAE as though the patent were valid (a right for which presumably it gave adequate consideration), it would have a right to obtain compensation from Her Majesty for the infringement.

While the above represents the conclusion that I reached on my first consideration of the second question, after further consideration I have concluded that the correct view is that section 20 confers no rights on an owner of an invalid patent.

In the first place, properly considered, section 20(1) does not, in my view, contemplate the Minister contracting with any person to relieve him from claims, actions or proceedings in respect of the infringement of an *invalid* patent. The law does not confer any right on the owner of an *invalid* patent to claim, sue or proceed in respect of the "infringement" of his patent. If it appeared from a statement of claim in an infringement action that the patent sued on was invalid, the statement of claim would be struck out on a summary application because it would disclose no cause of action. What, therefore, section 20(1) authorizes the Minister to contract about is the relief of a person from claims, actions or proceedings in respect of the infringement of a *valid* patent; and what section 20(2) says is that a person with whom the Minister has so contracted "is not liable" to pay damages by reason of the "infringement" of a patent to which the contract under section 20(1) applies. As there are no rights under an *invalid* patent, there can be no "infringement" of an *invalid* patent and section 20(2) only operates to make the person with whom the Minister has contracted "not liable" in respect of what would otherwise be an "infringement" of a *valid* patent.²¹ The owner of an invalid patent cannot therefore be "a person who, but for subsection (2), would have been entitled to a royalty (damages) from another person for the infringement . . . of a patent" and cannot, therefore, be a person entitled to compensation by virtue

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²¹ It is true that the indirect effect of such relief, as embodied in section 20(2), is to deprive a patentee such as the supplant (who has a contract with an "infringer" that prevents the infringer from challenging the validity of his invalid patents) of the possibility of getting a judgment for infringement of the invalid patents as though they were valid, because, when section 20(1) takes away a patentee's right to proceed for infringement of his valid patents, it makes it impossible for him to get past the commencement point with an action for infringement of his invalid patents so that the time never arrives when he can avail himself of his contractual right that the defendant not challenge the validity of his patents. That contractual right has not been taken away by action under section 20. What is done under section 20 merely makes it impossible for the patentee to use his very limited contractual right—a covenant against a challenge to validity—to obtain indirectly something for which he did not contract—payment for use of the "invention" described in an invalid patent. I am not to be taken as expressing any opinion as to whether section 20 would have applied to a contract for payment for use of the invention described in an invalid patent if there were one. What I do say is that section 20 can not have effect as though there were such a contract when, in fact, no such contract existed.

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of section 20(3). Validity of the patents that are the subject matter of a claim under section 20(3) is therefore an essential element in the claim. It follows that the second question would, if it were to be answered, have to be answered in the negative.

The second reason for coming to the same conclusion is almost a corollary of the first. It has to do with the proper effect of section 20(3). What section 20(3) confers on the person who, by reason of section 20(2), is not entitled to something to which he would otherwise have been entitled is "reasonable compensation . . . for the infringement". The "infringement" in respect of which he is so entitled to compensation is, according to the words used in section 20(3), "infringement" of a "patent" for which he would have been entitled to damages from another person if it were not for section 20(2). But a person cannot be entitled to damages for infringement of an invalid patent because if the patent is invalid, it confers no right and, if there is no right, there can be no infringement. In my view, therefore, section 20(3) only confers a right to compensation for infringement upon the owner of a patent that is valid. That is a second reason why, even if there were an agreement by CAE not to challenge the validity of the suppliant's patents, it is open to the respondent to do so by way of a defence to the suppliant's claim for compensation under section 20(3) for the alleged use by CAE of such patents.

However, for the reason already given, no answer will be given to the second question.

There will be judgment, therefore, answering the question contained in paragraph 1(2) of the order of October 6, 1967 in the negative, and giving no answer to the question contained in paragraph 1(3) thereof. The judgment will further provide that the costs of setting down the questions of law, of the hearing and of the disposition of them are to be dealt with by the trial judge.