

THE LAW RELATING TO THE ABUSE OF PATENT RIGHTS BY COMBINES, TRUSTS OR CARTELS*

I propose to deal with the subject from the viewpoint of whether our laws are adequate to prevent the use of patents as a basis for operations of trusts, combines, or cartels to the prejudice of the public.

The pertinent statutory provisions requiring consideration are as follows: The Patent Act 1935, secs. 2 (j), 64, 65, and 66; The Combines Investigation Act R.S.C., 1927, cap. 26, sec. 2 (as amended by cap. 54, sec. 2, (1935), and (1937) cap. 23); and the Criminal Code, R.S.C., 1927, c. 36, sec. 498.

The simplest way of considering the matter is to set forth various ways in which a combine may operate and then turn to the statutory provisions to see whether there is a remedy. I have compiled a number of examples of ways in which combines may use patents to the prejudice of the public.

1. Patents relating to certain improvements in an art (e.g., television) may be pooled by several manufacturers and withheld from use so as not to interfere with the sale of other articles (e.g. motion picture apparatus and radios).

Section 65 (2) (i) of the Patent Act says that failure to work a patented invention (being one capable of being worked within Canada) in Canada on a commercial scale is an abuse of the exclusive rights under the patent if no satisfactory reason can be given for such non-working. If an application for a licence were made by a company having the facilities to manufacture the patented invention in Canada to supply the market at a reasonable price, there would be no doubt that the Commissioner of Patents would find that there had been an abuse of the patent rights and that he would grant a licence to the applicant as provided by sec. 66 of the Act.

It is possible that the parties to such an arrangement (or at least those doing business in Canada) might also be liable to prosecution under section 498 of the Criminal Code or the Combines Investigation Act, both of which provide for heavy fines and imprisonment. It is more convenient to reserve consideration of these statutory provisions to a later part of this paper, since it is difficult to apply specific clauses of these Acts to the specific cases I propose to discuss.

* The present article is the substance of an address delivered at the annual meeting of the Patent Institute of Canada.

2. An international cartel owning Canadian patents may group the Canadian patents with the United States patents and provide that the Canadian market be supplied from the United States.

Sec. 65(2)(b) of the Patent Act provides that if the working of the invention in Canada is being hindered by the importation of the invention, even if the importation is by an infringer of the patent, an abuse of the patent may exist. Clearly in the above case a licence would be granted to any one who could satisfy the Commissioner that he could manufacture the invention adequately in Canada if relieved from the competition of the imported articles. Sec. 61(a) gives the Commissioner of Patents power to include a term in the licence precluding importation.

How this works out in actual practice can be seen by a reference to proceedings taken under the corresponding section of the British Act as reported in the recent British case of *Re McKechnie Bros. Ltd.*, 51 R.P.C. 441 and 461. According to the Comptroller General, "During the times which are material for the present purposes, there was in existence a cartel agreement to which Orr Zinc White Ltd., the Patentees, (I.G. Farbenindustrie), and other continental interests were parties, which regulated as between the parties to it the manufacture and sale of lithopone in this country." According to this agreement lithopone made in accordance with the patent was to be supplied to the British market from Germany. The Comptroller granted a non-exclusive licence to McKechnie Bros. on payment of 2% royalty. After the petition was filed but before the hearing I.G. granted a licence to Orrs in order to forestall the granting of a compulsory licence to McKechnie, but it was held that this action was ineffective to cure the abuse which had been proven.

3. A group of companies might by a system of cross licensing or merely by the acceptance of a licence from one of their number, agree to maintain a patented article (let us say electronic tubes just to make the discussion topical) at an unreasonably high price.

Section 65(2)(c) provides that there is an abuse of the patent rights if the demand for the patented article is not being met to an adequate extent and on reasonable terms. The remedy of a licence to another manufacturer would appear to protect the public. If the Commissioner is satisfied that the granting of a licence will not make an adequate supply of tubes available to the public at a reasonable price, he may revoke the patents. If that is not a sufficient remedy, the matter is outside the realm

of the patent law and if there is a combine, it must be dealt with under the provisions of the Combines Investigation Act or the Criminal Code to which I will refer later.

4. A number of companies may pool their patents and grant cross licences to each other, refusing, however, to grant licences to others who are not members of the pool or requiring such a high royalty or imposing such harsh terms that others are precluded from obtaining a licence or operating profitably under a licence when obtained.

Section 65(2)(d) provides that there is an abuse of the patent rights if the trade or industry of Canada, or of any person or class of persons trading in Canada, or the establishment of any new trade or industry in Canada, is prejudiced by reason of the refusal of the patentee to grant a licence or licences upon reasonable terms, *and* it is in the public interest that a licence or licences should be granted. The corresponding British section has been considered in *re Brownie Wireless Co. Ltd.* (1929), 46 R.P.C.457 and also in the *McKechnie* case, *supra*. Notice that by this section an individual or a single company or a group of individuals or companies in any trade or industry may claim to be prejudiced. I suppose that in the hypothetical case mentioned above any one who loses business because his product is inferior to the patented product or who is prevented from expanding his business because of the existence of the patents would be prejudiced by the refusal of the patentee to grant a licence on reasonable terms. Thus the question of whether it is in the public interest that a licence be granted is the important part of this section. In the *Brownie Wireless* case Mr. Justice Luxmoore in considering whether it is in the public interest that a licence should be granted said "the term 'public interest' is to be considered as meaning the interest of the community including every class which goes to constitute that body, namely, the purchasing public, the traders and manufacturers, the patentee and his licensees, and inventors generally." He then went on to say: "If the patent is in fact being worked in such a way that the public demand is being supplied to an adequate extent and on reasonable terms, no one can complain, and public interest does not in such circumstances require that a particular manufacturer who desires to manufacture and sell the patented article should be granted a licence so to do. Indeed, the public interest may itself require that the number of licences shall be limited, because it may well be that the public interest is best served by ensuring a steady supply of the patented article by preventing the flooding of the market, and a drastic reduction of price by wholesale competition."

Commenting on the above statement of Mr. Justice Luxmoore the Comptroller-General, in the *McKechnie* case said: "It is clear, however, I think, that the learned Judge was here referring to the particular facts of the case with which he was concerned, and that his remarks do not mean that in no case can the grant of a licence be held to be in the public interest within the meaning of Paragraph (d) unless the applicant shows that the public demand is not being supplied to an adequate extent and on reasonable terms—a construction which would render Paragraph (d) redundant in view of Paragraph (c). In the present case, as I have pointed out, at the date of the Application there was no manufacture under this Patent in this country at all, while substantial quantities of the patented material were being imported. In all the circumstances, considering the position, as I think it must here also be considered, at the date of the Application, it seems to me that it is in the public interest that a licence should be granted. Manufacture by the Applicants will give the purchasing public and traders an additional source of supply of light-resisting lithopone, will make it easier for purchasers who desire the home-made product to obtain it, will utilize material in this country at present allowed to run to waste, and should, as far as one can see, increase manufacture in this country with a corresponding increase in employment here."

Reference can also be made to the case of *Re Fabricmeter Co.*, 53 R.P.C. 307.

These decisions give some indication as to the circumstances under which a licence will be granted. It will be seen, therefore, that in the hypothetical case I have been considering, whether any relief would be granted against the association which controlled the patents would depend on whether it would be in the public interest to do so. It is nevertheless obvious that the public interest is safeguarded, assuming, of course, the Commissioner of Patents and the courts, to which an appeal may be taken, take a reasonable and proper view of what the public interest is.

The above examples represent the more common ways in which combines, trusts, or cartels may deal with patents to the detriment of the public. However, the framers of sec. 65 of the Patent Act, or rather sec. 27 of the British Act from which our section was taken, foresaw that other nefarious schemes were possible and were astute to guard against the evil that they might cause. I will merely read clauses (e) and (f) of section 65 (2) and leave you to imagine cases which would be covered by them. The exclusive rights under a patent shall be deemed to have been abused:

(e) If any trade or industry in Canada, or any person or class of persons engaged therein, is unfairly prejudiced by the conditions attached by the patentee, whether before or after the passing of this Act, to the purchase, hire, license, or use of the patented article, or to the using or working of the patented process;

(f) If it is shown that the existence of the patent, being a patent for an invention relating to a process involving the use of materials not protected by the patent or for an invention relating to a substance produced by such a process, has been utilized by the patentee so as unfairly to prejudice in Canada the manufacture, use or sale of any such materials.

There are special provisions regarding granting exclusive licences in some cases which I need not go into. All circumstances seem to have been provided for except, perhaps, the case where there is an abuse of the patent but the invention cannot be manufactured in Canada. In such a case the Commissioner might have power to grant a licence to import although the Act suggests that the licences contemplated are licences to manufacture. For example, section 66 (a)(ii) says that the Commissioner shall endeavour to secure to the patentee the maximum advantage consistent with the invention being worked by the licensee at a reasonable profit *in Canada*. If the Commissioner has no power to licence to import, he might exercise his power to cancel the patent. In either case the remedy would be insufficient if the patentee had patents in the country from which the patented articles were imported into Canada, by virtue of which the manufacture of the invention could be controlled. Again this is something which is beyond the reach of the patent laws and even beyond the reach of any laws of Canada. A remedy would be possible only by international agreement.

In conclusion, with the exception of the last mentioned case, every case of which I have been able to conceive in which a combine, trust or cartel operates under its patents to the detriment of the public interest a remedy is provided by the terms of the Patent Act. In addition to the Patent Act there is the Combine Investigation Act, and the Criminal Code.

The Combines Investigation Act, sec. 32, declares that it is an indictable offence to be a party to or privy to or knowingly assist in the formation or operation of a combine. Section 2 (1) of the Act says that a combine means a combination for preventing, limiting or lessening manufacture or production or fixing a common price or retail price or a common rental or a common cost of storage or transportation, or enhancing the price or

preventing or lessening competition, and the latter part of clause (f) further specifies that a combine includes a combination, merger, trust or monopoly which has operated or is likely to operate to the detriment or against the interest of the public, whether consumers, producers or others.

Sub-section 4(b) defines merger, trust or monopoly as meaning one or more persons who have acquired control over or interest in the whole or part of the business of another or who either substantially or completely control throughout any area or district in Canada or the whole of Canada the class or species of business in which they are engaged. A proviso to this subsection specifies that *the subsection* shall not be construed or applied so as to limit or impair any right or interest derived under the Patent Act, 1935, or under any other statute of Canada. This would appear to merely relieve a patentee from liability on the ground that by virtue of his patent rights he controls the class or species of business in which he is engaged, but does not relieve the patentee or his licensee from liability if he is a party to a combination for price fixing or preventing or lessening competition or generally operating against the interests of the public under subsection (1). In other words, the Combines Investigation Act does not interfere with the proper use of a patent to control the sale of the patented product even though the patent might, in effect, give the patentee control of a class or species of business, but he cannot use this patent as the basis for a combination with others to restrain trade.

The provisions of sec. 498 of the Criminal Code are similar to those of sec. 2 of the Combines Investigation Act. They provide a fine and imprisonment for conspiring, combining, agreeing, or arranging with another person to restrain trade, unreasonably enhance the price of articles or commodities, etc.

The provisions of the Combine Investigation Act and Criminal Code if applicable to patents appear to cover much the same ground as the provisions of the Patent Act. If an invention is not being manufactured in Canada on a commercial scale or if the demand is not being met to an adequate extent, it may be said that the manufacture or production of the article is being unduly prevented or limited. If the demand for a patented article is not being met on reasonable terms, it may be said that the price of the article is unreasonably enhanced.

Therefore the chief differences between the various provisions are the differences in the remedies. The Patent Act provides that the remedy shall be the granting of a licence or revocation of the patent if the granting of a licence will not

remedy the abuse. On the other hand, a breach of sec. 2 of the Combines Act or sec. 498 of the Criminal Code involves a large fine and imprisonment. The Attorney-General or any person interested may take proceedings under the Patent Act but proceedings under the other statutory provisions can only be taken by the Attorney-General of the Province in which the offence occurs after investigation and on recommendation of the Commissioner of the Combines Investigation Act. Sec. 2 of the Combines Act and sec. 498 of the Criminal Code apply only to the case of a conspiracy or combine, and the working provisions of the Patent Act apply to the action of any patent owner whether or not he combines or conspires with another or others.

It is well established that failure to comply with the working requirements of the Patent Act is not a defence in an action for infringement of a patent. The Act provides special procedure and a special remedy for failure to comply with the working provisions.

It is also established that neither sec. 498 of the Criminal Code nor the Combines Investigation Act can be pleaded as a defence in an action for infringement. The leading base is the decision of the Supreme Court of Canada in *Philco vs. Thermionics*, 3 C.P.R. 17. At page 30 the Chief Justice said: "The illegal combination, assuming it to have been such, to which these companies were parties, did not effect a forfeiture of the statutory rights under the patent. Assuming the transactions between these companies and Thermionics Ltd. were illegal and void, the patents were still vested in them and they are, I think, entitled to enforce those rights. By ss. 54 to 57 of the Patent Act, 1935 (Can.), c. 32, the patentee, as well as those claiming under him, is entitled to recover damages sustained by reason of the infringement as well as, in a proper case, to an injunction."

Mr. Justice Maclean's remarks at the trial of the same case are of interest (1 C.P.R. 137 at 174): "I do not think that it was intended that the provisions of the Combines Investigation Act and the Criminal Code should operate as an answer in actions for the infringement of a patent where another statute of Canada purported to make ample provisions for relief, on behalf of interested parties and of the public, in the case where there had been an abuse of the exclusive rights granted under a patent. I do not mean to say that there cannot be such a thing as unlawful combine in restraint of trade, within the meaning of the statutes mentioned, by and between patent owners, or that parties thereto may not be subject to the penalties and consequences provided by such

statutes, but that must be established in the proper way and by the prescribed procedure."

See also *Underwriters Survey Bureau v. Massie and Renwick*, [1937] Ex. C.R. 15 and 103.

The decisions in the United States are quite to the contrary. Relief against infringers has been refused to patentees when in the opinion of the courts the patentee by licensing or other agreements has contravened the Sherman Anti-Trust Act. However, in the United States there are no provisions in the patent statute providing relief against abuses of the patent rights.

In conclusion, the so-called working requirements of the Patent Act seem, on the whole, to provide adequate protection for the public against abuses of patent rights by cartels, trusts or combines.

In saying this I am not overlooking the fact that the "working" provisions have been criticized as cumbersome and expensive, or that there is a body of opinion that favours licences of right. Where the patent is used as a tool for the setting up of a combination in restraint of trade, the Combines Investigation Act or sec. 498 of the Criminal Code supplement the provisions of the Patent Act.

GARETH E. MAYBEE.

Toronto.