

## CASE AND COMMENT

DAMAGES—INCOME TAX—DEDUCTIBILITY OF INCOME TAXES IN MEASURING COMPENSATION FOR PERSONAL INJURIES—TAXABILITY OF DAMAGES.—“It is a strange turn of fortune’s wheel that the intricacies and accidents of fiscal legislation should have its repercussions in the assessment of damages in the civil courts.”<sup>1</sup> The House of Lords has now decided that the turn has come. Its judgment in *British Transport Commission v. Gourley*<sup>2</sup> firmly establishes the principle, at least in the United Kingdom, that in the computation of damages for loss of earnings or other income deduction must be made of the personal income taxes which would otherwise be payable by the plaintiff in obtaining the income replaced by the damages. In personal injury cases, loss of earnings must be calculated not on the basis of gross earnings but only of net earnings *after taxes*.

Gourley, an eminent civil engineer, suffered severe injuries while travelling in a railway train operated by the British Transport Commission. Liability being established, only the quantum of damages remained to be ascertained and ultimately to be reviewed in a judgment of far reaching consequences. Apart from provision for pain and suffering and out-of-pocket expenses, £37,720 was awarded for loss of earnings, of which £15,220 was granted for actual loss of earnings before the trial and £22,500 for estimated future loss of earnings. Although the plaintiff, who was sixty-five years of age at the time of the accident, was eventually able to resume some professional duties, his earnings, actual and prospective, were substantially reduced. The judgment for £37,720 on account of earnings made no allowance for any income tax or surtax which would have been payable by the plaintiff had he

<sup>1</sup> *British Transport Commission v. Gourley*, [1956] A.C. 185, *per* Lord Keith, dissenting, at p. 217.

<sup>2</sup> [1956] A.C. 185; [1956] 2 W.L.R. 41; [1955] 3 All E.R. 796. Among the already published discussions of the case, see Notes (1956), 72 L.Q. Rev. 153 and 317; Stevenson and Orr (1956), 1 British Tax Review 5; Baxter (1956), 19 Mod. L. Rev. 365; Note (1956), 73 So. Afr. L.J. 203; Recent Cases (1956), 69 Harv. L. Rev. 1495; Note (1956), 9 Vand. L. Rev. 543.

received it in the ordinary course of his professional activities rather than by way of damages. At the request of counsel for the commission, the trial judge made an alternative finding of £6,695, however, as the amount that would have been awarded if taxes had been taken into account.

The substantial difference between the two possible awards is attributable to the impact of income tax generally and the plaintiff's large investment income, which subjected him to a particularly high rate of taxation. It also evidences some of the ramifications of tax deductibility and the material consequences that may result from its consideration. Reversing the trial judge and the Court of Appeal, the House of Lords established the liability at £6,695, giving full effect to the contention that the effective tax that would have been applicable to gross earnings should be deducted.

The difference between £37,720 and £6,695 is sufficient to ensure that the issue before the House of Lords in the *Gourley* case will not be overlooked in the future. It begins to appear as if the civil courts may be converted into forums for the determination and assessment of tax liability as an incident of hearings in personal injury and various other cases. Some of the consequences are foreshadowed in the unchallengeable, if somewhat disturbing, observation of Earl Jowitt: "I cannot think that the risk of confusion arising if the tax position be taken into consideration should make us hesitate to apply the rule of law if we can ascertain what that rule is".<sup>3</sup>

It is a "strange fact", as his lordship observed,<sup>4</sup> that the question of the effect of taxes on the assessment of damages does not appear anywhere to have been raised in the United Kingdom or elsewhere until 1933, when it was invoked in *Fairholme v. Firth & Brown, Ltd.*<sup>5</sup> A dismissed employee was seeking damages for breach of his contract of employment. Counsel agreed that the damage award would be non-taxable but were not agreed that it was irrelevant to consider the tax factor. du Parcq J. expressed himself as being reluctant to give a decision which would "alter an inveterate practice unless he was convinced that the practice was inconsistent with principle, and unjust". The employee's liability to the Crown was *res inter alios acta* and therefore not the concern of the court in computing damages.

An apparently contrary conclusion was reached in the Scottish

<sup>3</sup> [1956] A.C. at pp. 202-203.

<sup>5</sup> 49 T.L.R. 470.

<sup>4</sup> *Ibid.*, at p. 198.

case of *M'Daid v. Clyde Navigation Trustees*,<sup>6</sup> involving a workman injured in unloading a vessel. Under the "Pay As You Earn" scheme, withholding taxes had been deducted from his weekly wages. Lord Sorn considered it unrealistic to disregard the tax position and accordingly assessed damages on the basis of net earnings after taxes. A tenuous effort has since been made to distinguish the *M'Daid* case on the ground that an employee subject to a withholding tax never at any time receives or has the right to use that portion of his wage which is withheld at the source, whereas other taxpayers receive, use, enjoy and benefit from the income available to them, subject only to an offsetting liability to the Crown. The attempted distinction is not a convincing one. It is scarcely possible to argue that only when there is no withholding tax is the "disposition" of earnings attributable to taxes either remote or *res inter alios acta*. Taxability of earnings, even when there is no withholding at the source, is not to be assimilated, for example, to such irrelevant questions as the sobriety and personal habits of a plaintiff and whether any of the damages awarded would remain to him after celebrating his forensic victory in the local saloons. Payment of taxes, whether withheld at the source or not, constitutes a liability that is neither remote nor a "disposition" over which the debtor has any voluntary control.

The *M'Daid* judgment was not followed, or even referred to, in an English case decided during the same year, *Jordan v. The Limmer and Trinidad Lake Asphalt Co. Ltd.*,<sup>7</sup> which adopted the conclusions of *Fairholme v. Firth & Brown, Ltd.* A subsequent Scottish case of *Blackwood v. Andre*<sup>8</sup> expressly challenged the *M'Daid* conclusions.

Deductibility of the equivalent tax in determining compensatory awards was considered by the Court of Appeal for the first and only time before the case presently being reviewed in *Billingham v. Hughes*,<sup>9</sup> where it was decided that all tax considerations should be eschewed.

In the few Canadian cases where the issue has arisen, confined it would appear to the province of Ontario, the pre-*Gourley* decisions of the English courts have been followed. *Fine v. Toronto Transportation Commission et al.* declares: "Whether or not these earnings would or would not be subject to income tax is entirely outside the scope of the Court's consideration",<sup>10</sup> and cites with

<sup>6</sup> 1946 S.C. 462; 1946 S.L.T. 127.

<sup>7</sup> [1946] K.B. 356; [1946] 1 All E.R. 527.

<sup>9</sup> [1949] 1 K.B. 643; [1949] 1 All E.R. 684.

<sup>10</sup> [1945] O.W.N. 901, at p. 902 (Barlow J.).

<sup>8</sup> 1947 S.C. 333.

approval *Fairholme v. Firth & Brown, Ltd.* To the same effect is *Bowers v. J. Hollinger & Co. Limited*.<sup>11</sup> Similarly, *Anderson v. International Waxes Limited*.<sup>12</sup> applies the Court of Appeal's judgment in *Billingham v. Hughes*. The first two of these Canadian cases dealt with personal injuries and the last with damages for breach of contract. Now that the judicial props for the Canadian judgments have been removed by the House of Lord's decision in the *Gourley* case, the position in Canada demands fresh appraisal.<sup>13</sup>

Damages are measured on such a basis as will place the injured party, as near as may be, in the position in which he would have been, financially speaking, if he had not sustained the injuries. *Restitutio in integrum* may not be attainable in the physical sense, but it does offer a guide for pecuniary purposes. Under the principles governing determination of damages—whether under the common law or the civil law—it is not easy to dispute the *Gourley* decision, although many equitable and practical considerations make the conclusions unpalatable. In the lone dissenting judgment, Lord Keith referred to "serious difficulties and complications" and the fact that the incidence of taxation would be used to minimize awards of damages against wrongdoers. The theoretical foundation of damages is based on indemnification rather than penalty.<sup>14</sup> It is an almost commonplace paradox of the civil courts that a "wrongdoer" whose automobile strikes a frail, impecunious, elderly lady will be condemned to pay much less in damages than one whose vehicle strikes a high salaried executive.

To the rest of the court, it appeared unanswerable that taxes are neither remote nor tangential, but certain and fully relevant in the determination of damages. As expressed by Earl Jowitt:

My Lords, I agree with Lord Sorn in thinking that to ignore the tax element at the present day would be to act in a manner which is

<sup>11</sup> [1946] O.R. 526; [1946] 4 D.L.R. 186 (Urquhart J.). *Fairholme's* case has also been followed in South Australia in *Davies v. Adelaide Chemical and Fertilizer Co. Ltd.*, [1947] S.A.S.R. 67.

<sup>12</sup> [1951] O.W.N. 113 (Ferguson J.).

<sup>13</sup> The United States courts, it may be observed, have refused to allow any diminution of damages on account of income-tax considerations: *Southern Pacific Co. v. Guthrie* (1951), 186 F. 2d. 926 (9th Cir.), Cert. denied (1951), 341 U.S. 904; *Pfister v. City of Cleveland* (1953), 113 N.E. 2d. 366.

<sup>14</sup> However, Mayne's comments on *Phillips v. London & South Western Railway Co.* (1879), 4 Q.B.D. 406, affirmed by (1879), 5 Q.B.D. 78, support Lord Keith's viewpoint: "It is difficult, however, to answer Field, J.'s, objection, that if the plaintiff's wealth were to be taken into consideration for this purpose, it would be making him pay out of his own pocket for the consequence of the defendant's wrongdoing" (Mayne, *Treatise on Damages* (11th ed.) p. 487).

out of touch with reality. Nor can I regard the tax element as so remote that it should be disregarded in assessing damages. The obligation to pay tax—save for those in possession of exiguous incomes—is almost universal in its application. That obligation is ever present in the minds of those who are called upon to pay taxes, and no sensible person any longer regards the net earnings from his trade or profession as the equivalent of his available income. Indeed, save for the fact that in many cases—though by no means in all cases—the tax only becomes payable after the money has been received, there is, I think, no element of remoteness or uncertainty about its incidence.<sup>15</sup>

Notwithstanding the judgment in the *Gourley* case, the crux of the problem, or at least one issue basic to its determination, has yet to be faced squarely. Is a damage award taxable to the recipient and, if not, why not? In the *Fairholme* and *Gourley* cases counsel on both sides agreed at the trial that the damages would not be subject to tax. In all the intervening cases, taxability of the damages was either regarded as immaterial or taken for granted.<sup>16</sup> Will the courts dealing with claims for civil damages have to consider the incidence of income taxes on their awards as well as the computation of what tax is payable? Imagine the plight of a poor plaintiff in a case where the court effects the appropriate deductions based on a finding that the damage award would not be taxable and a tax court, actually seized with the issues for purposes of tax determination, later decides the contrary!

*Hall & Co. Ltd. v. Pearlberg* was concerned with claims for damages for trespass and conversion, including damages in lieu of rent.<sup>17</sup> On the second day of the trial the *Gourley* judgment was handed down and the trial was postponed to allow consideration of its effect. Referring to the judgment, the Official Referee ruefully observed: “[In the *Gourley* case] counsel agreed that the damages recovered by the plaintiff would not be taxable in his hands, here counsel have not been so accommodating”. In respect of those damages attributable to trespass and conversion the realistic view is reached: “I feel, however, that the correct conclusion for me to reach is that the plaintiffs have satisfied me that what lies ahead of them is a battle with the Revenue the result of which is very uncertain”. As a consequence, no diminution of damages for these items by reason of the tax factor is allowed. On damages for loss of rent, there is no doubt and the *Gourley* principle is applied.

<sup>15</sup> [1956] A.C. at p. 203.

<sup>16</sup> Some doubt, however, as to the attitude of the Internal Revenue authorities was expressed by Atkinson J. in *Jordan v. The Limmer and Trinidad Lake Asphalt Co. Ltd.*, ante, footnote 7.

<sup>17</sup> [1956] 1 W.L.R. 244; [1956] 1 All E.R. 297. A brief note on the case will be found in (1956), 72 L.Q. Rev. 317.

Let us return for the moment to personal injury awards—the widest, although far from the exclusive, area for the interplay of income taxes and damages. In fatal or permanent disability cases, damages for permanent loss of earning power fill a “hole in capital”, are non-taxable, and are granted to replace an asset that would be non-taxable. Hence, there would be no reason to reduce the award on account of income tax. There would be no occasion to apply the *Gourley* judgment.<sup>18</sup> It is by no means clear that damages for temporary loss of earnings are tax-free in England or Canada, even though, in practice, taxes on them may not have been exacted by the Internal Revenue authorities or their Canadian counterparts. If anything is likely to change the practice it is the judgment in the *Gourley* case. It may well be that no statutory change in income-tax law is required for the purpose. The issue has rarely arisen and, where it has, doubts have been expressed. In *Charles Brown & Co. v. C.I.R.*, Rowlatt J. offers the observation: “Secondly, I think one has to be careful not to lay down—it may be right, or it may not—in a case where it does not arise, a general proposition that compensation for loss of earnings, even although they may be earnings not derived from a capital asset, but, let us say, earnings of a personal endeavour, is on the same footing, for Income Tax purposes at any rate, as earnings”.<sup>19</sup> A more categorical observation, although by way of an *obiter dictum*, may be found in the observations of Lord Clyde in *Renfrew Town Council v. C.I.R.*:

Take, for instance the case of a transport company which unavoidably incurs liability for damages to persons injured by accident. The damages are revenue charges because they are expenses inseparably connected with the conduct of the business from year to year. Thus, in a case of serious injury resulting in payment of a thousand pounds or two by the company, the sum paid will be treated as a revenue charge in the company's accounts. But how will the matter stand as regards the liability to Income Tax of the payee? It would appear to be all a question of circumstances. If he is permanently disabled, the damages would appear to be a capital increment in so far as he is concerned, but if he is only knocked out for, say, six months, during which time he loses, say, professional income, the damages look like a revenue receipt just as the professional income (if earned) would have been.<sup>20</sup>

<sup>18</sup> In *Comyn v. A.-G.*, [1950] I.R. 142, the Irish courts reduced the compensation payable on a government expropriation by an amount attributable to taxes, a procedure which is questioned by Earl Jowitt in the *Gourley* case, [1956] A.C. at p. 202.

<sup>19</sup> (1930), 12 Tax Cases 1256, at p. 1275. In the *Gourley* case, Earl Jowitt considers that counsel “rightly agreed” that no tax would be payable. Cf. also *Laird v. I.R.* (1929), 14 Tax Cases 395.

<sup>20</sup> (1934), 19 Tax Cases 13, at pp. 18-19. Cf. *Glenboig Union Fireclay*

The Canadian jurisprudence parallels the British.<sup>21</sup>

No specific exemption is granted by the Canadian Income Tax Act to damage awards for personal injuries, although workmen's compensation receipts are exempted.<sup>22</sup> Thus, a strong case may be made for the contention that, both in the United Kingdom and in Canada, damages in lieu of earnings are taxable by law even though, by administrative tolerance, the tax is never levied in practice. Failure to impose the tax is, in a renunciatory sense, the equivalent of an administrative if not a parliamentary subsidy to the victims of accidents. The effect of the *Gourley* judgment is to divert the "subsidy" to the authors of accidents or their insurers. Under our federal constitution, parliament would be powerless to negate the effects of the *Gourley* judgment—should it be adopted in Canada—by altering the laws governing computation of damages in accident cases.<sup>23</sup> Within the constitutional limitations it would be sorely tempted, and in the opinion of the writer justified, in amending the law (if, indeed, any amendment be necessary) to allow the Crown to collect in taxes what the *Gourley* judgment would otherwise grant to the authors of accidents. Suppose, *arguendo*, that tax law and administration were simply modified so that a tax is collected on the damage award and the amount of the tax promptly rebated. Is that really any different than the present situation? With deference, it is submitted that the majority judgment in the House of Lords has overlooked the fundamental point that the tax-levying agency of the state chooses to favour in some particular the victims of personal injuries. This attitude is justified by an appreciation of the fact that different contributions should sometimes be exacted from different taxpayers. Would anyone seriously argue that a widower who is collecting damages for a fatal injury to his wife should be entitled to a greater award because he has lost a tax exemption along with a wife, or conversely contend that the damages otherwise payable to him should be reduced or eliminated because he

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v. *I.R.* (1920-22), 12 Tax Cases 427; *Ensign Shipping Co. Ltd. v. I.R.* (1928), 12 Tax Cases 1169; *Burmah Steamship Co. Ltd. v. I.R.* (1930), 16 Tax Cases 67; *Tilley v. Wales* (1942-43), 25 Tax Cases 136; *Carter v. Wadman* (1946), 28 Tax Cases 41; *Waterloo Main Colliery Co. Ltd. v. I.R.* (1947), 29 Tax Cases 235.

<sup>21</sup> Cf. *B.C. Fir & Cedar Lumber Co. Ltd. v. King*, [1932] A.C. 441; *Millman v. M.N.R.* (1951), 4 Tax A.B.C. 373; *Walter Logan Ltd. v. M.N.R.* (1952), 5 Tax A.B.C. 393.

<sup>22</sup> S. 10(1)(g). S. 104 of the U.S. Internal Revenue Code excludes from tax all damages for injuries or sickness.

<sup>23</sup> Provincial remedial legislation is not beyond the bounds of possibility.

will no longer have to support his wife? The tax that is or is not collected simply represents the levy or the exemption the state chooses to impose or allow in respect of net receipts whether by way of earnings or damages. If the victim of the damage is taxed less, it is not because he has been over-indemnified, but only because the state chooses, deliberately or perhaps even accidentally, to ask a lesser contribution from him.

Under all prevailing economic theories, income tax is not an element of cost in earning income. The non-remoteness principle — on which the *Gourley* judgment so heavily relies — was intended, and has been hitherto applied, only to test whether the damages demanded immediately and necessarily flow from the injury for which the offending party is responsible.<sup>24</sup> It has not been invoked to ascertain what portion of the damages would remain to a claimant after deducting any particular disbursements, however inevitable they may be. What a plaintiff can “save” from his earnings is immaterial.<sup>25</sup> Admittedly he can only recover the equivalent of his earnings after ascertaining any direct costs imputable to them. To indemnify a claimant requires only that he be awarded such a sum as would be the equivalent of all gross income he might reasonably anticipate, had it not been for the cause of action occasioning the indemnification, less all disbursements that would have had to be laid out to earn such income. An individual injured in an accident might conceivably find some expensive social or athletic activities, to which he was accustomed, circumscribed by reason of a physical disability arising from the accident. No court of law would deduct from the damages to be awarded any provision for the portion of income which will no longer be expended for social or athletic activities, however definite the activities might have been in the plaintiff's mode of life, and however certain might have been the expenses to which they gave rise. The concept of distinguishing net from gross income must not be pushed beyond those elements which constitute costs of earning income. Net income should not be assimilable to the net residue of income after account is taken of all calculable expenditures of income. Income tax would appear to be a disposition of earnings — however involuntary — rather than an element of cost in securing earnings.

Whatever criticisms the *Gourley* judgment may evoke here or elsewhere, it remains the considered opinion of the House of Lords

<sup>24</sup> Mayne, *ante* footnote 14, at p. 44.

<sup>25</sup> Cf. *R. Co. v. Woods*, 115 Ala. 527.

in a sphere where there are many aspects remaining to be examined. Does the burden of proving the plaintiff's tax position rest upon him? If no proof is produced, may a court raise the question *proprio motu* and conclude that the plaintiff has not discharged the onus of proof of damages? The answers to these questions appear to be in the affirmative. Other questions are more difficult to answer. Are any social-security benefits or union dues also to be deducted, so that the equivalent of the net "take home pay" alone is awarded? Indeed, in the Canadian case of *Bowers v. J. Hollinger & Co.*,<sup>26</sup> unemployment insurance assessments were lumped with income-tax deductions in the review of this problem. What allowance should be made for exemptions, medical expenses or charitable deductions that the claimant might have been allowed in reducing his net tax obligation? No attempt will be made in the present comment to do more than list the questions.

How is the rate of tax to be computed? Broad general computations and an assumption of stability of rates in the future are suggested in the *Gourley* judgment. But the possibility appears to have been overlooked completely by counsel, if not by the court, that income tax might just as reasonably have been computed by reference to the earnings alone, without regard to income from other sources. Tax rates are rather steeply progressive. Income from each of several different sources will attract a tax at a lower rate when considered alone than when considered as a final increment to all the other sources. *Gourley*, it will be recalled, earned substantial investment income. May it not be contended that, in effect, the state chooses to tax his professional income first at the comparatively low rates that would be applicable to it standing alone, and then imposes an exceptionally high levy on his other income, instead of concluding—as all concerned seem to have taken for granted—that investment income is effectively taxed first at the lower rate and earnings are then taxed at the marginally higher rates?

Admittedly, the House was concerned to place the plaintiff in the same financial position, *ceteris paribus*, that he would have been in if there had been no injuries and no loss of earnings. In such an event all income would be taxed and the net residue of professionally earned income after taxes would be much reduced by reason of the income from other sources. The effort is therefore made to ascertain, not what would be the "net earnings" after taxes, if only the "gross earnings" involved in the damage

<sup>26</sup> *Ante*, footnote 11.

award are subject to tax, but rather what is the net residue after taxes from the earnings when considered as an increment to all other income. Suppose, for purposes of simplified illustration, that a taxpayer earning only £1,000 in salary is taxed at a 10% rate, or £100. A second taxpayer has no salary, but receives investment income of £3,000, which is taxed at 20%, or £600. A third taxpayer has both a salary of £1,000 and investment income of £3,000, in respect of which an aggregate tax of £1,000, or an average of 25%, is charged. While the average is 25%, the marginal rate on the last £1,000 is 40%. In any event, he is left with a net residue after taxes of £3,000. Suppose the third taxpayer sustains injuries entailing one year's loss of earnings and is to be indemnified accordingly. His undisturbed investment income of £3,000 will now be taxed only at 20%, or £600, since the damage award is, at least *ex hypothesi*, non-taxable. The £2,400 balance need only be augmented by £600 in order to restore the equivalent of a £3,000 net residue after taxes. From the £1,000 damage award that would be otherwise granted £400, or 40%, is deducted.

It matters not that the state does not impose a tax rate as high as 40% on £1,000 in earnings which are not augmented from other sources, or even that the *average* tax rate would not be as high as 40% on a total taxable income of £4,000.

This approach, which is implicit in the *Gourley* judgment, underlines a judicial conclusion that cuts across all public policy on preferments and deferments of taxation on income. The state in its taxing measures chooses to bear on high incomes, but treads not at all on personal-damage awards. The judgment takes account of the state's onerous policy towards high incomes, but ignores its sympathetic treatment of damage awards.

In another context, quite a different approach has been adopted to determine the equivalent of net residue after taxes. Where a settlor or testator provides an annuity "free of income taxes", the question has arisen whether the recipient's tax position should be measured by the additional tax that would be payable on the annuity by reason of all income taxes payable in respect of all other income and the resultant computation of the tax<sup>27</sup> on the annuity in the surtax or higher bracket. *Re Bowring*,<sup>27</sup> in the indemnification of the recipient, chooses to average the rate of tax on all income, inclusive of the annuity, instead of applying the higher marginal rate on the annuity alone. In effect, the annuity is re-

<sup>27</sup> (1918), 34 T.L.R. 575.

garded neither as part of the "bottom slice" nor as part of the "upper slice" of the annuitant's income, but rather of the "middle slice". This principle has been followed by the English Court of Appeal in *Fleetwood-Hesketh v. Fleetwood-Hesketh*<sup>28</sup> and by the Supreme Court of Canada in *Re Kemp*.<sup>29</sup>

One area where the *Gourley* judgment will have less prospective scope in Canada than in the United Kingdom is awards as compensation for loss of employment. Since this compensation is almost invariably taxable under section 25 of the Canadian Income Tax Act,<sup>30</sup> no occasion could arise for any deductions for taxes from the award. There remain, however, many additional spheres, quite apart from personal-injury awards, where the *Gourley* judgment might apply.

**All relevant legal principles governing the award of damages, and the relationship of taxes to earnings and damages in lieu of earnings, appear to be the same in Canada as in England. While a judgment of the House of Lords is not binding in Canada, it is of course persuasive. To many, the reasoning in the *Gourley* decision may appear cogent. Economic interests are sufficient to ensure that efforts may be anticipated to convince Canadian courts that the same conclusions should be adopted here. Nevertheless an analysis of the nature of the tax levy and of tax exemptions justifies a different judicial evolution in Canada.**

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#### PATENTS—INVENTIVE STEP—OBVIOUSNESS—THE OMNISCIENT ARTISAN—TWO COMMENTS

This is to herald the creation of a new legal character, the omniscient artisan.<sup>1</sup> Although fictitious in nature, our new character may have a most significant impact on certain aspects of patent

<sup>28</sup> [1929] 2 K.B. 55.

<sup>29</sup> [1940] S.C.R. 353; [1940] 2 D.L.R. 209. To the same effect is the judgment of the Ontario High Court in *Re Wood*, [1943] 3 D.L.R. 84 (Hope J.).

<sup>30</sup> Save for an exceptional case such as *No. 261 v. M.N.R.* (1955), 13 Tax A.B.C. 23.

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<sup>1</sup> *Martin and Biro Swan Ltd. v. H. Millwood Ltd.* (1956), 73 R.P.C. 125 (H.L.).

law.<sup>2</sup> A. P. Herbert chronicled the emergence of the reasonable man:<sup>3</sup>

He is one who invariably looks where he is going, and is careful to examine the immediate foreground before he executes a leap or bound: who neither star gazes nor is lost in meditation when approaching trap doors or the margin of a dock—who investigates exhaustively the bona fides of every mendicant before distributing alms, and will inform himself of the history and habits of a dog before administering a caress—who in the way of business looks only for that narrow margin of profit which twelve men such as himself would reckon to be 'fair'—who never swears, gambles or loses his temper; who uses nothing except in moderation and even when he flogs his child is meditating only on the golden mean. Devoid in short of any human weakness, with not one single saving vice, sans prejudice, procrastination, ill nature, avarice, and absence of mind, as careful for his own safety as he is for that of others, this excellent but odious character stands like a monument in our Courts of Justice, vainly appealing to his fellow citizens to order their lives after his example.

The world of industrial property, particularly the world of patents, is clearly no place for any reasonable man. The reasonable man has already been ousted from trade-mark law by the "man with the imperfect recollection".<sup>4</sup> The artisan, without his new quality of omniscience, has been known for many years. He has been

<sup>2</sup> It has been accepted patent law that one may not mosaic prior publications on the issue of "anticipation": *Pope Appliance Corporation v. Spanish River Pulp and Paper Mills Ltd.* (1929), 46 R.P.C. 23; *Canadian General Electric Co. Ltd. v. Fada Radio Ltd.* (1930), 47 R.P.C. 69. On the other hand, the effect of prior publications on the issue of "inventive step" or "obviousness" has been the subject of some controversy. After holding the patent in question to be valid, Viscount Simonds in the House of Lords (*Martin and Biro Swan Ltd. v. H. Millwood Ltd.* (1956), 73 R.P.C. 125, at p. 133) in obiter sought to set to rest the effect of prior publications on the issue of "obviousness". He affirmed the law as stated by Jenkins L. J. in *Allmanna Svenska Elektriska A/B v. The Burntisland Ship Building Coy. Ltd.* (1952), 69 R.P.C. 63, that in considering whether an invention was obvious to one skilled in the art, it is permissible to combine knowledge derived from separate publications. Put alternatively, an inventor is charged with knowledge of prior publications in assessing the extent and nature of his inventive step.

<sup>3</sup> A. P. Herbert, *Uncommon Law* (Methuen, 7th ed., 1950) p. 3. In support of the proposition that the hypothetical reasonable man is a legally effective fellow, reference may be made to the case of *Rex v. Ward*, [1956] 1 All E.R. 565, where his standard of conduct enabled the jury to find Ward, a man of low intelligence, guilty of murder in shaking a crying child of eighteen months to such an extent that it died. The charge at the trial, which was approved on appeal, included the direction, "If when the prisoner did the act he must as a reasonable man have contemplated that death or grievous bodily harm was likely to result, he was guilty of murder. If, on the other hand, he could not, as a reasonable man, have contemplated that death would result in consequence of what he did, then he is guilty of manslaughter."

<sup>4</sup> *Battle Pharmaceuticals v. The British Drug Houses Limited*, [1946] S.C.R. 50, at p. 52, applying *Aristoc Limited v. Rysta Limited*, [1945] A.C. 68, at p. 80.

sometimes called "one skilled in the art". His chief function has been to study prior patents and to make proposals for their modification or extension based on the common knowledge in the art.<sup>5</sup> The artisan has other duties. He sometimes tries to follow the directions given in a patent specification and understandably occasionally comes to grief or achieves weird results.<sup>6</sup> He also dabbles in mechanical or chemical equivalents.<sup>7</sup>

The artisan has hitherto been a rather pleasant fellow, although not one of the highest intelligence. He approached the interpretation and application of the directions given in a patent specification with a mind willing to understand.<sup>8</sup> Here, he is at his best; particularly where an important invention is involved. It is only occasionally that he needs information as to dimensions or proportions. He does well so long as these dimensions and proportions are not critical. If they are critical, our mythical expert invariably guesses wrong.<sup>9</sup> He is a willing worker and sometimes will

<sup>5</sup> Common knowledge must be distinguished from prior knowledge in giving weight to the evidence presented to show that an alleged invention is obvious. The distinction is made in Halsbury (2nd ed.), Vol. 24, s. 1146, p. 606. Common knowledge has been defined in *British Acoustic Films Ltd. v. Nettleford Productions* (1936), 53 R.P.C. 221, at p. 250, where Luxmoore J., as he then was, said: "In my judgment it is not sufficient to prove common general knowledge that a particular disclosure is made in an article, or a series of articles, in a scientific journal, no matter how wide the circulation of that journal may be, in the absence of any evidence that the disclosure is accepted generally by those who are engaged in the art to which the disclosure relates. A piece of particular knowledge as disclosed in a scientific paper does not become common general knowledge merely because it is widely read and still less because it is widely circulated. Such a piece of knowledge only becomes general knowledge when it is generally known and accepted without question by the bulk of those who are engaged in the particular art, in other words, when it becomes part of their common stock of knowledge relating to the art." See also *Cluett, Peabody & Co. Inc. v. Dominion Textile Co. Ltd.*, [1938] Ex. C. R. 47, at p. 73.

<sup>6</sup> If one skilled in the art cannot achieve the essential promise of the specification or if he cannot put the invention into practice from it, the patent fails: *Minerals Separation North American Corporation v. Noranda Mines Limited*, [1947] Ex. C. R. 306, at p. 317; *Electrolytic Zinc Process Company v. French's Complex Ore Reduction Company of Canada Limited*, [1927] Ex. C. R. 94, [1930] S.C.R. 462; *Natural Colour Kinematograph Co. Ltd. v. Boschemes Ltd.* (1915), 32 R.P.C. 256, at p. 266; *Edison and Swan Electric Co. v. Holland* (1889), 6 R.P.C. 243, at pp. 277 and 280; *No-Fume Ltd. v. Pitchford & Co. Ltd.* (1935), 52 R.P.C. 231, at p. 243.

<sup>7</sup> An equivalent relates to a substitute for an unessential element of a claim, which substitute would be obvious to one skilled in the art: *Marconi v. British Radio Telegraph & Telephone Company Ltd.* (1911), 28 R.P.C. 181, at p. 217; *R.C.A. Photophone Ltd. v. Gaumont-British Picture Corporation Ltd. & British Acoustic Films Ltd.* (1936), 53 R.P.C. 167; *P & M Machinery Company & Another v. Canada Machinery Corporation Limited & Others*, [1926] S.C.R. 105, at p. 116; *William A. Wright & Charlon E. Corson v. Brake Service Limited*, [1925] Ex. C. R. 127, at p. 132.

<sup>8</sup> *O' Cedar of Canada Ltd. v. Mallory Hardware Products Ltd.* (1956), 24 C.P.R. 103, at p. 126, and cases cited.

<sup>9</sup> If in a material respect the specification is not clear to one skilled in

indulge in a little non-inventive experimentation.<sup>10</sup> However, he is lost if presented with a problem to work out and it is useless to expect even a scintilla of invention from him.<sup>11</sup> He does not have a visionary nature<sup>12</sup> and tries to avoid an "ex post facto" analysis of an invention.<sup>13</sup> He does not dissect a combination claim because he knows the combination is greater than the sum of its parts.<sup>14</sup> He has a certain human and appealing lack of consistency and will sometimes find apparently abstruse things obvious and the simplest things unexpected. Even when he is considering the same set of facts, his opinion may alter as the litigation proceeds through appeal. Our artisan is properly cowed by evidence of commercial success when combined with the suffering of a long-felt want and the immediate public acceptance of the patented device to the relative exclusion of competitors' products.<sup>15</sup>

The hypothetical artisan is well educated in spite of his lack of imagination. He went to some institution of learning where he culled from textbooks and periodicals what was generally accepted in the art.<sup>16</sup> He may have acquired the common knowledge of more than one art, although he usually relies upon another for knowledge beyond his own narrow sphere.<sup>17</sup> He graduated at the date of the invention and thereupon retired, and has learned nothing relevant since.<sup>18</sup>

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the art, the patent is invalid: *Unifloc Reagents Ltd. v. Newstead Colliery Ltd.* (1943), 60 R.P.C. 165; *British Thomson Houston Company Ltd. v. Corona Lamp Works Ltd.* (1922), 39 R.P.C. 49.

<sup>10</sup> *Minerals Separation North American Corporation v. Noranda Mines, Ltd.*, [1947] Ex. C. R. 306; *No-Fume Ltd. v. Frank Pitehford & Co. Ltd.* (1935), 52 R.P.C. 231.

<sup>11</sup> A scintilla of invention supports a patent: *Samuel Parkes & Co. Ltd. v. Cocker Bros. Ltd.* (1929), 46 R.P.C. 241, at p. 248; *Patent Exploitation Ltd. v. Siemens Bros.* (1904), 21 R.P.C. 541.

<sup>12</sup> *Hookham v. Johnson* (1897), 14 R.P.C. 525, at p. 563; *Edison and Swan Electric Light Co. v. Holland* (1889), 6 R.P.C. 243.

<sup>13</sup> *The King v. Uhlemann Optical Co.*, [1950] Ex. C. R. 142, at p. 161, [1952] 1 S.C.R. 143, and cases cited; *British Westinghouse Electric and Manufacturing Company Ltd. v. Braulik* (1910), 27 R.P.C. 209, at p. 230.

<sup>14</sup> *Albert Wood and Amcolite Ltd. v. Gowshall Ltd.* (1937), 54 R.P.C. 37, at p. 39; *British United Shoe Machinery v. A. Fussel & Sons Ltd.* (1908), 25 R.P.C. 631, at p. 656; *Irving Air Chute Company Inc. v. The King*, [1947] Ex. C. R. 278; [1949] S.C.R. 613; *Harrison v. Anderston Foundry Company* (1875-76), 1 App. Cas. 574, at p. 578.

<sup>15</sup> *The King v. American Optical Co.*, [1950] Ex. C. R. 344; *Non-Drip Measure Coy. Ltd. v. Stranger's Ltd. & Others* (1943), 60 R.P.C. 135, at p. 142.

<sup>16</sup> *Automatic Coil Winder & Electrical Equipment Coy. Ltd. v. Taylor Electrical Instruments Ltd.* (1944), 61 R.P.C. 41, at p. 43.

<sup>17</sup> *Minerals Separation North American Corporation v. Noranda Mines Ltd.* (1952), 69 R.P.C. 81, at p. 92; *Harmer v. Playne* (1809), Dav. P.C. 311, at p. 318.

<sup>18</sup> Common knowledge must be considered as of the date of invention. In questions relating to patents it is more than usually necessary to beware

Up to the present, the notional artisan has shown neither the interest nor the ability to memorize prior patents and publications for any length of time. In fact he has been accustomed to reading a prior patent, cogitating on it for a few moments in the light of the common knowledge of the art and then forgetting it completely. He relegates it to oblivion, even before picking up the next document in the pile before him.<sup>19</sup> A prior use, especially if fortuitous, that does not disclose to him the full extent of the invention makes no impression upon him at all and it too is cast from his mind.<sup>20</sup>

By virtue of the recent decision of the House of Lords in *Martin and Biro Swan Ltd. v. H. Millwood Ltd.*,<sup>21</sup> our artisan has acquired the inhuman quality of omniscience to the extent that he may be charged with all the knowledge of the art in considering whether a patented invention is really something utterly obvious. Our omniscient artisan has no compunction about selecting a series of obscure references from his vast accumulation of material to make a mosaic.<sup>22</sup> He may then smugly declare to the court that there is no inventive concept here—"These references give me what I wish".<sup>23</sup> In making his declaration he is careful in his language because his emancipation is based upon a verbal difference. Hands would be thrown up if, in reference to mosaics, he whis-

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of that wisdom that comes after the event: *Woodrow v. Long Humphreys & Co. Ltd.* (1934), 51 R.P.C. 25, at p. 33.

An inventive step must be determined from the date the invention is made. Date of invention is defined in *Bohn Aluminum & Brass Corp. v. Berry*, [1937] Ex. C. R. 114, at p. 117, following *Christiani and Nielson v. Rice*, [1930] S.C.R. 443.

<sup>19</sup> Anticipatory documents must be considered singly: *Pope Appliance Corporation v. Spanish River Pulp & Paper Mills Ltd.* (1929), 46 R.P.C. 23; *Hills v. Evans* (1862), 31 L. J. Ch. 457; *British Thomson-Houston Co. Ltd. v. Metropolitan-Vickers Electrical Co. Ltd.* (1928), 45 R.P.C. 1; *Molins & Molins Machine Co., Ltd. v. Industrial Machinery Co., Ltd.* (1938), 55 R.P.C. 31, and *The King v. Uhlemann Optical Co.*, [1950] Ex. C. R. 142, at p. 157, where the effect of the cases was summarized by the President of the Exchequer Court.

<sup>20</sup> *Boyce v. Morris Motors Ltd.* (1927), 44 R.P.C. 105, at p. 135; *Harwood v. The Great Northern Railway Co.* (1860), 29 L.J.Q.B. 193, at p. 202; *Cluett, Peabody & Co. Inc. v. Dominion Textile Co. Ltd.*, [1938] Ex. C.R. 47, at p. 73.

<sup>21</sup> *Ante*, footnote 1.

<sup>22</sup> *Allmanna Svenska Elektriska A/B v. The Burntisland Shipbuilding Coy. Ltd.* (1952), 69 R.P.C. 63, at pp. 75 and 79, where knowledge of prior publications was imputed to the hypothetical designer on the issue of obviousness. See comment of Lord Somervell during argument in *Benmax v. Austin Motor Company Ltd.* (1955), 72 R.P.C. 39, at p. 40, on mosaics.

<sup>23</sup> Test stated by Sir Stafford Cripps in *Sharp & Dohme Inc. v. Boots Pure Drug Company Ltd.* (1928), 45 R.P.C. 153, at p. 163, and approved in *Martin and Biro Swan Ltd. v. H. Millwood Ltd.* (1956), 73 R.P.C. 125, at p. 134.

pered the word "anticipation".<sup>24</sup> Now he has found that so long as he says the invention is "obvious" his patchworked mosaic is acceptable. It doesn't matter that obviousness and anticipation, in ordinary circumstances, are really much the same thing. There is scarcely any real difference between applying the common knowledge in the art to an alleged anticipatory document to determine whether an invention is new and deciding whether the invention is obvious in view of the same common knowledge in the light of the same document.<sup>25</sup> Someone once said there was a difference (although no one clearly understands why) and it is too late to question it now.<sup>26</sup>

If the new attitude of our omniscient artisan is challenged, he points out that, in *Pope v. Spanish River*, Lord Dunedin said you cannot mosaic for anticipation. He did not quite say that you can not mosaic for obviousness. Our artisan may henceforth mosaic at will so long as he uses the right word.<sup>27</sup>

If one seeks to confound our man of extensive knowledge by pointing out that in *Von Heyden v. Neustadt*,<sup>28</sup> a precursor of the *Pope* case, the doctrine of "anti-mosaicing" was applied to the propriety of forming a mosaic by diligent research to show absence of invention, he replies that in those days they expressed

<sup>24</sup> Since *Pope Appliance Corporation v. Spanish River Pulp & Paper Mills Ltd.* (1929), 46 R.P.C. 23, in invalidating patents the courts in Canada have generally based their decisions on lack of invention rather than on the ground of anticipation.

<sup>25</sup> *O' Cedar of Canada Ltd. v. Mallory Hardware Products Ltd.* (1956), 24 C.P.R. 103, at p. 120; *King Brown & Co. v. Anglo American Brush Electric Light Corp.* (1892), 9 R.P.C. 313.

<sup>26</sup> In *Gadd and Mason v. The Mayor &c. of Manchester* (1892), 9 R.P.C. 516, at p. 525, Lindley L.J. stated: "In considering subject matter, novelty is assumed; the question is whether, assuming the invention to be new, it is one for which a patent can be granted. In considering novelty, the invention is assumed to be one for which a patent can be granted if new, and the question is whether on that assumption it is new. Has it been disclosed before? If there is an earlier specification for the same thing, the second invention is not new; but if the two things are different, the nature and extent of the difference have to be considered. The question then becomes one of degree. But unless it can be said the differences are practically immaterial; that there is not ingenuity in the second invention, no experiment necessary to show whether it can be usefully carried out or not, the second cannot be said to have been anticipated by the first."

<sup>27</sup> Since a court may now consider a mosaic for obviousness, it would appear essential that proper weight must be given to each publication submitted. If the document is merely a paper document in some remote institution or an isolated use that did not contribute to knowledge in the art, neither the document nor the use would have as much weight as if it had become widely known. A document or use widely known and generally accepted would have the greatest weight.

In considering weight, a relevant question would be whether it was likely that anyone would realistically combine the references having regard to their source and nature.

<sup>28</sup> (1880), 50 L. J. Ch. 126; (1880), 14 Ch.D. 230.

themselves loosely and didn't understand the clear distinction between novelty and invention.

We must now learn to live with the omniscient artisan and forget his predecessor, the ordinary artisan. In some respects, he is a welcome newcomer to patent law. Inflexible rules and legalistic categories can lead to unrealistic results. The rule against forming a mosaic is not wholly compatible with modern conditions. In many arts, as a matter of course, a careful study will be made of prior patents and publications as a preliminary to any development project. The rule against forming a mosaic has been a particular source of frustration to examiners in the Canadian Patent Office.

On the other hand, it is submitted that the omniscient artisan should be accepted with some reserve until experience shows how he behaves. Such is especially the case in Canada because of the wider applicability of publications.<sup>29</sup> The English omniscient artisan, the obiter-spawned creature of the House of Lords, could lead to some wild mosaics.<sup>30</sup> In the United Kingdom only such publications as have been made in the United Kingdom will be considered.<sup>31</sup> Moreover, our United Kingdom mythical artisan cannot even delve into the back stacks of the British Museum.<sup>32</sup>

The Canadian counterpart of our artisan is free to browse at large through the printed publications of every country in the world, fettered only by the date of the publication located. Perhaps, in some circumstances, he could even gain private prior knowledge or learn of isolated prior uses by others. His already formidable schooling has now been extended to include all languages. There is therefore a danger that the Canadian omniscient artisan, unless controlled by a sense of moderation through a proper assessment of the evidence in each case, will create a standard which is less realistic than the one resulting from the rule of law that precluded the making of mosaic.

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<sup>29</sup> Publications anywhere in the world will be examined by Canadian courts both from the standpoint of anticipation and subject matter. On anticipation see s. 28(1)(b) of the Patent Act, R.S.C., 1952, c. 203. On subject matter see *Rice v. Christiani and Another* (1931), 48 R.P.C. 511.

<sup>30</sup> Blanco White, *Patents for Inventions* (2nd ed.) p. 105, considered that even in the United Kingdom an unrestrained application of the *Allmanna Svenska Elektriska A/B v. The Burntisland Shipbuilding Coy. Ltd.* decision would lead to the invalidation of every patent of a combination of old integers. That this is not the law, see *The King v. American Optical Co.*, [1950] Ex. C. R. 344, at p. 355, and cases cited.

<sup>31</sup> The distinction is referred to in *Rice v. Christiani and Another* (1931), 48 R.P.C. 511; *V. D. Ltd. v. Boston Deep Sea Fishing Co. Ltd.* (1935), 52 R.P.C. 303, at p. 328.

<sup>32</sup> *Otto v. Steele* (1886), 3 R.P.C. 109.

If an industrialist creates a device to solve a problem, the test whether it constitutes an invention is whether the same solution would occur to his competitor faced with the same problem. If the solution would not occur to his competitor down the street with reasonable directness, the first industrialist has made an advance in the art meriting the reward of a patent. This simple proposition is the basis for the long-felt-want line of cases.<sup>33</sup> A mosaic should be permissible only if it could and would likely be made by the competitor down the street. A failure to give due consideration to the probability of the documents to be mosaiced being assembled and interrelated by the same man would convert our notional artisan into the type already long resident in the United States.<sup>34</sup> The probability of a reference published only in Russian being combined by a Canadian artisan with a publication written in Chinese is infinitely remote. It is not reasonable to assume that, if the invention subject to attack had never been made, the references would ever have been brought together. The combined teaching would never have been found except for the necessity of defeating a patent. No matter how obvious the invention may be to the artisan examining the two remote references at the one time and with their interrelation suggested by their very presence on his table, it is submitted that such a combination should not be regarded as a practical and effective publication of the invention. The mental processes involved in creating are not the same as those involved in attacking the patent.<sup>35</sup> The inventor does not know beforehand the solution to his problem. The iconoclast knows precisely what he is trying to destroy. He can direct his inquiry for documents and uses with precision. In some circumstances, invention can result from a diligent and intelligent literature research. Inventions arising in this manner should not be unduly discouraged.

The original principle that precluded the making of a mosaic to defeat a patent was formulated to correct an abuse, namely,

<sup>33</sup> In *Pope Appliance Corporation v. Spanish River Pulp & Paper Mills Ltd.* (1929), 46 R.P.C. 23, it was considered significant that if the invention was as obvious as alleged it was strange that workmen suffered the consequences of pinched off fingers for twenty years. Long-felt want when coupled with commercial success is strong evidence of invention: *Longbottom v. Shaw* (1891), 8 R.P.C. 333, at p. 336; *Heginbotham Brothers Ltd. and Another v. Burne* (1939), 56 R.P.C. 399, at p. 413; *The King v. Uhlemann Optical Co.*, [1950] Ex. C. R. 142; *The King v. American Optical Co.*, [1950] Ex. C. R. 344.

<sup>34</sup> *Textile Machine Works v. Hirsch Textile Machines Inc.* (1938), 302 U.S. 490; *Ex parte Fine*, [1927] C.D. 84; *Edwards v. Dayton Mfg. Co.*, [1919] C.D. 351.

<sup>35</sup> This difference was recognized in *Von Heyden v. Neustadt* (1881), 50 L. J. Ch. 126, at p. 129.

the use of artificial and unrealistic combinations of references to defeat the useful invention. The pendulum should not be allowed to swing so far as to consign "anti-mosaic" to the attic to accompany its own previous victim "anticipation". The original abuse should not be reintroduced thinly disguised as an objection to "obviousness".<sup>36</sup>

Where the objection to the patent is that the alleged invention was obvious and therefore did not constitute an inventive step, the weight of each item of evidence, whether it relate to commercial success, prior publication or prior use, must be realistically assessed. The evidentiary weight of a publication should depend upon the extent it has been circulated and accepted. The weight to be given to what has been used should bear relation to the degree to which the public has enjoyed the benefit of and acquired knowledge of such use. These factors are particularly material to the probability of two or more prior publications or users being combined to form the mosaic by some other worker in the field.<sup>37</sup>

The conclusion then is that the omniscient artisan is welcome and socially acceptable in the interests of flexibility and reality; but only if he behaves in a human and not too objectionably omniscient way.

GORDON F. HENDERSON and DAVID WATSON\*

<sup>36</sup> Inventive step or non-obviousness is a specific requirement of the validity of a patent in the United Kingdom. Section 32 (1) (f) of the United Kingdom Patents Act, 1949, specifies as a ground of invalidity "that the invention, so far as claimed in any claim of the complete specification, is obvious and does not involve any inventive step having regard to what was known or used before the priority date of the claim in the United Kingdom". Neither s. 2 (d) nor s. 28 of the Patent Act, R.S.C., 1952, c. 203, specifically includes inventive step as an element in a valid patent. The courts in Canada have, however, placed it beyond doubt that the patent to be valid must have "subject matter", using this term as an inventive step in the art: *Canadian Gypsum Co. Ltd. v. Gypsum Lime and Alabastine Canada Ltd.*, [1931] Ex. C. R. 180, at p. 187; *Crosley Radio Corp. v. Canadian General Electric Co. Ltd.*, [1936] S.C.R. 551.

<sup>37</sup> If, in having gone out of its way to approve the *Allmanna* case, the House of Lords merely held that it was competent for the court to give some weight to prior documents and prior users on the issue of subject matter depending on the circumstances of the individual case, the court can deal with the matter realistically. The omniscient artisan is under control. No great change has been worked. If, however, the inventor is to be charged with knowledge of all publications and prior users no matter how remotely placed or isolated, in nature the omniscient artisan has dealt the inventor a mighty blow.

It is suggested that weight must still be given to publications and users on the principle that a prior publication or prior user available to the public would have greater weight than a paper anticipation or fortuitous user, but less weight than a publication or user that had been generally accepted in the art. In this regard reference may be made to *John Summers & Sons Ltd. v. The Cold Metal Process Coy.* (1948), 65 R.P.C. 75, at p. 112.

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Messrs. Gordon F. Henderson, Q.C., and David Watson have done me the kindness of sending to me a copy of their comment on *Martin and Biro Swan Ltd. v. H. Millwood Ltd.*<sup>1</sup> I am afraid that I cannot agree that the *Martin and Biro Swan* case constitutes the "creation of a new legal character", although I think the conclusion of their comment parallels the deduction that I have drawn from the judgment of the House of Lords.

In my view the *Martin and Biro Swan* case brings into being no new legal principle. It merely states in precise terms the doctrine that has been followed by the courts of Canada and Great Britain for many years past but which, strangely enough, has never been expressly stated, that principle being that, in assessing obviousness as opposed to anticipation, all prior uses and documents relevant to the subject are to be examined and, in the light of these prior uses and documents, the critical question to be answered is: Was the alleged invention at its date obvious to the skilled workman in the relevant art?

The Canadian Patent Act<sup>2</sup> provides that, upon complying with the terms of the statute, a patent may be granted to "the inventor of an invention". Nowhere in the statute is it provided that the subject matter of a patent must be the result of inventive ingenuity or that it must be non-obvious. Whatever the word "invention" may have meant at the time of the progenitor Statute of Monopolies of 1624, the courts of the common-law countries a century ago laid down the doctrine that, unless the subject of a patent is the result of an invention, it cannot be the basis of a valid patent and that proof that it is obvious is ground for its revocation.<sup>3</sup> Whatever may be the general view as to the propriety of thus straining the interpretation of the word "invention" more than two centuries after its inclusion in the Statute of James I,<sup>4</sup> the doctrine of non-obviousness is now ingrained in the law and can only be removed by statutory enactment.

No one has succeeded in defining, in the well-known words of Tomlin J., as he then was, in *Samuel Parkes & Co. Ltd. v. Cocker*

<sup>1</sup> (1956), 73 R.P.C. 125.

<sup>2</sup> R.S.C., 1952, c. 203, s. 28(1).

<sup>3</sup> See, e.g., *White v. Toms* (1867), 37 L.J. Ch. 204, per Malins V.-C.: "there is no invention in it. . . however meritorious as an improvement . . . it is not the subject for a patent." *Horton v. Mabon* (1862), 12 C.B.N.S. 437, 31 L.J.C.P. 255, per Willes J.: "There must be some invention". See also *Hotchkiss v. Greenwood* (1850), 52 U.S. 248; *Waterous v. Bishop* (1870), 20 U.C.C.P. 29; *Ball v. Crompton Corset Co.* (1887), 13 S.C.R. 469.

<sup>4</sup> My views have already been expressed, with the maximum force of which I was capable, in my book, *Monopolies and Patents* (Toronto, 1947) pp. 214 *et seq.*

*Bros. Ltd.*,<sup>5</sup> “. . . what is the precise character or quality the presence of which distinguishes invention from a workshop improvement. Day is day, and night is night, but who shall tell where day ends or night begins.” While this concept has been stated in many different ways, the earlier cases in England referring to lack of subject matter and the Canadian cases to lack of invention, it has now become accepted verbiage to use the expressions “obvious” and “obviousness” when speaking of the lack of quality that distinguishes things invented from things otherwise arrived at. As Thorson P. put it in *The King v. Uhlemann Optical Co.*:<sup>6</sup> “This leaves only the issue of subject matter. . . . No one has really succeeded in defining, apart from the statutory definition, the difference between an advance that is obvious as a workshop improvement and one that involves inventive ingenuity. One of the difficulties is that there is no objective standard of invention. What one person might regard as inventive another would consider as obvious.”

It has been accepted as law at least from the time of *Von Heyden v. Neustadt*<sup>7</sup> that a mosaic of extracts from prior documents cannot be used to anticipate or to show lack of novelty in a subsequent patent. The rule has been accepted since *Hill v. Evans*<sup>8</sup> that an alleged anticipating document must disclose the alleged invention in all its features or it must be rejected entirely. To it can be added only common knowledge in the sense spoken of by Thorson P. in the case of *The King v. Uhlemann*.<sup>9</sup> It is in pursuance of this principle that it is now accepted that a prior use must succeed or fail altogether.<sup>10</sup>

The court is, therefore, in a position to adopt an almost completely objective approach on the question of anticipation and this is the fundamental reason why the making of a mosaic of extracts to show anticipation is not permissible. When a prior document is tendered as an anticipation the only evidence that need be led relating to it is that of publication and explanation of tech-

<sup>5</sup> (1929), 46 R.P.C. 241.

<sup>6</sup> [1950] Ex. C. R. 142, at p. 161.

<sup>7</sup> (1881), 50 L.J. Ch. 126; 14 Ch. D. 230.

<sup>8</sup> (1862), 4 De G. F. & J. 288; 31 L.J. Ch. 457.

<sup>9</sup> *Ante*, footnote 6, at p. 158: “It must be kept in mind, of course, that in considering whether an invention was anticipated by a prior patent, the prior patent must be read in the light of the common knowledge which a person skilled in the art would have had immediately prior to the alleged invention. If the prior publication would give such a person the same information, for practical purposes, as the patent under attack then it is an anticipation of the invention covered by it.” See also *Metropolitan Vickers Electrical Co. Ltd. v. British Thomson Houston Co. Ltd.* (1926) 43 R.P.C. 76, at p. 93, per Sargant L.J.

<sup>10</sup> *Boyce v. Morris Motors Ltd.* (1927), 44 R.P.C. 105, at p. 135.

nical terms within the limitations laid down by Lord Tomlin in *British Celanese Ltd. v. Courtaulds Ltd.*<sup>11</sup> No witness is allowed to interpret such a document, the matter of interpretation being for the court, and the document is therefore a piece of factual evidence to be regarded objectively by the judge in answering the question: Does it show on its face substantially the same invention as that claimed in the patent in suit?

When, on the other hand, the court directs its attention to obviousness, the approach is almost entirely subjective. The question then to be answered is: Considering the state of the art at the time immediately before the making of the alleged invention which forms the subject matter of the patent in suit, was it obvious to a workman skilled in the art and knowing the state of the art at that time to take the step described and claimed in the patent in suit? In answering such a question there is little room for objectivity. The question obviously involves a value decision based upon the feelings and perceptions of the judge.

This is not a new concept. It is true that Halsbury's *Laws of England* says:<sup>12</sup> "The Courts have consistently held that separate items of public knowledge contained in different documents cannot be put together in order to destroy the novelty or subject-matter of an invention. To use the words commonly adopted in the reported cases, it is not permissible 'to make a mosaic' of different publications for this purpose." The learned editors were mistaken in this view. The doctrine applies to novelty but it does not apply to subject matter. As long ago as 1928 Sir Stafford Cripps, as counsel in *Sharp & Dohme Inc. v. Boots Pure Drug Company Ltd.*,<sup>13</sup> formulated the appropriate question: "Was it obvious to any skilled chemist, in the state of chemical knowledge existing at the date of the Patent, that he could manufacture valuable therapeutic agents by making the higher resorcinols by the use of condensation and reduction processes described?" It will be noted that Sir Stafford Cripps used the expression "in the state of chemical knowledge existing at the date of the patent". There can scarcely be any doubt that the expression "the state of chemical knowledge" meant all the knowledge in the chemical art at that time. In other words, it meant all published knowledge and not merely all common general knowledge in the chemical art, a distinction which is clearly pointed out in the comment by Messrs. Henderson and Watson. This statement of Sir Stafford Cripps was cited with

<sup>11</sup> (1935), 52 R.P.C. at p. 196.

<sup>12</sup> (Hailsham ed.) Vol. 24, p. 607.

<sup>13</sup> (1928), 45 R.P.C. 153, at pp. 162-163.

approval by Jenkins L.J. in *Allmanna Svenska Elektriska A/B. v. Burntisland Shipbuilding Coy. Ltd.*,<sup>14</sup> and by Viscount Simonds in the House of Lords in the *Martin and Biro Swan* case under discussion.<sup>15</sup> In the *Allmanna* case it was strenuously argued that, although an objector who based his allegation of obviousness on similar devices previously in use could rely upon the combined effect of the knowledge derived from such earlier devices, it was otherwise if and in so far as he based himself on earlier specifications or written disclosures not made the subject of practical use; in such event it was contended that the objector must find all the premises for his conclusion of obviousness within a single document; he could no more make a mosaic of such prior publications for the purpose of showing obviousness than he could for the purpose of showing anticipation. In rejecting this contention, Jenkins L.J. said:<sup>16</sup> "In our judgment the argument is not well founded. The matter of obviousness is to be judged by reference to the 'state of the art' in the light of all that was previously known by persons versed in that art derived from experience of what was practically employed, as well as from the contents of previous writings, specifications, textbooks, and other documents. . . . When the relevant facts . . . are known, the question: Was the alleged invention obvious? must in the end of all be as it were a kind of jury question." Jenkins L.J. then indicated that the question must be answered objectively, although, as indicated earlier, it would seem clear that the question can only be answered subjectively.

In the *Martin and Biro Swan* case Lord Simonds<sup>17</sup> stated the question as being whether, novelty being assumed, the alleged invention had inventive merit or, as is commonly said, was obvious. This, he indicated, was a question of fact which in old days was left to a jury to decide. The law at least, he observed, is not in doubt. He adumbrated the principle stated by counsel that the court in considering obviousness is not entitled to have regard to the whole body of the information publicly available at the relevant date, but is somehow confined to a particular document, which, once read, must then be put out of mind before any other document is looked at. "This extraordinary feat of the human mind", observed Lord Simonds, "is not demanded by the law." He then indicated that the House had the opportunity of affirming that the law on the matter is as stated by Jenkins L.J. in the *Allmanna* case and that the appropriate question to ask is the one

<sup>14</sup> (1952), 69 R.P.C. 63, at p. 70.

<sup>16</sup> 69 R.P.C. at p. 69.

<sup>15</sup> (1956), 73 R.P.C. at p. 133.

<sup>17</sup> (1956), 73 R.P.C. at p. 133.

formulated by Sir Stafford Cripps as counsel in the *Sharp & Dohme* case. In his speech,<sup>18</sup> Lord Morton of Henryton stated that he entirely agreed with the reasoning of the Court of Appeal in the *Allmanna* case and added only that the court did not, of course, throw any doubt upon the principle that there may be invention in a combination.

This in no way amounts to a reversal of the doctrine relating to mosaic of extracts. It is not a case of counsel attacking a patent by putting forward a mosaic of extracts and then, when chided by the judge for breaking the rule on this point, saying in effect: "Oh, no, I am not urging a mosaic to show anticipation: I am urging a mosaic to show obviousness. In other words, I am merely shifting my weight from my left to my right foot." What counsel is saying is in effect: "I must not mosaic to show anticipation: I must take each prior document individually and if, considered objectively, it does not show the invention in suit, then it must be discarded from further consideration on the point of anticipation. But, when I come to obviousness, I am entitled to ask the question formulated by Sir Stafford Cripps. To do this I am entitled to bring forward all that was previously known by persons versed in the art derived from experience of what was practically employed as well as from the contents of previous writings, specifications, textbooks and other documents, and on that basis show that there was nothing more than an obvious step. In other words, on the issue of anticipation one may combine only common general knowledge with an individual prior document or device, but on the issue of obviousness one is entitled to combine all public knowledge in the art."

This indeed was the result in the earlier case of *Benmax v. Austin Motor Company Ltd.*<sup>19</sup> The head note of the judgment at trial<sup>20</sup> observes that on the issue of obviousness each prior construction must be taken separately and it must be considered whether the application of ordinary trade variants to such construction would have led to the patented invention. This head note was not justified by any words of the trial judge, Lloyd-Jacob J. In the Court of Appeal, Evershed M.R.<sup>21</sup> clearly stated that it was necessary to regard the whole area of knowledge which the three previous uses put forward had generally disclosed. When the case reached the House of Lords, Lord Somervell asked counsel the question:<sup>22</sup> "Why should you not make a mosaic? There

<sup>18</sup> *Ibid.*, at p. 139.

<sup>19</sup> (1953), 70 R.P.C. 143, 284; (1955), 72 R.P.C. 39.

<sup>20</sup> 70 R.P.C. 143.

<sup>21</sup> 70 R.P.C. at p. 293.

<sup>22</sup> 72 R.P.C. at p. 40.

may still be an inventive step: but why should you not put different documents together?" This question of Lord Somervell's really puts the whole matter in proper perspective and emphasizes the subjective approach, namely, that, taking the whole prior public knowledge into consideration, there may still be invention in putting items of such knowledge together to produce a new or better result. The difference in approach is perceivable in examining a patented combination of five elements. A defendant may say that of these five elements, *A*, *B*, *C*, *D* and *E*, element *A* clearly appears in prior document 1, element *B* clearly appears in prior document 2, and so on, all the elements clearly being shown in different prior documents. The argument is that the combination is old. That, of course, mistakes the law of combination and hence the rule against mosaicing for purpose of anticipation. But in considering obviousness the same five elements are shown in five prior documents. The question is then left to the judge as to whether the ordinary workman, possessing that knowledge at the date of the alleged invention, would have arrived at the invention by the obvious exercise of the skill of his craft or whether, on the contrary, it needed inventive ingenuity to produce the new combination and the new or improved result.

This has been the method of approach applied by our courts for many years. Examples could be multiplied in case after case, but one or two will be sufficient. In *Electrolier Manufacturing Co. Ltd. v. Dominion Manufacturers Ltd.*, Rinfret J., delivering the judgment of the court, considered two prior patents and then observed:<sup>23</sup> "We are not mentioning these anterior publications for the purpose of negating anticipation. . . . We are referring to these former patents . . . in order to show the state of the art and the extent of the advance made by Pahlow, the inventor of the respondent's device. . . . there was a real inventive step upon 'what went before'; and the new result which obtained was of sufficient importance to make it a genuine invention."

In *Colonial Fastener Co. Ltd. v. Lightning Fastener Co. Limited*<sup>24</sup> Smith J., delivering the judgment of the court, considered six prior documents and then observed: "There is no new invention in respondent's machine, except the particular mode of carrying the units, after being formed, automatically to the position where the jaws are set astride the corded edge of the tape. Various mechanisms for doing this very thing with metal units are dis-

<sup>23</sup> [1934] S.C.R. 436, at pp. 441-442.

<sup>24</sup> [1933] S.C.R. 363, at pp. 366-371 *passim*.

closed in the other patents of prior date referred to. The general idea of a machine for making and cutting metal units and automatically placing those in succession where they were attached to a suitable carrying member with regular spacing, in separated groups, was old at the date of the respondent's patent. . . ." Although the decision of the Supreme Court was reversed on appeal to the Privy Council, it is interesting to note that the opinion of the board delivered by Lord Tomlin proceeded to consider the prior art in the same manner as did the Supreme Court, the only difference being in the subjective view of the board. In the Privy Council four prior specifications were relied upon by the respondents and these were considered by Lord Tomlin in turn. After consideration of the state of the art as illustrated by these four specifications, the board concluded that the general mechanical idea of combining in this class of work all the necessary operations in one machine was novel. The board held further that the combination was not obvious but that the inventive element necessary to constitute subject matter was made sufficiently evident.

The decision of the House of Lords in the *Martin and Biro Swan* case, therefore, can hardly be said to herald the advent of a new character known as "The Omniscient Artisan". On the contrary, this remarkable character has always been present breathing into the ears of our learned judges. My friends, Messrs. Henderson and Watson, point with amused scorn to the artisan faced with the possibility of a reference published in Russian being combined with a publication written in Chinese. But the remedy suggested by the learned commentators is not practical. This remedy lies, as I understand it, in the suggestion that each item of evidence to show the state of the art "must be realistically assessed. The evidentiary weight of a publication should depend upon the extent it has been circulated and accepted. The weight to be given to what has been used should bear relation to the degree to which the public has enjoyed the benefit of and acquired knowledge of such use." This is indeed to pile Ossa upon Pelion when it comes to the exercise of discretion. There should be some predictability in law. It is bad enough to be faced with the subjective views of judges on the question of invention *versus* obviousness, but if to this is to be added the weighing in finely balanced scales of the extent of circulation of prior documents and the amount of benefit acquired by the public from those documents, the task of the judge becomes Herculean, of counsel impossible, and of litigants hopeless. Who,

for example, is to assist the judge by giving evidence on how much benefit the public has obtained from any particular publication? Who is to give evidence to assist the judge in deciding how many people have read or may be presumed to have read the publication in question? If obviousness is to be continued as a ground of invalidity, let the standard be set by the ordinary skilled workman armed with all existing knowledge in the relevant art at the date of the invention. Let this standard, imperfect and hypothetical though it may be, not be further confused by qualifying it with modifications and exceptions which will serve merely to cast upon the court the necessity of multiplying the exercise of the subjective faculty.

HAROLD G. FOX\*

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**SUPREME COURT OF CANADA—THE COFFIN CASE AND AMENDMENTS TO APPELLATE JURISDICTION.**—The *Coffin* case, the subject of a recent comment in this Review,<sup>1</sup> has come to an end with Coffin's execution, following a decision of the Supreme Court, adverse to Coffin, given on the reference directed by the Governor General in Council.<sup>2</sup> The making of the reference focussed attention on the limits of the Supreme Court's appellate jurisdiction, especially in criminal cases; and the comment in this Review adverted also to the need of a general reappraisal of those limits. At the session of Parliament just concluded some changes were made in the Supreme Court's jurisdiction.<sup>3</sup>

Most of them relate to appeals by leave, but there is also an important change in appeals as of right. This latter change evoked most of the debate in the Commons, a debate which was even carried to the third-reading stage of the bill.<sup>4</sup> Hitherto an appeal lay as of right in civil cases under section 36(a) of the Supreme Court Act<sup>5</sup> where the amount or value of the matter in contro-

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<sup>1</sup>Supreme Court of Canada—The Coffin Case—Appellate Jurisdiction—Power of Executive to Exercise Clemency or Order New Trial—The Courts and the Executive (1955), 33 Can. Bar Rev. 1059.

<sup>2</sup>[1956] S.C.R. 191. J. E. Belliveau in his book, *The Coffin Murder Case* (Kingswood House, 1956), feels that the case, far from being ended by Coffin's execution, provides a rallying point against capital punishment.

<sup>3</sup>An Act to amend the Supreme Court Act and the Criminal Code, Statutes of Canada, 1956, c. 48 (assented to on August 14th, 1956).

<sup>4</sup>For debate in the House of Commons on the bill, see House of Commons Debates, vol. 98, no. 139 (pp. 6675ff.) and no. 143 (pp. 6924ff.).

<sup>5</sup>R.S.C., 1952, c. 259.

versy in the appeal exceeded \$2,000. By the amendment the pivotal sum is now \$10,000. Opponents of the amendment argued that there was no magic in a monetary limit and urged, quite sensibly, that a right of appeal should not be governed by the amount in dispute. This argument would be more readily acceptable, however, if appeals to the Supreme Court were only as of right. There is, however, a broad jurisdiction in the court itself under section 41 of the Supreme Court Act to give leave to appeal irrespective of the amount involved and irrespective of whether leave has been sought or refused at the provincial appellate court level. This gives adequate assurance that no civil case involving an important issue, whether on facts or law, will go unheard on the merits. Indeed, the preferable position would be that appeals should be mainly by leave. After a case has been through two courts at the provincial level, there is little that a third court can add in the run of cases. A final court, such as the Supreme Court, which has the responsibility for constitutional interpretation, for appellate adjudication on federal matters originating in the Exchequer Court, and for uniformity of law in those areas where several provinces have a common interest, ought to be left in the last class of case to determine for itself what cases are worth its further consideration. It is not of great moment that a litigant may be involved in the expense of an application for leave in addition to the expense of the hearing on the merits. This is a hazard of any appellate system which purports to be more than a rehearing authority.

Turning to the amendments respecting appeals by leave, one of them may be termed substantive and the others largely procedural. The substantive one lies in the new provision of an appeal by leave from discretionary orders or judgments;<sup>6</sup> heretofore, under the prohibitory terms of section 44 of the Supreme Court Act, no appeal lay in such cases. The procedural changes respecting appeals by leave (one of which might aptly be termed the Coffin amendment) ensure that applications for leave in both civil and criminal cases will be heard by the Supreme Court as such and not merely by a judge of the court. If this were all, it would have meant a quorum of five judges at least.<sup>7</sup> However, the amendments stipulate that, save in capital cases, three judges

<sup>6</sup> Section 5 of chapter 48 amends section 44 of the Supreme Court Act by providing that "this section does not apply to an appeal under section 41".

<sup>7</sup> Supreme Court Act, R.S.C., 1952, c. 259, s. 25.

constitute a quorum on applications for leave in civil or criminal cases; and that in capital cases the quorum is five judges.<sup>8</sup>

It may be emphasized that the grounds of appeal in criminal cases have not been enlarged by the amendments under consideration. An appeal as of right still lies only on a question of law on which there has been a dissent.<sup>9</sup> If there has been no dissent, the possibility of an appeal is still limited to questions of law if leave is obtained, but leave in the case of indictable offences (and this had previously been so in the case of non-indictable offences) is now obtainable from the court (subject to the quorum rules already mentioned) rather than from a single judge.<sup>10</sup> This alleviates the difficulty raised by the *Coffin* case. Notwithstanding the changes just mentioned, one difference remains in the law governing appeals respecting indictable and non-indictable offences. In the case of non-indictable offences the application for leave may be grounded on a question of law or of jurisdiction;<sup>11</sup> and, on the surface, this gives a wider scope for appeal than in the case of indictable offences. Practically speaking, however, a question of jurisdiction is equally a question of law; the latter is surely the embracive term. Mention may be made of a further anomaly pointed up by the Supreme Court's recent judgment in *Parkes v. The Queen*.<sup>12</sup> There the court held that the affirmation of a finding that an accused is a habitual criminal may be the subject of an application for leave under section 41(1) of the Supreme Court Act, a provision which does not limit the court to questions of law or of jurisdiction. Thus the position is, superficially at least, different where application for leave is sought in respect of (1) an indictable offence, (2) a non-indictable offence, and (3) the status or condition of being a habitual criminal.

In the debate in the House of Commons and in committee on what might be called the criminal-law amendments, opposition members called for an appeal as of right in capital cases, irrespective of any dissent on a question of law or, indeed, of whether a question of law alone is involved. The Minister of Justice held open the possibility of such a provision (which, incidentally, was recommended by the joint parliamentary committee on capital punishment), but preferred to postpone it pending

<sup>8</sup> Section 6 of chapter 48, adding section 44A to the Supreme Court Act.

<sup>9</sup> Cr. Code, ss. 597(1)(a), 598 (1)(a).

<sup>10</sup> Sections 19 and 20 of chapter 48 amend the Criminal Code, ss. 597 (1)(b) and 598(1)(b), to this effect. The comparable provision on non-indictable offences has been in force under s. 41 of the Supreme Court Act.

<sup>11</sup> Supreme Court Act, s. 41(3).

<sup>12</sup> [1956] S.C.R. 134.

consideration of the reports on this and other phases of criminal law (for example, corporal punishment, lotteries, insanity and sexual psychopathy<sup>13</sup>) and pending consultation with the provinces relative to their duties in the administration and enforcement of the criminal law. The Government carried the day, leaving the House partly mollified by the provision for a five-judge court to hear applications for leave in capital cases when no appeal as of right lay under existing legislation.

One further comment may be made on the quorum provisions for the hearing of applications for leave. Because the quorum for any hearing on the merits is five judges, and because in capital cases it is usual for the full court, or nearly the full court, to sit, the applications for leave will not (as is often the case before provincial appellate tribunals) result in a combined hearing on the request for leave and on the merits. This could happen only if the Supreme Court does not rest on the bare quorum requirements but sits with five or seven or the full nine judges, as the case may be.

A final observation may be made on the *Coffin* reference itself. In disposing of a preliminary motion challenging the validity and propriety of the reference, the Supreme Court indicated that full effect must be given to the broad terms of section 55 of the Supreme Court Act, and especially to subsection 1(e) empowering a reference on "any other matter" on which the Governor in Council sees fit to seek the court's opinion, whether on fact or law.<sup>14</sup> This transcends any limitations depending on the distribution of legislative power and finds its justification in the position of the Supreme Court itself, a position endorsed long ago in this connection by the Privy Council.<sup>15</sup>

BORA LASKIN\*

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CONTRACTS—SALE OF GOODS—NON-ACCEPTANCE OF GOODS—MEASURE OF DAMAGES—TRADE-PROTECTION AGREEMENTS AND PRICE MAINTENANCE.—*Thompson (W.L.) Ltd. v. Robinson (Gun-makers) Ltd.*<sup>1</sup> is a recent authority for the proposition that when

<sup>13</sup> See O Hearn, Criminal Law—Capital Punishment—Corporal Punishment—Lotteries—Joint Committee Reports (1956), 34 Can. Bar Rev. 844.

<sup>14</sup> *Reference re Regina v. Coffin*, [1956] S.C.R. 186.

<sup>15</sup> See *A.-G. Ont. v. A.-G. Can.*, [1912] A.C. 571.

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<sup>1</sup> [1955] 2 W.L.R. 185; [1955] 1 All E. R. 154.

a purchaser fails to take delivery of goods which he has agreed to buy, and when there is no readily available market for the sale of the goods in the locality of the vendor's business, the vendor can recover from the defaulting purchaser the profit which he would have made on the sale of the goods.

The circumstances in which the decision was reached emphasize the importance of trade-protection agreements and the power possessed by combinations of manufacturers and dealers. At the outset of the proceedings the defaulting purchaser contended that he had not entered into an unconditional contract for the purchase of a Standard Vanguard car. However, the aggrieved vendor, supported by the British Motor Trade Association, contended otherwise and, in order to substantiate his claim for damages for loss of profit on the sale of the car, he introduced a great deal of evidence not only about the existence of the alleged contract but also about the motor trade and motor industry generally. The defendant was then in the unfortunate position of having to listen to all this evidence before he could bring forward his own and, realizing that it might cost him more to deny the contract than to admit it, he came to an agreement with the vendor about the facts. The substance of this agreement was that, in consideration of the British Motor Trade Association paying his costs, he conceded that he had entered into a binding contract for the purchase of a Standard Vanguard car, and he further admitted that both at the time of the contract and of its breach there was no shortage of that particular model of car to meet all immediate demands in the locality of the vendor's business.<sup>2</sup>

Before considering the decision itself, I must turn from the "admitted" facts to certain relevant features of the organization of the motor industry generally. It is now the practice for motor-car manufacturers and dealers to enter into trade-protection agreements the objects of which are to secure adequate prices for their products and to protect their trade interests. The old common law would have declared these agreements void for restraint of trade, but the modern rule is that the restraint will be valid if it is reasonable in the interests of the parties concerned

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<sup>2</sup> For a situation not unlike the present one see *Brewer v. Westminster Bank*, [1952] 2 All E.R. 650, where the bank was held not liable to the plaintiff in the court below, and an appeal was settled on the terms that the bank should pay the plaintiff and indemnify her against costs (*The Times*, February 5th, 1953). But, as Denning L.J. pointed out, "meanwhile there is a reported authority . . . , a decision on the legal point in [the bank's] favour".

and also reasonable in the interests of the public.<sup>3</sup> There is authority for the view that, where trade-protection agreements are concerned, the parties themselves are the best judges of what is reasonable in their own interests,<sup>4</sup> and the onus of showing that the agreement is against the public interest lies on those who allege it, and it is by no means a light one.<sup>5</sup> Motor-car dealers are at present bound by their agreement with the manufacturers to sell cars at prices fixed from time to time by the manufacturers and the profits which they make are also fixed. In these circumstances, if a purchaser agrees to buy a car from a dealer at the fixed price and defaults, and the dealer cannot readily resell at the fixed price, he is not required to sell at less than the fixed price, for to do so would be to commit a breach of contract with his supplier, and "a person is not obliged to minimize damages on behalf of another who has broken his contract, if by doing so he would . . . have injured his commercial reputation by getting a bad name in the trade".<sup>6</sup> Moreover, because his appointment as dealer will in all probability limit his activities to a particular area, he will not be required to attempt to sell outside that area in order to minimize damages on behalf of the defendant. Thus trade-protection agreements and price maintenance together destroy the concept of the available market, and the measure of damages ceases to be the difference between market price and contract price: it becomes instead loss of profit—a loss not incurred and a profit not earned.

Now for an examination of the decision itself. The first ground of criticism is that it was wrong to consider the scope of the market as being confined to the locality of the vendor's business. There is respectable authority for this view. Thus Williston: "Though the market value at the time and place where delivery should have been accepted under the contract is the exact matter to be determined, that value sometimes cannot be determined directly. There may be no available market at that place. In such a case, the value at the nearest market of which the seller may reasonably avail himself will be accepted, taking the expense of transportation into account."<sup>7</sup> This passage was not referred to in the judgment in the *Thompson* case and its significance lies in the fact that, al-

<sup>3</sup> See *Nordenfelt v. Maxim Nordenfelt Guns and Ammunition Co.*, [1894] A.C. 535.

<sup>4</sup> See *Northern West Salt Co. v. Electrolytic Alkali Co.*, [1914] A. C. 461, at p. 471.

<sup>5</sup> See *A.-G. of Australia v. Adelaide Steamship Co.*, [1913] A.C. 781, at p. 796.

<sup>6</sup> *Finlay v. Kwik Hoo Tong*, [1929] 1 K.B. 400, at p. 418.

<sup>7</sup> Williston, *A Treatise on the Law of Contracts* (1937), Vol. V, §1378.

though it was agreed by the parties that there was no market in the East Riding of Yorkshire, no evidence was introduced to show that there was not a market elsewhere in the United Kingdom. There are cases in support of the proposition enunciated by Williston, which were referred to by counsel in argument but were not considered in the judgment.

The first is *Sally Wertheim v. Chicoutimi Pulp Co.*,<sup>8</sup> in which there was a contract between the plaintiff and defendant to deliver wood pulp at Chicoutimi between September 1st and November 1st, 1900. Delivery was not made until June 1901. The question concerned the measure of damages. The plaintiff claimed the difference between the market price of pulp at Manchester, the ultimate destination of the pulp, on November 1st, 1900, and the price ruling there in June 1901. The plaintiff had, however, actually sold the pulp for a price greater than the market price ruling in June 1901, with the result that his actual loss was much less than the amount claimed. The Privy Council held that he was entitled only to his actual loss and, with regard to the locality of the market, Lord Atkinson observed:<sup>9</sup> "having regard to the long course of dealing between the parties and the intercommunication between Chicoutimi and Manchester consequent upon it, their Lordships think, on the authority of the three cases cited from the Reports of the State of New York, namely *Grand Tower Co. v. Phillips*,<sup>10</sup> *Cahen v. Platt*,<sup>11</sup> *Wemple v. Stewart*<sup>12</sup> as well as from *Bolag v. Hutchison*<sup>13</sup> the market price at Chicoutimi may for the purpose of this measure of damages be fairly taken to be the market price at Manchester, despite the distance which separates them, of course, less the cost of carriage . . .".

It may be possible to regard this as being dependent on the long course of dealing between the parties, and therefore not of general application. But the same thing does not appear from the report to be true of the second case, *Lesters Leather & Skin Co. Ltd. v. Home & Overseas Brokers Ltd.*,<sup>14</sup> though it was concerned with the purchaser's (not the vendor's) measure of damages—a distinction which it is submitted is immaterial. In this case the purchasers bought from the vendors in India a quantity of snake-skins for delivery at a United Kingdom port. When delivered the skins were found to be not merchantable. Sellers J. awarded the purchasers £2,000 for loss of profit, after making a deduction in

<sup>8</sup> [1911] A.C. 301.

<sup>10</sup> (1874), 90 U.S. 471.

<sup>12</sup> (1856), 22 Barbour (N.Y.) 154.

<sup>14</sup> (1948), 64 T.L.R. 569.

<sup>9</sup> *Ibid.*, at pp. 315-316.

<sup>11</sup> (1877), 69 N.Y. 348.

<sup>13</sup> [1905] A.C. 515.

the vendor's favour, because he found there was a market in snake-skins available to the purchasers in India. The vendors appealed on the ground that it was not sufficient for the judge to make a deduction in their favour, but that, a market being available in India, the purchasers should have mitigated their damages completely by repurchasing there. The Court of Appeal affirmed the decision of Sellers J., Lord Goddard L.C.J. saying:<sup>15</sup> “. . . I am far from saying that if, for instance, it could be shown that at Liverpool or Glasgow snake-skins were available it would not have been the duty of the buyers to buy there. . . . It may be that if, on a failure by the seller to deliver, it could be shown that the buyer could get a shipment from some place as near to this country as Bordeaux, so that similar goods should arrive here within a very short time after the original contract it would be reasonable for the buyer to obtain those similar goods. I express no opinion about any particular case of that sort.”

Enough has been said to show that, whereas Upjohn J. in the *Thompson* case regarded the admission that there was no market in the East Riding of Yorkshire as conclusive, both the Privy Council in the *Wertheim* case and the Court of Appeal in the *Lesters Leather & Skin Co.* case were prepared to consider other markets than those in which the contract was made or to be performed. It may be surmised that the failure of the court to consider other market places was due to the fact that the terms on which the plaintiff was appointed as a dealer restricted his activities to a specified locality. It is submitted, however, that this should have been no answer to the defendant's contention that there was an available market. The question at issue was, Is there an available market for Standard Vanguard cars? This could mean “Is there a market available to the plaintiff in the East Riding of Yorkshire because that is where he bound himself to trade?” or it could mean “Can Vanguard cars be sold in the United Kingdom at list price?” It is submitted that the latter is the true question to be answered and that, if one is confined to the former, one gives to the dealer an undeserved advantage out of his own restrictive agreement. In other words, the terms of a dealer's letter of appointment are relevant in considering his duty to minimize damages, but they should have no bearing on the objective question of the availability of markets.

The second ground of criticism is the approval given by Upjohn J. to the concept of market enunciated in *Dunkirk Colliery*

<sup>15</sup> *Ibid.*

*Co. v. Lever*.<sup>16</sup> In this case James L.J. observed:<sup>17</sup> "What I understand by a market in such a case as this is, that when the Defendant refused to take the 300 tons the first week or the first month, the Plaintiffs might have sent it in waggons somewhere else, where they could sell it, just as they sell corn on the *Exchange*, or cotton at *Liverpool*: that is to say, that there was a fair market where they could have found a purchaser either by themselves or through some agent at some particular place. That is my notion of the meaning of a market under those circumstances."

Upjohn J. preferred this view of the meaning of "market" to that of the Court of Session in *Marshall & Co. v. Nicoll & Son*<sup>18</sup> — a decision on section 51(3) of the Sale of Goods Act, which deals with the buyer's remedy when the seller defaults and is, apart from this, exactly comparable with section 50(3). In this case there was an action for damages for failure to deliver a consignment of steel sheets and the Court of Session held that there was an available market for the sheets within the meaning of section 51(3) of the Sale of Goods Act, 1893, although they were not kept in stock and were not purchasable in the open market, but were made to specification. Accordingly the court awarded to the purchasers as damages for the sellers' failure to deliver the goods a sum representing the difference between the contract price and the price current at the time of the refusal to deliver. This decision was affirmed by the House of Lords,<sup>19</sup> though there was no unanimity in their Lordships' house as to the meaning of "market".

Nevertheless it is a little surprising to find Upjohn J. preferring the decision of the Court of Appeal in the *Dunkirk Colliery* case to that of the House of Lords in the *Marshall & Co.* case. Presumably he was entitled to do so because the former was concerned with section 50(3), whereas the latter was concerned with section 51(3) of the Sale of Goods Act. But this would be a most unsatisfactory basis for the preference. To make matters worse, Upjohn J., after quoting the words of James L.J. I have cited, went on:<sup>20</sup> "If that be the right principle to apply, it was proved that there is nothing in the nature of a market like a Cotton Exchange or Baltic or Stock Exchange or anything of the sort for the sale of new motor-cars". Now it should be noted that James L.J. spoke of the Corn Exchange and the Cotton Exchange, both of which are markets for the sale of goods, but Upjohn J. adds to these

<sup>16</sup> (1878), 9 Ch. D. 20.

<sup>18</sup> [1919] S.C. 244.

<sup>20</sup> [1955] 2 W.L.R. 185, at p. 190.

<sup>17</sup> *Ibid.*, at p. 25.

<sup>19</sup> [1919] S.C. (H.L.) 129.

the Stock Exchange, a market for the sale of a commodity other than goods.<sup>21</sup> Reliance upon examples of this kind does not lead to the conviction that the principle upon which the alleged examples are said to be founded is correct. And indeed it is submitted that the main and irrefutable ground for resisting the *Dunkirk Colliery* case concept of market is that the Sale of Goods Act is an act which was intended to deal with all sorts of goods, and its sections should therefore be construed so as to bring about this result. Section 50(3) becomes generally inapplicable if its operation is confined to corn, cotton and (?) stock. In this connection it is interesting to find the American Restatement of the Law of Contract stating:<sup>22</sup> "Market places are of many kinds and may be few or many in number. They may be run by an organization having a regular membership, as in the case of stock exchanges and boards of trade; they may be merely places where buyers and sellers are accustomed to gather for trade, as in the case of street markets for farm produce; they may be innumerable shops and stores, as in the case of stores for the sale of groceries and dry goods."

One further point: Upjohn J., after having come to his decision, went on to say:<sup>23</sup> "But there is this further consideration: even if I accepted Mr. Platts-Mills' broad argument that one must not look at the market as being the whole conspectus of trade, organisation and marketing, I have to remember that subsection (3) provides only a *prima facie* rule, and if on investigation of the facts one finds that it is unjust to apply that rule, in the light of the general principles mentioned above, then it is not to be applied". It is extremely disquieting to think that, even if Upjohn J. had held that there was an available market, he would nevertheless have thought it "unjust" to apply section 50(3) in favour of the defaulting purchaser against the combination of the car-dealer and the British Motor Trade Association. It is submitted that this resort to the notion of "justice" was irrelevant, but it is disappointing that the law's concept of justice should be contained in the adage "might is right".

The final query about the *Thompson* case concerns the measure of damages itself. It seems to have been conceded that if there was no available market the measure of damages was automatically the amount of profit which the vendor would have made if the contract had been performed. The authority relied on was the

<sup>21</sup> See *Colonial Bank v. Whitney* (1886), 11 App. Cas. 426.

<sup>22</sup> Para. 329, comment (d).

<sup>23</sup> [1955] 2 W.L.R. 185, at p. 191.

Court of Appeal decision in *Re Vic Mill*<sup>24</sup> and certain Commonwealth<sup>25</sup> and American<sup>26</sup> cases based upon it. In *Re Vic Mill* itself, a mill company went into liquidation and thus put it out of its power to accept certain machines which it had ordered. Two classes of machines were involved: first, those completed before the commencement of the winding up of the company, and, secondly, those not yet made but for the manufacture of which various subordinate parts had been obtained. After some delay the plaintiffs found a customer for the first class, but there was not a real market for them, as each mill wanted the goods made to fit their requirements, and the machines had to be altered in certain respects before the customer was found. It was held that the plaintiffs were entitled to prove for the whole of the profits they would have made on the whole contract. It was argued that as there was no evidence that their works were kept idle by reason of the purchaser's default a reduction should be made for the profits made by them on contracts with other persons; but there was evidence that they could have made the goods for the defendant mill company and have carried out their other contracts as well, and they were therefore held entitled to prove for the full profits they would have made from the order.

This appears to be a very strong authority in favour of the conclusion reached by Upjohn J. in the *Thompson* case, but it is to be regretted that the learned judge did not consider the apparently inconsistent decision of Salter J. in *British Automatic Co. v. Haynes*,<sup>27</sup> in which the plaintiff company agreed to let the defendant two automatic stamp machines for a period of two years. When the plaintiffs tendered the machines, the defendant refused to accept them and the plaintiffs then kept them in stock for the period of two years, being under the impression that it was their duty to keep the machines at the defendant's disposal. However at no time between the date of the contract and the trial did the plaintiffs' stock of machines available for letting fall as low as two. Now it might have been supposed that the rule requiring a plaintiff to minimize his damages would not compel the plaintiff in this situation to let the wrongly rejected machines rather than the other machines which he had in stock, and the

<sup>24</sup> [1913] 1 Ch. 465.

<sup>25</sup> *Cameron v. Campbell & Worthington Ltd.*, [1930] S.A.S.R. 402; *Mason & Risch Ltd. v. Christner* (1920), 48 O.L.R. 8, 54 D.L.R. 653; and *Brown v. Buck*, [1934] 4 D.L.R. 446.

<sup>26</sup> *Stewart v. Hansen* (1923), 44 A.L.R. 340 (a majority decision of the Supreme Court of Utah).

<sup>27</sup> [1921] 1 K.B. 377.

loss of weekly rental might accordingly have been held recoverable. But Salter J. was emphatic in rejecting this view.<sup>28</sup> "On behalf of the plaintiffs it was contended that as a result of the breach they always had two more machines on their hands than they would otherwise have had, and have therefore lost the hire price of two machines. I think that this is a mistaken view. To introduce the question of the state of the plaintiffs' stock is to treat the contract as a contract to reduce stock, and is introducing matters which are too remote. No question of stock was in the mind of either party to the contract, and this cannot on the principle of *Hadley v. Baxendale*<sup>29</sup> be considered as a basis of damages. In my opinion the damage which the parties may reasonably be supposed to have contemplated were these. [First, expenses. . .] The second . . . the hire price from the date of the tender of the machines in accordance with the contract until the expiration of such a period as the plaintiffs would require, making reasonable despatch, in order to let the machines out to somebody else." On this basis it would seem that it was as much the duty of the plaintiff in the *Thompson* case to sell the wrongly rejected car to someone else, using reasonable despatch, as it was of the plaintiff in the *British Automatic Co.* case to let the wrongly rejected machines rather than the other machines which he had in stock. If this were so, then the damages recoverable would have been the interest on the capital tied up in the car from the date of the tender of the car in accordance with the contract until the expiration of such a period as the dealer would have required, making reasonable despatch, in order to sell that particular car to somebody else, unless the holding that there was no available market meant that not a single car of that type could be sold within a reasonable time. The *British Automatic Co.* case is, however, considerably weakened by the fact that *Re Vic Mill* was not cited to the court, nor was it considered in the judgment. Further, even if the *British Automatic Co.* case had been considered in the *Thompson* case, there can be little doubt that the decision in *Re Vic Mill* would, both on principle and in view of the hierarchy of authority, have been followed.

It is interesting, however, to note that the principle which fixes the measure of damages as the loss of profit occasioned by the breach of contract is by no means of universal application, even

<sup>28</sup> *Ibid.*, at pp. 380-381. Mayne, *Treatise on Damages* (11th ed.) p. 28, implies that this view was not considered, but the report shows that it was expressly rejected in a brief and uncompromising judgment.

<sup>29</sup> (1854), 9 Ex. 341.

though it underlies the rule that the measure of damages for non-acceptance of goods is *prima facie* the difference between the contract price and the market price, for if I agree to sell you an article for £50 at an expected profit of £10 and you default, the market price being £45, I can only recover £5 from you because I can make up my expected profit of £10 by selling in the open market.

But the rule appears to be different in at least two types of cases. First, the measure of damages for a breach of contract to pay money is ordinarily interest on the sum promised,<sup>30</sup> but this rule is strictly and severely circumscribed. Thus it has no application where the promise is to do something more than pay money, as, for example, to take delivery of goods and pay for them, or to pay by means of providing an irrevocable letter of credit. An instance of the latter is *Trans Trust v. Danubian Trading Co.*,<sup>31</sup> in which the purchasers undertook to provide a letter of credit in favour of the vendors in respect of the purchase of goods over which the vendors had an option. It was known to both parties that the necessary currency would not be available to the vendors to enable them to exercise the option unless the letter of credit was provided. On the purchaser's default it was held that the measure of damages was the profit which the sellers would have made had the contract been performed, since in the circumstances this was the foreseeable loss whether the market price of the goods went up or down.

Secondly, breaches of contract for the sale or purchase of land fall into a category of their own. If the contract is broken by the vendor, the purchaser cannot recover damages for the loss of his bargain<sup>32</sup> where the vendor is only prevented from carrying out his contract by a defect in title, but can recover only (1) the deposit he has paid, if any, and, in the absence of stipulation, interest on it; (2) interest on the purchase money, if it has been kept lying idle awaiting the completion and the vendor has notice of this fact; and (3) expenses incurred in investigating the title. The vendor however is liable to pay damages for loss of bargain if he can make a good title and will not, or will not do what he can and ought to do in order to obtain one.<sup>33</sup> The reason for thus restricting the purchaser's damages is the difficulty of making title to land in England. No similar reason exists to help a defaulting purchaser and so, in accordance with ordinary rules, if the purchaser is the defaulter the measure of damages is the injury sustained by the

<sup>30</sup> See *Wallis v. Smith* (1882), 21 Ch. D. 243, at p. 257.

<sup>31</sup> [1952] 1 All E.R. 970.

<sup>32</sup> See *Bain v. Fothergill* (1873-74), L.R. 7 H.L.C. 158.

<sup>33</sup> See *Day v. Singleton*, [1899] 2 Ch. 320.

vendor by reason of the diminution in the value of the land or the loss of the purchase money. Thus in *Keck v. Faber*<sup>34</sup> it was held that the measure of damages was the difference between the contract price and a selling price which could be realized within a reasonable time after the breach and not such as would be realized slowly by nursing the property for speculative building. And in *Laird v. Pim*,<sup>35</sup> where the defendants had been put into possession of land under an agreement to purchase and had taken from it a quantity of brick clay, the damage was held to be the interest on the balance of the purchase money up to the date of the action and the value of the clay.

The arguments put forward in this comment may be summarized as follows:

1. The availability of a market in the *Thompson* case should have depended on an objective answer to the question whether that particular model of car could be sold in the United Kingdom, and the plaintiff should not in this respect have derived any advantage from any restrictive agreement which limited his sphere of operations.

2. Section 50(3) of the Sale of Goods Act, 1893, should be construed in such a way as to be applicable to all sorts of goods, and accordingly the word "market" as used in the subsection should be interpreted to include "the whole conspectus of trade, organisation and marketing"<sup>36</sup> and should not be confined to markets such as the Cotton Exchange or Baltic or Stock Exchange.

3. The principle underlying the rule that the measure of damages for non-acceptance of goods is *prima facie* the difference between the contract price and the market price is designed to secure to the seller the profit which he would have made if the contract had been performed. Accordingly, where the *prima facie* rule is for one reason or another inapplicable, there is justification for applying the major principle and awarding damages for loss of profit. But there are exceptions to the general principle which are more or less justifiable on historical or empirical grounds.

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<sup>34</sup> (1916), 60 Sol. J. 253.

<sup>35</sup> (1841), 7 Moh. 474.

<sup>36</sup> Cp. *Chao and Others v. British Traders & Shippers, Ltd.*, [1954] 3 All E.R. 165, where a commodity being "virtually unsaleable" after breach a value was put upon it and damages awarded to the purchaser as being the difference between this value and the contract price: profit which the purchaser would have made on a sub-sale held not recoverable, [1954] 1 All E.R. 779, at p. 797.

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