



Royal Commission on Patents,
Copyright and Industrial Designs

REPORT ON
PATENTS OF INVENTION

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Copyright and Industrial Designs

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PATENTS OF INVENTION

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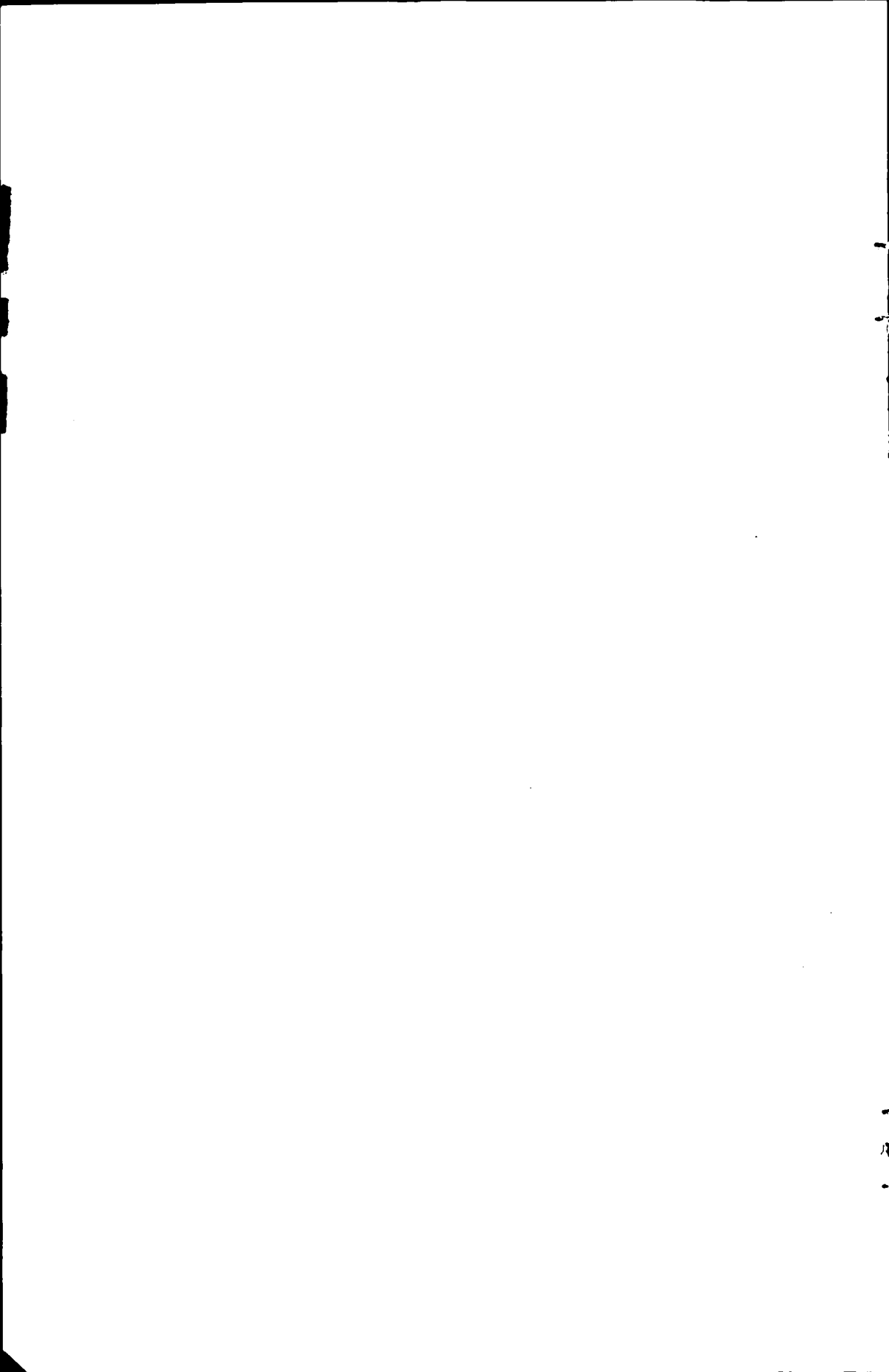


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DIVISION I—INTRODUCTION

Section 1. Terms of Reference.

By commission, dated June 10, 1954, we were appointed Royal Commissioners to inquire as to whether Federal legislation relating in any way to patents of invention, industrial designs, copyright and trade marks affords reasonable incentive to invention and research, to the development of literary and artistic talents, to creativeness, and to making available to the Canadian public scientific, technical, literary and artistic creations and other applications, adaptations and uses, in a manner and on terms adequately safeguarding the paramount public interest, the whole in the light of present-day economic conditions, scientific, technical and industrial developments, trade practices and any other relevant factors or circumstances, including practices under or related to the said legislation and any relevant international convention to which Canada is a party.

We have submitted our report on copyright and our report on industrial designs, dated August 1, 1957 and June 1, 1958 respectively and now beg to submit our report on patents. Pressure of other duties and the unexpected dimensions of the work have made it necessary for us to request to be relieved from the task of inquiring into and reporting on the law in relation to trade marks, a request to which your Excellency has been pleased to accede, and an Order in Council has been passed, dated October 16, 1959, amending our commission so as to delete the reference to trade marks. This, then, is the last of the reports which we are submitting pursuant to the commission mentioned above.

As stated in our report on copyright, on or about August 20, 1954, we sent a questionnaire pertaining to patents, copyright and industrial designs to a large number of corporations, firms, associations and individuals. This number included or was intended to include all those in Canada who would be specially interested in any of the subjects of the inquiry. The part of the questionnaire relating to patents is attached as Appendix A. In the latter part of October, 1954, we inserted a notice in the Canada Gazette and in newspapers published in all the provinces of Canada, of public hearings stating the time and place when and where these hearings would be held and inviting those desiring to make representations at the hearings to communicate with the Secretary. The public hearings received considerable notice in the press and on the radio and we think that every reasonable opportunity has been given to those desiring to make representations to do so. An indication of those who have made representations to the Commission either in public or by written submissions will be found in Appendix B.

Apart from such representations we have had throughout the course of the inquiry the benefit of private discussions with many persons who have specialized in or have special knowledge of patent matters. We have also had continuously before us patent legislation of other countries and reports of committees on which patent legislation is based, and in addition two of our number (when there were three members of the Commission) visited London and The Hague and one visited Washington, Paris and Berne, where they discussed problems relating to patents with those who had had, either as government officials or otherwise, experience with those problems.

Of the committee reports examined, we shall be referring to the Report of the Swan Committee. This was a committee appointed by the President of the Board of Trade of the United Kingdom in April, 1944, to consider and report whether any, and if so, what changes were desirable in the Patents and Designs Acts and in the practice of the patent office and the courts in relation to matters arising therefrom. The chairman of the committee was Sir Kenneth R. Swan, Q.C. The committee made an interim report in March, 1945, a second interim report in February, 1946, and its final report in July, 1947. Following these reports the Patents Act, 1949 (United Kingdom) was passed enacting many of the recommendations of the Swan Committee.

We may add that the literature on the subject of patents and on the problems connected with them is most voluminous. A subcommittee of the Committee on the Judiciary, United States Senate, has since 1955 been reviewing the statutes of the United States relating to patents, trade marks, and copyright. This subcommittee was created by a Senate resolution in 1955 and has been continued by subsequent Senate resolutions year after year. As the chairman of the subcommittee is Senator O'Mahoney we shall refer to it as the O'Mahoney Subcommittee. The subcommittee has been publishing a series of special studies on patents and reference to some of these will be made in this report. Study No. 14, the foreword of which is dated June 27, 1958, is a bibliography compiled for the subcommittee by Julius W. Allen of the Legislative Reference service, Library of Congress. This is entitled "Economic Aspects of Patents and the American Patent System : A Bibliography". It consists of a list and short description of no fewer than 446 publications. Needless to say, we have not had time to examine all of these or more than a small part of the other literature on the subject. We nevertheless feel that our recommendations are capable of practical application and would, if adopted, improve our existing patent system.

Section 2. History and Character of our Present Legislation

Canadian legislative provisions relating to patents are, with a few exceptions, to be found in the Patent Act which in its present form was enacted in 1935—S.C. 1935, c. 32. The 1935 statute, amended from time to time, was carried into the Revised Statutes of 1952 as Chapter 203, and has since been amended in minor particulars on two occasions by S.C. 1953-54, c. 19 and by S.C. 1953-54, c. 40, s. 15. The Act as amended to date is appended as Appendix C.

Probably the first patent law (in the sense of a general promise of exclusive rights to inventors) was enacted in 1474 by the Republic of Venice. (But see article by E. Wyndham Hulme in vol. XII of the Law Quarterly Review, 1896, pp. 141-154 which refers to earlier grants of franchises in England which may have been franchises of exclusive rights to inventors). But for all practical purposes a person desiring to acquaint himself with the principles of Canadian Patent Law need go no further back than 1624 when the Parliament of James I passed the Statute of Monopolies 21 Jac. I, c. 3. This Statute forbids the granting by the Crown of exclusive rights to trade with the exception of patent monopolies to the "true and first inventor" of a new manufacture. As this Statute made it clear that the true and first inventors of any manner of new manufactures within the realm could be granted the exclusive privilege of working or making them, the statute has been called the "Magna Carta of the rights of inventors".

Great Britain enacted a comprehensive statute relating to patents in 1852 but the United States, acting under a provision of the Constitution of 1787 which

had given Congress the power "to promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive rights of their respective writings and discoveries", passed its first patent law in 1790.

The earliest statute relating to patents in Canada was an Act of the Legislature of Lower Canada passed in 1823, 4 Geo. IV, c. 25. In 1826 a similar Act, 7 Geo. IV, c. 5, was passed in Upper Canada. In the 1830's, Acts providing for the granting of patents were passed in Nova Scotia (3 Wm. IV, c. 45), New Brunswick (4 Wm. IV, c. 27) and Prince Edward Island (7 Wm. IV, c. 21) respectively. All these Acts were superseded by the Act of 1869 (32-33 Vic. c. 11), enacted by the Dominion Parliament under the power conferred upon it by s. 91 (22) the British North America Act, 1867 whereby "patents of invention and discovery" were assigned to the exclusive jurisdiction of the Parliament of Canada. Newfoundland enacted legislation relating to patents in 1850 by 14 Vic. c. 9. The first provision for patents in British Columbia was by Ordinance No. 17 of 27 Vic. (1863).

In the meantime, the Congress of the United States in 1836 had passed an Act relating to patents which has since remained, broadly, the basis of subsequent patent legislation in that country.

When the Parliament of Canada in 1869 enacted a Patent Act applicable to the whole Dominion, it modelled it upon the United States Act of 1836, the operative granting section being in almost identical terms with the granting section in the United States Act and providing that an inventor upon certain conditions "may obtain a patent" for his invention. Certain features of United Kingdom legislation have been introduced into Canadian legislation by amendments since 1869, but the 1869 Act, modelled as it was upon the then existing Patent Act of the United States of 1836, forms broadly the basis of our subsequent Acts. See "The Canadian Law and Practice relating to Letters Patent for Inventions", 3rd ed., p. 29 by Harold G. Fox, Q.C.

A fundamental principle of the present United States legislation is that expressed in subsections (a) and (g) of section 102 of the United States Act, Title 35—Patents, which is that an inventor or a person claiming under him is not entitled to a patent if, before his invention thereof, the invention was known or used by others in the United States, or if before the inventor's invention thereof, the invention was made in the United States by another who had not abandoned, suppressed or concealed it.

It is sometimes said that the main difference between the United States patent system and that of the United Kingdom is that in the United States system priority rights are based upon the date of invention while in the United Kingdom system they are based upon the date of application for patent often referred to as the date of filing. By this is meant that under the United States system it is the first inventor of the invention who is entitled to a patent on the invention while under the United Kingdom system it is the first inventor who files who is so entitled. This is, however, a simplification of both systems but it is substantially true. The Canadian patent system is a variety or development of that of the United States. In Canada, as between two inventor-applicants, each of whom has independently invented some invention, the inventor-applicant who invented last is not entitled to a patent even though he applies first. This again is oversimplification but it is correct enough to explain the statement sometimes made that if Canada were to change over from its present system to the United Kingdom system, it would be going from the date of invention to the date of filing as the priority date.

It may be noted that there are only three countries in the world which use the invention date (as distinguished from the filing date) as the date which determines priority rights, the United States, Canada and the Philippines. All other countries which have patent systems use the filing date as the date which determines priority rights as a general or fundamental principle. (It should be noted, however, that by virtue of section 63 of our Act a person who is not the first inventor may in certain circumstances obtain and hold a valid patent.)

Various classifications of the patent systems of the world can be made, but it is only necessary for our purposes to consider two types of systems—the examination system and the registration system. Under the examination system, the patent offices make more or less thorough examination of the “prior art” before a patent is granted mainly for the purpose of ascertaining whether the invention claimed as new is really new. This is the system that prevails in Canada, the United Kingdom, the United States, and many other countries. Canada, the United States, Germany, Sweden and Holland are amongst the countries where an application for patent may be rejected by the Patent Office on the ground that the invention claimed did not involve an inventive step.

Under the registration system, an important example of which is the French system, patents, generally speaking, are granted without an attempt at serious or thorough examination of the prior art. One would expect that a large proportion of the patents granted under a registration system would be invalid and could later be held invalid by the courts. We are satisfied, however, that no matter how thorough the examination by a patent office is, a substantial proportion of patents issued are invalid. We wished to ascertain whether there was any demand and if so, how great a demand for the adoption of a registration system in Canada, but the answers which we received to the question in our questionnaire designed to elicit information in this regard were all unfavourable to the adoption of a registration system.

We have tried to assemble information as to the extent to which the courts in Canada, in the United Kingdom and in the United States have gone in invalidating patents.

From the beginning of the year 1940 to the end of the year 1959, 25 patent suits involving the validity and infringement of 30 patents were heard by the courts in Canada, which finally adjudicated upon such patents. The courts held 13 of the patents to be valid and 4 of the patents not to be infringed. Thirteen of the patents were held to be valid and infringed and of the 13 held valid and infringed, 4 patents were dealt with in one suit.

Since the beginning of 1954 to the end of 1959 there have been 6 patents suits involving 6 patents; 5 patents have been held valid and infringed, whereas 1 patent was held not to be infringed.

Since the year 1940 the Supreme Court of Canada has dealt with 14 patents. Ten patents were held invalid, 2 were held valid, and 2 patents were held not to be infringed. Of the 10 patents held invalid by the Supreme Court of Canada, one patent was subsequently held valid by the Privy Council. In a second case, where the Supreme Court of Canada has held the patent invalid, the Privy Council affirmed the judgment.

Since 1948, the Supreme Court of Canada has dealt with 3 patent cases. It held one patent invalid, one patent valid, and one patent not to be infringed. The Privy Council affirmed the judgment of the court in respect of the patent which had been held invalid.

In an article written by Harold G. Fox, Q.C. appearing in the January 1948 issue of the Canadian Bar Review, p. 227, an analysis is made of Canadian decisions prior to 1948. Mr. Fox points out that in the 25 years prior to 1948 the Supreme Court of Canada found invention in only 10 of 42 patents that came before it for consideration. In a subsequent article appearing in the May 1958 issue of the Canadian Bar Review, p. 201, Mr. Fox analyzed the cases over the ten-year period 1948-1958, and points out that on the question of invention the Canadian courts found 7 patents valid and 2 patents invalid.

From a purely statistical analysis of the cases without reference to the subject matter of the patents themselves, it would appear that the courts have tended to impose a higher standard of invention prior to the decision in the case of *The King v. Uhlemann Optical Company* (1950) Ex.C.R. 142 (affirmed (1952) 1 S.C.R. 143) where Mr. Justice Thorson at p. 161 held that the presumption of validity arising from section 48 of the Patent Act imposed an onus on one attacking a patent which was not an easy one to discharge. (This was repeated in *O'Cedar of Canada Ltd. v. Mallory Hardware Products Ltd.* (1956) Ex. C.R. 299 in which it was said also that "the statutory presumption of validity of the patent in favor of the patentee and his assigns cannot be too strongly stressed". See also *Riddell v. Patrick Harrison & Co. Ltd.* (1958) 28 C.P.R. 85 at p. 103, *Reliable Plastics Co. Ltd. v. Louis Marx & Co. Inc.* (1958) 29 C.P.R. 113 at p. 127, and *Visirecords of Canada Ltd. v. R.S. Malton et al* (1958) 29 C.P.R. 73 at p. 99.). It is interesting to note that since the *Uhlemann* case the trial court has tended to support the validity of a patent. Although the decision of the Exchequer Court in the case of *The King v. Uhlemann* was affirmed by the Supreme Court of Canada, the court did not comment upon the specific ruling by the President of the Exchequer Court on the effect of the statutory presumption. We consider the effect to be given to the statutory presumption of validity in section 1, subsection (14) (b) of Part V of Division IX of this report.

In the United States, P.J. Federico, examiner in chief in the United States Patent Office, reported to the O'Mahoney Subcommittee that the number of patents adjudicated in the United States during the seven-year period 1948-1954 inclusive was as follows: (see 38 Journal of the Patent Office Society 1956, p. 233)

	Patents
District Courts (published decisions)	664
Court of Appeal	429
Supreme Court of the United States	7

In the Supreme Court of the United States 5 of the 7 patents were held invalid and 2 valid and infringed, although in one of the two certain claims were held invalid.

United States Court of Appeals

Number of Suits	Number of Patents	Valid and Infringed	Invalid	Not Infringed
310	429	77	269	83
	100%	18%	62.7%	19.3%

United States District Courts Published Decisions

Number of Patents	Valid and Infringed	Invalid	Not Infringed
664	201	335	108
100%	30.3%	53.5%	16.2%

Peter Meinhardt in his book "Inventions, Patents and Monopoly" 2nd edition at p. 177 has made a statistical computation of the results in patent cases in the United Kingdom as reported in the Report of Patent Cases for the period 1919-1949 as follows:

<i>Number of Patents</i>	<i>Valid and Infringed</i>	<i>Invalid</i>	<i>Not Infringed</i>
184	51	105	28
100%	28%	56%	16%

It is not surprising that a relatively high percentage of patents contested after a hearing in court should be found invalid. The examiner in the patent office who allows the patent hears only one side of any issue relating to the application. It is only in the adversarial procedure of a court proceeding that the arguments and evidence militating against validity are made available for consideration.

Although differing conclusions may be drawn from these statistics, they do indicate that many patents issued by the patent offices in Canada, the United Kingdom and the United States are later held invalid by the courts, even though these countries all have examination systems. The degree of examination possible in the Canadian Patent Office is such that we are satisfied that a substantial proportion of patents issued by that office are invalid, but what proportion we are unable to determine.

It is, we think, desirable to keep the proportion of patents which are invalid to the practicable minimum but care must be taken not to impose upon the officers of the Patent Office duties of search and investigation which are essentially beyond their ability to discharge effectively or which will unduly delay the granting of patents. The two objectives, expedition in processing applications and avoidance of invalidity, are to some extent in conflict. The balance between them should, we think, be sought and some of our recommendations will be directed toward that end.

Section 3. Should the Patent System be Maintained?

In the Second Interim Report of the Swan Committee the Committee said (para. 7) that in approaching the inquiry they felt it necessary to consider first the broad fundamental question whether the maintenance of "our patent system upon its present basis is justified as being still conducive to the attainment of those objects for which it was originally designed".

Para. 9 of the Second Interim Report is as follows:

"The theory upon which the patent system is based is that the opportunity of acquiring exclusive rights in an invention stimulates technical progress, mainly in four ways: first, that it encourages research and invention; second, that it induces an inventor to disclose his discoveries, instead of keeping them as a trade secret; third, that it offers a reward for the expense of developing inventions to the stage at which they are commercially practicable; and fourth, that it provides an inducement to invest capital in new lines of production which might not appear profitable if many competing producers embarked on them simultaneously. The history of industrial development seems on the whole to have justified this theory. Patent systems similar to our own have been adopted and are in operation in almost all industrial countries, and the general principles are embodied in the International Convention for the Protection of Industrial Property, to which every European country, except the Soviet Union, has subscribed, and to which many non-European countries, including the British Dominions, the United States of America, Brazil and Japan, also belong."

Then, after referring in para. 10 to the Soviet method of encouraging and rewarding inventors the Committee goes on in para. 11 to say, "We are in favour of the retention of the present system in this country," but expresses the opinion that there are several respects in which it can be improved.

A research study entitled "Some Proposals for Improving the Patent System" was prepared by Dr. Vannevar Bush at the request of the O'Mahoney Subcommittee. It is stated in the foreword of Dr. Bush's study (Study No. 1), that Dr. Bush's long association with the Massachusetts Institute of Technology and the Carnegie Institution of Washington, D.C., his achievements and experience in the fields of science, business and government, and his active participation in prior studies of the patent system made him uniquely qualified to aid the Subcommittee in its study.

Dr. Bush in his Study (p. 1) says that the patent system (of the United States) has three great objectives which he expresses as follows:

"First, it aims to stimulate both invention and the assiduous search for new applications of knowledge, which is the basis of invention. It does this by placing the inventor in a position to secure a reward.

Second, it seeks to create conditions whereby the venture of funds to finance the hazardous introduction into public use of new devices or processes will be warranted. This is done by protecting the industrial pioneer for a limited time against the uncontrolled competition of those who have not taken the initial financial risk.

Third, it aims to prevent the creation of an industry permeated by the intense secrecy with regard to its processes which characterized the medieval guilds and which can only retard the realization by the public of the benefits of scientific progress. This it does by extending a temporary monopoly to those who, in keeping with the American ideal of openness and frankness, will make a full disclosure of their new ideas so that they may be utilized to the full by those skilled in a particular art."

Dr. Bush goes on to say (p. 2):

"It [the patent system] worked well. This country has prospered beyond all others in the wide application of new techniques and in advanced industrial processes. Undoubtedly much of this was due to the width of the land in which great homogeneous markets were developed, and to the pioneering spirit of the people which could be applied as well to industrial as to geographic frontiers. Yet the patent system was largely responsible for the vigor of our small enterprises and for the effectiveness with which new things were promptly brought into use. Life was made more comfortable, healthy, and worth living for large numbers of our citizens."

And in addition to the three objectives expressed by Dr. Bush, a fourth is sometimes mentioned. This was briefly dealt with by G. M. Jarvis, legal adviser and Secretary of the Atomic Energy Control Board and General Counsel of Atomic Energy of Canada Limited, who appeared before us on behalf of the Atomic Energy Control Board and who pointed out that a patentee by enforcing his patent in effect compels those who would compete with him to develop a competing and different article, substance or technique. In other words, a patent of an invention compels competitors to "invent around" the invention. But it is not clear to us that competitive research of this kind is necessarily a good thing. The position taken by Fritz Machlup, Department of Political Economy, Johns Hopkins University, in a study which he prepared for the O'Mahoney Subcommittee (Study No. 15 p. 51) was as follows:

"The advantage is seen in the additional 'encouragement' to research. If the competitors were given licenses under the patent of the firm that won the race, they would have to pay royalties but would not be compelled to 'invent around' it. Exclusivity, however, forces some of them to search for a 'substitute invention'. But why should this be regarded as an advantage? The idea is probably that, if industrial research

is desirable, more research is more desirable, and that it does not matter what kind of knowledge the research effort is supposed to yield. From an economic point of view, research is costly since it absorbs particularly scarce resources which could produce other valuable things. The production of the knowledge of how to do in a somewhat different way what we have already learned to do in a satisfactory way would hardly be given highest priority in a rational allocation of resources."

We think there is much to be said for this position. Reference, in this regard, and in regard to many features of and objections to the patent system may be had to an article by Sir Arnold Plant who is described by Fritz Machlup in Study 15 as "the most outspoken critic of the patent system in modern times". This article is entitled "The Economic Theory Concerning Patents for Inventions" and appeared in *Economics*, new series, vol. I (1934) pp. 30-51.

Apart from the question whether research cannot be overdone, that is whether some research may not be an uneconomic use of a country's resources, the question has arisen whether a patent system on the whole promotes laboratory research. Prof. Seymour Melman, a member of the Department of Industrial Engineering, Columbia University, who is said by Senator O'Mahoney in his Foreword to Study No. 11, presented by Prof. Melman to the O'Mahoney Subcommittee, to have had a longstanding, active and down-to-earth interest and experience in the subject of industrial productivity and research, says in that Study (p. 62):

"The patent system in the contemporary scene has not, as a rule, promoted conditions that facilitate research in science or the industrial arts. On the contrary: In universities the effect of patenting pressures has been to interpose managerial controls and commercial pressures where free, uninhibited inquiry is needed to promote the flow of science. In industrial laboratories research in the useful arts has been expanded rapidly, without a parallel growth in patenting activity. Moreover, the experience of a few firms, whose patent privileges have been recently abridged, indicates that these managements maintain and expand their industrial research in order to cope with problems of product and cost competition. The development of research in these and similar firms will bear close watching.

With or without a patent system, the efficient pursuit of knowledge in the universities and other nonprofit institutions will continue, within the limits of available resources, so long as the production of knowledge is treated as a sufficient end in itself. Industrial firms will continue to enlarge their research in the useful arts as dictated by competitive needs, with or without patent privileges. Henceforth, in the judgment of this writer, the main impetus for the promotion of science and the useful arts will come, not from the patent system, but from forces and factors that lie outside that system."

The Study was prepared by Prof. Melman after careful investigation and the passage quoted is the conclusion of Study 11 which purported to give the results of this investigation.

Study 15, by Fritz Machlup, to which we have referred, presents with great clarity the economic arguments for and against the patent system as a whole. We think the following passage from the section of the Study entitled "Concluding Remarks" (pp. 79, 80) is worth quoting:

"No economist, on the basis of present knowledge, could possibly state with certainty that the patent system, as it now operates, confers a net benefit or a net loss upon society. The best he can do is to state assumptions and make guesses about the extent to which reality corresponds to these assumptions.

If one does not know whether a system 'as a whole' (in contrast to certain features of it) is good or bad, the safest 'policy conclusion' is to 'muddle through'—either with it, if one has long lived with it, or without it, if one has lived without it. If we did not have a patent system, it would be irresponsible, on the basis of our present knowledge of its economic consequences to recommend instituting one. But since we

have had a patent system for a long time, it would be irresponsible, on the basis of our present knowledge, to recommend abolishing it. This last statement refers to a country such as the United States of America—not to a small country and not a predominantly nonindustrial country, where a different weight of argument might well suggest another conclusion.

It will be noted from this conclusion that the author of the Study intimates that different considerations might apply to a small country or a predominantly nonindustrial country. The position of Canada vis-a-vis other countries of the world is notable in one respect and that is the surprisingly large proportion of Canadian patents which are applied for on inventions made by inventors who are not residents of Canada.

Mrs. Editha T. Penrose in her book "The Economics of the International Patent System" published in 1951 in a footnote on page 111 gives a tabulation of the percentage of total patents granted to foreigners for various countries for the period 1930-37 unless otherwise indicated. This footnote is as follows:

"Most countries grant more patents to foreigners than they do to their own nationals. The U.S. Patent Office prepared the following figures for the Temporary National Economic Committee.

Percentage of Total Patents Granted to Foreigners
for Various Countries

(1930-37 unless otherwise indicated)

United States	13.2
Germany	25.8
Great Britain (1930-35)	51.7
France	49.9
Italy	63.8
Canada	90.3
Switzerland (1930-36)	55.6
Japan (1930-36)	24.0
Czechoslovakia	76.1
Holland (1930-35)	80.9
Denmark	66.4
Norway	72.2

Hearings before the Temporary National Economic Committee, Part 3, p. 1152. See also a study by Mark Jefferson, 'The Geographical Distribution of Inventiveness,' The Geographical Review, v. 19 (1929), p. 650."

The Reports of the Commissioner of Patents for the ten years ending with the year ended March 31st, 1959, disclose the following information:

Year Ending	Canada	Percentage Residents of Canada	Other Countries	Percentage Residents of Other Countries	United States	Percentage Residents of United States
March 31, 1950	655	7.7	7,858	92.3	6,331	74.3
March 31, 1951	627	7.4	7,834	92.6	6,289	74.3
March 31, 1952	708	7.4	8,808	92.6	6,909	72.6
March 31, 1953	742	7.6	8,958	92.4	6,966	71.8
March 31, 1954	606	6.4	8,808	93.6	6,849	72.6
March 31, 1955	570	5.5	9,712	94.5	7,719	75.07
March 31, 1956	652	5.7	11,210	94.3	8,568	72.41
March 31, 1957	761	4.9	14,752	95.1	11,131	71.75
March 31, 1958	772	4.74	15,489	95.26	11,695	71.98
March 31, 1959	899	4.9	17,394	95.1	12,746	69.7

This table shows what an extremely small proportion of patents issuing from the Canadian Patent Office are patents on inventions invented by Canadian inventors. Moreover the proportions, as noted above, during the last ten years have decreased from 7.7% to 4.9%.

Mrs. Penrose in her impressive book says at pp.116-7 the following:

"Any country must lose if it grants monopoly privileges in the domestic market which neither improve nor cheapen the goods available, develop its own productive capacity nor obtain for its producers at least equivalent privileges in other markets. No amount of talk about the 'economic unity of the world' can hide the fact that some countries with little export trade in industrial goods and few, if any, inventions for sale have nothing to gain from granting patents on inventions worked and patented abroad except the avoidance of unpleasant foreign retaliation in other directions. In this category are agricultural countries and countries striving to industrialize but exporting primarily raw materials."

The foregoing suggests the observation that the economic advantages such as they are of dispensing with the patent system would be at least as great in Canada as elsewhere. Presumably, the research leading to the inventions made in the United States which are patented in Canada would not be diminished or altered in its character by the abolition of the patent system in Canada so long as the United States maintained its patent system. Similar considerations would likely apply to most other foreign inventions. If there were no patent protection in Canada, Canadians could use, royalty free, inventions patented abroad. This, however, might be in fact the sharing in what might be regarded as the fruits of patent systems elsewhere and benefiting from the free imitation of technologies developed abroad without sharing the cost of these benefits.

On the whole, we have come to the conclusion that even to Canada with its large preponderance of foreign owned Canadian patents the words in the concluding passages of Fritz Machlup's study apply—"if we did not have a patent system it would be irresponsible, on the basis of our present knowledge of its economic consequences, to recommend instituting one. But since we have had a patent system for a long time, it would be irresponsible, on the basis of our present knowledge, to recommend abolishing it."

In coming to this conclusion one consideration has been the substantial number, though small percentage-wise, of Canadian residents who every year are granted patents and to whom, or to some of whom, the considerations quoted above from the Report of the Swan Committee and from the Study of Dr. Bush submitted to the O'Mahoney Committee apply.

We have given consideration to the question whether licences should not be compulsory under all patents, either immediately upon grant or at the expiration of a certain number of years after grant. This suggestion, with variations or modifications of the proposal involved, was fully discussed by the Swan Committee in its Second Interim Report, paragraphs 42 to 50 and 53. The Committee came to the conclusion that it could not recommend its adoption; paragraphs 49 and 53. Dr. Bush, in considering the same matter, says (p. 26)

"If licenses were to be compelled under all patents, it would be impossible for the small enterprises, which form the heart of the Nation's industrial strength, to maintain themselves. The principle of general compulsory licensing [we take it that he means compulsory licensing in all situations] is basically unsound. It would rob the country of the benefits which have in the past been substantially attributable to the patent laws. It is only in special situations . . . that the facts are such that the remedy of compulsory licensing may be used without attendant evil consequences."

The statement that "it would be impossible for the small enterprises . . . to maintain themselves" is, we think, too broad, but in our opinion it would be true of some small enterprises. As regards such small enterprises as presently rely on exclusive patent rights, much would depend upon the size of the royalty. But the prospect of attempting to build and maintain an enterprise on the basis of a patented invention which competitors, perhaps immensely large and well entrenched, would be entitled as of right to work upon payment of a reasonable royalty might, we think, in some cases be sufficient to deter either the establishment or the continuance of the enterprise. There would be other possible disadvantages as well. The prosecution of research in Canada would to a certain extent, we think, be discouraged as the fruits of research by others would be available as of right upon payment of a royalty. This possibility we are prepared to contemplate and accept in the case of foods, medicines and surgical and therapeutic devices because in that connection there are other and, we think, more important considerations which are dealt with in Division XII of this report but we are not recommending that the principle be applied generally. But it should be possible to compel the patentee to grant licences in certain special situations which are fully dealt with below.

In coming down on the side of continuation of the patent system without any fundamental alteration of the right of a patentee to exclude others from making, using or selling the patented invention, we nevertheless recognize that the system possesses weaknesses and anomalies. These are well set out in the following passage from "The Sources of Invention" (1959), an interesting work written by John Jewkes, David Sawers and Richard Stillerman. At pp. 251-3 the following is said:

"It is easy enough to perceive the weaknesses, even the absurdities, of the patent system and the reasons why conflicting opinions as to its value are to be found. Its very principles are paradoxical. It is meant to encourage over the long period the widest possible use of knowledge, but it starts out by conferring upon the inventor the power to restrict to himself the use of that knowledge. It grants statutory monopolies but it arose out of an Act to curb monopoly. It flourished most vigorously in the nineteenth century, the great period of economic competition, and even now it is most robustly defended and embodies the most extensive monopoly rights in those countries which most tenaciously adhere to the competitive system of private enterprise. It is a crude and inconsistent system. It is based upon the assumption that the right and proper reward for the innovator is the monopoly profit he can extract in an arbitrarily fixed period. It offers the same reward to all inventors, irrespective of the intellectual merits of their inventions. It provides rewards for certain kinds of discoveries but usually confers no such reward for other kinds of discovery, such as scientific principles; commercial devices and institutions; biological knowledge; the arts of agricultural cultivation and textile processes; systems of ciphering; methods of teaching; chemical compositions and products. The standards of patentability, the patent period, the conditions attached to the patent have varied greatly from time to time in the same country and vary as between different countries.

The patent system lacks logic. It postulates something called 'invention' but in fact no satisfactory definition of 'invention' has ever appeared, and the Courts, in their search for guiding rules, have produced an almost incredible tangle of conflicting doctrines. This confusion has led to extensive and costly litigation. Its critics have described the patent right as merely 'something which has to be defended in the courts' and, because it may put the individual inventor at a disadvantage against the larger corporations, as 'a lottery in which it is hardly worth while taking out a ticket'.

The system, too, is wasteful. It gives protection for sixteen years (or thereabouts) whilst in fact over nine-tenths of the patents do not remain active for the whole of this period. It is dangerous in that the monopoly it confers can often be widened by its owner into fields and forms which it was never intended he should possess.

It is almost impossible to conceive of any existing social institution so faulty in so many ways. It survives only because there seems to be nothing better."

But we agree with what the authors at once go on to say:

"And yet for the individual inventor or the small producer struggling to market a new idea, the patent right is crucially important. It is the only resource he possesses and, fragile and precarious as his rights may be, without them he would have nothing by which to establish a claim to a reward for his work. The sale of his ideas directly or the raising of capital for exploiting the ideas would be hopeless without the patent."

Section 4. Nature of Present-day Invention and Main Complaints about Canadian Patent System

Representations were made to the effect that most applications for patents are now made in respect of inventions or alleged inventions which came about as the result of research in which more than one, perhaps many more than one, person participate; and that in this respect the situation has radically changed in the last century or half-century.

While it would be an exaggeration to say that the day of the "solo" inventor or "garret" inventor is past—indeed much evidence of the continued importance of the individual inventor is presented in the book "The Sources of Invention" mentioned above—nearly all authorities appear to agree that relatively he is much less important than he formerly was.

In the first report of the O'Mahoney Subcommittee, issued in January, 1956, the Subcommittee says:

"When the patent laws were first drawn, invention and discovery were almost exclusively the product of the efforts of individuals working alone. Today invention and discovery are largely the work of research laboratories. In other words, individual enterprise has been gradually yielding to collective enterprise."

Dr. Bush in his study (at p. 8) says:

"The patent system was designed primarily for the recognition of an individual inventor who, seizing upon a brilliant idea, could make a model of it or give it a demonstration which could readily be grasped by any practical man. This type of individual has not disappeared; there is still the opportunity for the highly ingenious to see the short cut of the practical embodiment that would otherwise be overlooked. But invention is also a matter of persistence and hard mental labor. Moreover, as science and its applications have become more complex, creative effort by the single inventor has become more and more superseded by group collaboration. Witness the growth of large research facilities, both in nonprofit institutions and in commercial organizations. The act of the invention now often comes as the culmination of a long-continued scientific collaboration, since individual inventors do not have the technical ability, the equipment, or the money necessary to work out further developments on the basic inventions which have meant so much to modern industrial society."

and later, on p. 9:

"If one thinks merely of a lone inventor, to be rewarded if he contributes a useful idea for our benefit, the matter seems very simple. The equitable and wise handling of the problem of the great industrial organization, with thousands of patents obtained from its employees and others, appears in quite a different light."

and later, on p. 10:

"The great advances in science since the patent system began to operate in this country are reflected in the fact that many inventions today are highly technical. They cannot be grasped in a moment by a layman. They can be understood, in their trends and implications, only by men of long experience in science and technology. The

system in practice has not been able to cope adequately with this situation. The burden on patent examiners has become severe. We expect them to be skilled in many arts, and to understand and critically evaluate arguments which may be decidedly mathematical or couched in highly scientific language. . . . In addition we have relied upon courts not specially trained in science for the implementation of our patent system. As a result, there is danger that judicial decisions in patent matters may be based on misconception or superficial grasp. There is also the very serious result that the cost of presenting and rebutting evidence on technical points in patent litigation, conducted before tribunals lacking the necessary special training in advanced science has become unduly burdensome and expensive."

Parenthetically we may say that it would appear to us that the fact that "the lone inventor of 1800 has given way to the cooperative investigator of the 20th century" (quoted from Study No. 11, O'Mahoney Subcommittee by Prof. Seymour Melman of Columbia University) is one explanation of the fact that Canadian residents make such a small number of applications for Canadian patents as compared with residents of the United States. The number and importance of industries in Canada which are either branches or subsidiaries of United States industries is known to be very large particularly in the chemical and electronic fields from which a large percentage of the patent applications come. It is reasonable to assume that the bulk of the research, upon which these industries operating in Canada rely, is done by parent companies in the United States. If most of the applications for patents are made as the result of research by teams of scientists, it is only reasonable to expect that the proportion of United States applicants would be higher than one would expect to find it in different conditions.

The complaints (about conditions in the United States) expressed in the last quotation from Dr. Bush found their counterpart in representations made to us with reference to conditions in Canada. Indeed most of the complaints we heard were:

- (1) that many applications are unduly delayed in the Patent Office, the cause usually assigned being the inadequacy of the number of examiners required to cope with applications for patents on increasingly technical inventions;
- (2) that the reference facilities of the Patent Office are similarly inadequate;
- (3) that litigation is very expensive and long drawn out.

These complaints largely related to conditions which flow inevitably from the nature of modern patents and patent applications and the complexity of the scientific matter being considered. Courts should, of course, always be conscious of the importance of minimizing delays in disposing of patent litigation. There are no recommendations as to legislation in that regard which we think would be practicable. It is hoped that the relatively informal nature of the proceedings before the recommended Patent Tribunal will go some distance in reducing delay and expense in matters within its jurisdiction. As to other delay and expense generally we are making some recommendations which we believe will reduce them.

We have kept these complaints in mind in forming our recommendations. In particular we are making recommendations which we hope will shorten the time of processing patent applications. We are not recommending a provision for opposition proceedings, that is a provision enabling any person interested to oppose the granting of a patent before it is granted, mainly because such a system would, we think, add to the delay and expense of securing a decision whether a patent is to be granted or not. We recognize the evil of the granting of invalid patents. But the two worthy objectives of (1) validity of all patents and (2) expeditious processing are, as we have said, to some extent in conflict with one another

and we have in our recommendations tried to balance them in such a way as to provide a system with the maximum of advantage and the minimum of disadvantage.

We entertain serious doubts as to the value of imposing on the Patent Office the responsibility for an exhaustive examination of patent applications. It is not, in our judgment, reasonable to expect examiners in the Patent Office to be able effectively to examine applications so as to ensure the validity of issued patents.

Even in the United States where the facilities for examination and the quality of the examination are, we are told, substantially better than in Canada the data on litigated patents does not afford much cause for optimism as regards the likelihood of any practicable examination system effectively preventing the issue of many invalid patents.

Apart from the complaints made to the Commission, such study as we have been able to make of the patent law of Canada and the patent laws of other countries has led us to the conclusion that the time has come for complete overhaul of our legislation. We have not confined our recommendations to those relating to specific complaints before us but are, as will be seen, recommending repeal of our existing legislation and the enactment of new legislation making far reaching changes. But if our recommendations are accepted we think that the grounds for many of the specific complaints made to us will disappear.

Section 5. A Fundamental Change Recommended

As indicated above, it is a feature or principle of our present patent system that as between two or more applicants for patents for the same invention, each being a true inventor of the invention, the applicant who invented it first is entitled to the patent and the other or others are not. This flows from the provisions of section 28 (1) (a) of our Act which makes the right of an inventor to apply conditional upon the invention not having been known or used by any other person before he invented it. The words "known or used" are not limited to situations where the invention was known or used in such manner that the invention had become available to the public; (although if the applicant is successful in obtaining a patent on the invention his patent cannot be declared invalid by reason only that the invention before he invented it was known or used by some other person—there must in addition be the circumstances set out in section 63 (1) except in the circumstances set out in section 63 (3)).

It will be noted that if the invention was known or used by any person in the world, whether made available to the public or not, before the applicant (assuming that the applicant is the inventor) invented it, the application must be refused. This would on the face of it appear to throw an intolerable burden on the Commissioner. In practice, however, he does not—as he cannot—conduct investigations to determine whether it was the fact that the invention was not known or used anywhere before the applicant invented it. The question ordinarily presents itself to him only if before the patent is granted (a) a search reveals that the invention is described in a document or patent, Canadian or foreign, having a date earlier than the earliest known filing date of the application being examined, (b) a protest is lodged disclosing such a document or patent, or (c) some other applicant applies for a patent on the same invention. In the event of (c), section 45 applies and the Commissioner declares a conflict. It then becomes the duty of the Commissioner to decide which of the two applicants in conflict invented the invention first. Apart from the fact that section 45 does not provide for an

adequate procedure in the Patent Office for determining this question correctly, the question itself may be one of great difficulty. The question is decided by affidavit without cross-examination, yet the answer to it may depend on the credibility of witnesses and on a finding as to what happened in a foreign country or when it happened. The possibility of obtaining the declaration of a conflict has a tendency to provoke in some cases false or hopeless applications. B hears or learns that A has applied for a patent on a certain invention. This may arise from the fact that A has marketed an embodiment of the invention. A may even have marked it "patent pending". B without having invented anything may file a false application to delay the issuance of A's patent. Or B may have learned of the invention from a patent for it which has issued abroad and he may have learned of the Canadian application as the result of an application to the Commission under section 11. B wishes to work the invention and to delay A's prosecution of his application for as long a period as possible. So B applies for a patent on the same invention. A conflict is declared and B is perhaps able to produce some evidence, suggestive though not sufficient, that the invention was invented by B before A invented it. The possibility, in such a case, of delay for years, especially if there is an appeal or appeals to the courts, is obvious. Even when there is not a scintilla of evidence of prior invention by B, there are great possibilities of delay in the granting of a patent to A as the result of a false application made for the purpose of securing the declaration of a conflict and bringing about the consequent delay. Moreover there may be cases where B, an independent inventor, may even if the embodiment of the invention has been marketed in Canada for A for more than two years before B files, nevertheless file an application for the purpose of delaying A's application, and achieve this purpose even though B's application is hopeless and even though B knew it to be hopeless.

It should be noted that when B is successful in delaying the issue of a patent to A for a product, this delay gives B time in which to produce and stockpile the product, which may be marketed by him after the patent issues to A: section 58 of our present Act.

It is not only the issue whether B invented before A that may be considered by the Exchequer Court when proceedings are taken by a party to the conflict in the Patent Office under subsection (8) of section 45: *Kellogg v. Kellogg* (1941) S.C.R. 242. Very serious and difficult problems can arise, both in the Patent Office and in the courts, in the conflict system in respect of the scope of the disclosure in each of the applications in conflict. It is often difficult to determine whether the disclosure in an application enables the applicant to make the claim in conflict. The case of *Radio Corporation of America v. Raytheon Manufacturing Co.* (1957) 27 C.P.R. 1 illustrates the problem. The trial of the action in the Exchequer Court consumed 27 days and the Commissioner's decision was reversed.

It will be apparent that under the present Canadian system the exact date of invention may assume great importance. Is it the provable date of conception of the idea? Is it the date of disclosure to some other person? The nearest to a judicial definition of the date of invention that we have seen is that expressed by Rinfret, J., as he then was, in *Christiani v. Rice* (1930) S.C.R. 443 at p. 456 as follows:

"The holding here, therefore, is that by the date of discovery of the invention is meant the date at which the inventor can prove he has first formulated, either in writing or verbally, a description which affords the means of making that which is invented."

The words which follow in the judgment of Rinfret, J. are, however, these:

"There is no necessity of a disclosure to the public. If the inventor wishes to get a patent, he will have to give the consideration to the public; but, if he does not and if he makes no application for the patent, while he will run the risk of enjoying no monopoly, he will none the less, *if he has communicated his invention to 'others'*, be the first and true inventor in the eyes of the Canadian patent law as it now stands, so as to prevent any other person from securing a Canadian patent for the same invention." (Emphasis ours)

There may be some uncertainty whether in determining priority of invention an invention can be said to have been made until it is disclosed to someone, as indicated, for example, in the judgments of Maclean, P. in *J. O. Ross Eng. Corp. and Ross Eng. of Canada v. Paper Machinery Ltd. et al* (1932) Ex.C.R. 238 at p. 250 and *Bohn Aluminum & Brass Corpn. v. Berry* (1937) Ex.C.R. 114 at p. 128 (which, however, were delivered before section 28 (1) (a) of our Act was amended so as to read "any other person" instead of "others").

In the United States, as stated above, a person is not entitled to a patent if "the invention was known or used by others *in this country* . . . before the invention thereof by the applicant for a patent": section 102 (a). The words which we have emphasized somewhat lessen difficulties for the United States Patent Office which would arise if the United States Patent Act were expressed in the terms used in the Canadian Act. It should not be assumed, however, that the determination of who is the first inventor in the United States is a simple matter. In the United States, judicial and legislative attempts have been made to define the date of invention. The result of these attempts is not capable of short or simple description. But, roughly, it is this: What would otherwise be an invention is not an invention until it is reduced to practice or reasonable diligence is exercised to reduce it to practice. Maclean, P. in *Bohn Aluminum & Brass Corpn. v. Berry* at p. 115 said:

"In that jurisdiction, as I understand it, and contrary to the rule here, it is incumbent upon an applicant for a patent of invention, in order to secure priority over a rival applicant claiming the same invention, to establish not only that he was the first to conceive the alleged invention but that he diligently proceeded to reduce it to practice; an application for a patent is there treated as a constructive reduction to practice."

We quote the following from "Novelty and Priority of Invention" a paper read by Eric L. Medcalf, Q.C., to the Patent Institute on September 28, 1955 ((1956) 24 C.P.R. 111 at p. 118)

"It is said in United States practice that invention is broken down into two parts, the first being the mental part, which is called conception, and secondly the physical part, which is called reduction to practice. The mental part or conception is then in turn broken down into two parts, the first part being the conception of the idea itself, and the second part being conception of means for putting the idea into practice and producing the desired result. When an inventor has then completed the mental part of invention, he is required, according to the United States law, to reduce his invention to practice. A process, according to the United States law, is said to be reduced to practice when the series of steps constituting the invention are carried out in such a manner as to demonstrate the practicability of the process. Machines and articles of manufacture are reduced to practice when they are embodied in physical or tangible form, and their practicability for the intent and purpose is adequately demonstrated. A composition of matter is reduced to practice when it is actually produced, unless its usefulness is not apparent from its ingredients or manner of production, in which case its utility must be demonstrated by actual test. An invention is constructively reduced to practice by the filing of an application for patent including

a foreign application on which a claim to Convention priority is properly based. Thus the law in the United States considers invention to be broken up into two parts, the mental part and the physical part and holds that there has been no complete invention until an invention has been reduced to practice. Priority of invention, however, is not necessarily awarded to the first man to reduce to practice. As a general rule an inventor is entitled to his date of conception, as the date of his invention, provided that he was diligent in reducing the invention to practice. From this follows the rule that priority of invention belongs to the party who was either the first both to conceive and reduce the invention to practice, or, in lieu thereof, was the first to conceive the invention and was proceeding with reasonable diligence to a reduction to practice, from a time just prior to the time his opponent entered the field, up to the completion of his own reduction to practice."

It would appear that Mr. Medcalf is here referring only to the date of invention as determined in interference proceedings.

Whether the rules evolved in the United States for enabling the Commissioner there and the courts to determine when the act of invention is completed are simpler or more just than our rules, or lack of rules, may be questioned. But any such rules are bound to create difficulties, which are inherent in any system which makes so much depend on the actual date of invention.

All those who appeared before us and dealt with the matter agreed that interference proceedings in the United States Patent Office (the counterpart of conflict proceedings in Canada) had become extremely complex. These representations are borne out by other information which we have received. The following paragraphs from Study No. 2 prepared for the O'Mahoney Subcommittee, pp. 67 and 68, by George E. Frost, eminent patent attorney, professor of law and contributor to professional journals and law reviews, who is obviously not unfavourably disposed toward the United States interference system, are illuminating:

"The interference practice has evolved from a long history of Patent Office experience with the manifold problem that arise in carrying out the statutory command of determining 'priority of invention'. The proceedings are unique to the American patent system, for virtually all other patent systems award the patent to the first applicant. Interference practice stands as by far the most intricate phase of Patent Office procedure, and is probably as complicated and difficult as any field of litigation. The issue of priority is itself complicated by issues of what constitutes 'diligence', whether there is testing sufficient for a 'reduction to practice', and the like; the problems of proof, with the requisite 'corroboration', are great; strategy in bringing motions to add counts, shift the burden of proof, and the like, can spell the difference between victory and defeat; and the Patent Office is quite rigid in demanding literal compliance with the rules of practice.

Yet there is much to recommend the Patent Office interference practice. The Office long ago learned that no decision on priority of invention has meaning without a reasonably precise statement of what the invention in controversy is. Hence the requirement that both parties 'make' the same claims; the procedural steps by which the examiner can bring about this result without conferring unjust advantage; and the provision of a motion period within which the parties can seek a better definition of the interference issue. To be sure, these activities take time, but to cut them short or to abolish them would make the whole determination chaotic. Similarly, it was learned long ago that the vast majority of interferences can be terminated without testimony and final hearing. Hence the opportunity of the motion period to challenge the right to make claims, to dissolve on the ground of nonpatentability, or in other respects terminate the proceeding forthwith. In like measure the Office long ago recognized that steps must be taken to assure against perjured testimony, false dates, and obstructive tactics. These considerations have given rise to the requirement that preliminary statements be filed before either party learns the important priority dates of the other. Again we have procedure that takes time and introduces complexities—but has an important function in the over-all determination. While it is easy to point

a finger of doubt at these and many other aspects of the Patent Office interference practices, the fact is that in each instance there is a history of substantial experience dictating the procedure being followed. Moreover, the delay that takes place in the Patent Office—with the current policy of restraint in declaring interferences and insistence upon the expeditious conduct of interferences when declared—is not great in relation to the nature of the issues and to the delays that can occur in subsequent court review. It follows that alteration of the Patent Office interference practice as such is not the solution to the problem.”

Mr. Leonard J. Robbins of the New York firm of Langner, Perry, Card and Langner which handles the filing, prosecution, maintenance and litigation of foreign patents and trade marks throughout the world for American clients, appeared before us, and made representations some of which may be summarized as follows:

(1) That the essential purpose of Canadian conflict practice is similar to that of United States interference practice, namely to determine priority of invention in conflicting cases.

(2) That the procedure available in Canada is not adequate to determine the complex issues which are often involved. Even in the United States Patent Office interference practice is suffering from strain and greater emphasis is being placed on filing dates.

(3) That the Canadian Patent Office misses many potential conflicts—and conflicts with issued patents are not possible.

(4) That to make the conflict practice work satisfactorily it ought to be made more like the United States interference practice.

We quote from the transcript the following part of Mr. Robbins' submission (p. 593):

“My thesis, if I may use that word, behind this is that if you are going to retain this date of conception idea you have got to more or less follow, to make it work properly, the United States procedure, which is a century old now. The machinery is there, but it is complex. If you go to the idea of the filing date or the priority date for a claim, all that complexity disappears. In England, particularly, and in Australia and other countries the simpler machinery is available. Procedurally even in the United States there is a considerable delay in issuing patents, which bothers everyone. Now it seems to me that if Canada develops normally within the next ten or fifteen years the number of applications may probably be trebled, and unless the procedure is clarified as to the one system or the other it seems to me that delays are going to be still greater and longer.”

The impression made on us, not only by Mr. Robbins' evidence, was that our conflict procedure should, if declaration of conflicts is to continue to exist as a feature of our patent system, be considerably altered, and not in the direction of simplicity. A significant increase in the number of conflicts in the Canadian Patent Office would, even under the present relatively simple practice, result in vexatious delays and these would become almost intolerable if the system were made more complex.

We have on the whole come to the conclusion that we should recommend that Canada should terminate its system of basing priority rights on date of invention and should in its new legislation base priority rights on the filing date, that is, enact legislation which in this connection is of the British type rather than the United States type. We can think of no substantial disadvantages of taking this step and it would, we consider, have very substantial advantages. The main advantages would be the following:

(1) We would get rid of conflict proceedings, with the incidental advantage of lessening the number of false and hopeless applications. Although the number of conflicts declared does not appear large, important applications are often long delayed in the Patent Office and through appeals. As of April 1, 1959 there were 161 conflicts pending in the Patent Office involving 367 applications. The division of conflicts as between the various sections was as follows:

	No. of Conflicts	No. of Applications Involved
Chemical Section	118	269
Electrical Section	15	31
Mechanical Section	21	52
Civil-Mechanical Section	7	15

We are advised by the Patent Office that about 50 conflicts a year are declared.

(2) The prompt filing of applications and consequential disclosure of inventions to the public would be encouraged. A person desiring protection could not delay indefinitely, expecting that if someone else were to apply he could defeat that application on the ground that he invented first. If, as we propose to recommend, an application will be defeasible by proof of publication or use prior to the filing date, a still further impetus to prompt filing will be given.

(3) An applicant would not need to fear prompt disclosure after filing on the ground that if he discloses someone else will file a false or hopeless application claiming prior invention.

(4) The difficulties and uncertainties involved in establishing the date of invention are, from the point of view of the public, serious defects in a system which bases priority on such a date. The date of invention cannot be gleaned from an examination of the patent or in the ordinary case from an examination of the record file in the Patent Office. In many situations date of invention is very much a moot point. Whether or not the patent is valid may well turn on this matter, yet it cannot be ascertained by a member of the public until proceedings by way of a lawsuit have been taken. Any activity which falls within the scope of a claim of the patent may or may not be an infringement of a valid claim depending upon the determination of a date which at the time of such activity is unknown. Apart from everything else, this situation, in itself, would amply justify moving away from a system which bases priority on date of invention. A member of the public ought not to be put to the expense of initiating a lawsuit to determine the date of invention in respect of a claim in a patent.

(5) Finally, and perhaps the most important, the state would be conferring the reward of a monopoly upon the inventor who was first to confer the benefit of the invention on society (by filing) rather than (as now) upon the inventor who was first to invent even though he may have done nothing to make his invention available to society.

We regard the principle on which No. (5) is based as very important. As will be seen, adherence to it dictates some of our recommendations. For instance secret commercial use of the invention before the filing date by the applicant or any person claiming under him or under whom he claims should invalidate the application. But secret commercial use by anyone else should not, as otherwise an applicant who filed at once after he invented the invention might find himself denied protection because of the behaviour of the other inventor who refrained from making his invention available to society.

The following words of Maclean, P. in *Bohn Aluminum & Brass Corpn. v. Berry* at p. 131 are, we think, words of wisdom:

"Cases where the actual dates of invention of rival inventors, working contemporaneously, are to be determined, are usually difficult, and this is not an exception, but the conclusion which I have reached is, I think, supported by the evidence, and by the law as laid down by the Supreme Court of Canada in *Christiani and Nielson v. Rice* (1930) S.C.R. 443 at p. 456. This case, like many others of the kind, emphasizes the idea so often expressed by those having to do with patent cases, namely, that it would be more satisfactory to all concerned, if the *Patent Act* went still further than s. 61 now goes, and enacted that as between two or more inventors of the same subject-matter, the monopoly shall go to him who first applies therefor and makes a contribution to the public by showing them how to practise the invention."

Section 6. Effect of Publication Prior to Filing

If the fundamental change recommended in section 5 is made, we think that as a general rule publication or use of the invention at any time prior to the filing date should make it impossible for the applicant to obtain a patent. Our reason for saying this is that when priority depends on filing date, if the inventor makes his invention public before filing, he runs a heavy risk that some other person will "obtain" the invention (without independently inventing it) and will file first, giving rise to a controversy in the Patent Office or in the courts as to whether the invention was invented by the person so filing or obtained by him. What may be referred to as a period of grace is permitted under our present Act. Publication in any patent or in any publication printed anywhere in the world within a two-year period before filing is not in itself a bar to obtaining a patent. Neither is public use or sale in Canada if it has taken place within the last two years before filing. The corresponding period in the United States is one year instead of two years. Under the system we propose this period would be eliminated altogether. It may be objected by some that the elimination of the period of grace should be regarded as a disadvantage in the change we propose and that it is undesirable that priority should be given to the applicant who wins the race to the Patent Office. On balance, however, we do not consider this feature of the proposed system a disadvantage. It may be noted that a patent will not be available to one who "obtains" the invention but only to an inventor or a person claiming under an inventor. As stated above, we consider that as between two inventors, each seeking a monopoly reward, there is nothing unjust about giving a patent to the inventor who first makes his invention available to the public by filing, but rather the reverse.

One advantage of providing that publication or use before the filing date is an invalidating factor is that at present some Canadian inventors are lulled into a false sense of security by what we have called the period of grace. A Canadian inventor may consider that he cannot suffer patent-wise by publishing, either in a document or by public use or sale, his invention, provided he applies within two years for a patent. He may overlook the provisions of the patent laws of convention countries in which he may wish to apply after he applies in Canada. And he may find that he cannot apply in those countries, even if he applies within the convention year, because he has done an act which is regarded by the legislation of those countries or some of them as a disabling anticipating act. If our law is changed so that publication or use before the filing date is a ground for rejection of the application or avoidance of the patent, he will be careful to file before disclosure in Canada and will then be on safe ground in this respect if he applies abroad in a convention country within the authorized period of delay.

Another advantage of the fundamental change we recommend is that the burden of work in the Patent Office and the expense involved for applicants in processing applications for purely defensive patents would probably be lessened.

With regard to patent applications made for defensive purposes in the United States, George E. Frost, in Study No. 2 prepared for the O'Mahoney Subcommittee referred to above, says at p. 62:

"Currently many patent applications are filed for 'defensive' purposes to minimize the risk of patent infringement charges based on later filed applications. Most, if not all, Government patent applications fall in this category. Industry likewise files many patent applications of this kind. *The number of such applications has been estimated at one-third the total of all patent applications.* Whether this figure is high or low is not important—for by any standard the number is substantial and they necessarily interfere with Patent Office work on other applications.

The odd fact is that the law now places such a premium upon patent applications as a defensive measure that common prudence dictates their use whenever a manufacturer or the Government develops and intends to use an arguably patentable product or process." (Emphasis ours)

We have no way of estimating the number of patent applications made for defensive purposes in Canada but assume that the number is substantial. If priority is determined by the filing date instead of by the date of invention, and if publication before the application is fatal to the application, mere publication by a person fearing that an application by someone else for a patent on the invention will succeed and deprive the person of the use of the invention may be sufficient for defensive purposes. Under our present law he would probably not dare to rely on publication for defensive purposes lest someone else apply for a patent and represent that the invention was his and prior in time.

Although the general rule should be that publication or use of the invention at any time prior to the filing date should make it impossible for the applicant to obtain a patent, certain exceptions to this rule will be necessary. Some of these are required by The International Convention and others by the plain necessities of certain situations that may arise. These exceptions will appear in the text of the proposed Act which we have drafted as set out later in this report.

It should perhaps be pointed out that as prior disclosure within two years before application is not now an invalidating factor the fullest publicity should be given to the change we recommend well before it is made.

DIVISION II—THE INTERNATIONAL CONVENTION

Section 1. National Treatment

Canada is a party to what is called "The International Convention for the Protection of Industrial Property" (to be referred to as "The International Convention"), that is, the Union Convention of Paris, March 20, 1883, for the Protection of Industrial Property, revised at Brussels on December 14, 1900, at Washington on June 2, 1911, at The Hague on November 6, 1925, and at London on June 2, 1934. A Conference for Revision was held at Lisbon in October, 1958 and certain further revisions took place. Canada has not signed the Lisbon revised convention but has the right to accede to it. The Lisbon Convention contains one provision we do not like, the provision that industrial designs shall be protected in all the countries of the Union. In our report on Industrial Designs we said that there was nothing in any international convention, present or prospective, obliging Canada to protect industrial designs. If the Lisbon Revision is ratified by Canada this statement will no longer be true. We are mindful of the expression of our indisposition to favor such an international obligation, as expressed in our report on Copyright. Nevertheless there would be, we think, substantial advantages to Canada in accession and on the whole we think that Canada should accede.

In appendix D are set out extracts of the more important provisions of the Convention relating to patents. In these extracts we have arranged the text of the Convention as revised at Lisbon so that changes over the London 1934 Revision can be readily observed. Using the text of the London Revision as a basis, matter deleted from that text is enclosed in brackets and new matter added by the Lisbon Conference is italicized. For the complete text showing all the Lisbon revisions, see vol. 30 of the Canadian Patent Reporter, 1959, pp. 76-97.

Canada, in respect of the protection of patents, as a consequence of Articles 2 and 3, must grant to nationals of other Convention countries and those treated as such under Article 3, national treatment—that is, the same protection that Canada grants to Canadian nationals. As the list of Convention countries, that is, of countries which are parties to the Convention, includes a number of countries prolific in inventions, such as the United States, the United Kingdom, Germany, France, Italy, etc., our Patent Office, as noted above, serves a very much larger number of foreign inventors than of Canadian inventors. But, of course, Canadian inventors are assured of patent protection in the other Convention countries identical with that which those countries extend to their own nationals.

Section 2. Rights of Priority

As a result of the provisions of Article 4, Canada, in respect of a Convention application (one which is made in Canada for a patent on an invention within twelve months of an application in another Convention country for a patent on the same invention), is obliged to recognize as the priority date the date of application in the Convention country rather than the date of the Canadian

application, with the result that "acts accomplished in the interval, as, for instance, by another filing, by publication or exploitation of the invention", cannot be permitted to invalidate the application.

There are large numbers of Convention applications in Canada, particularly by persons who have applied within the preceding twelve months in the United States or the United Kingdom. And any recommendations for legislation in Canada must take into account the questions which arise in relation to Convention applications.

DIVISION III—RELATIONSHIP OF OUR PROPOSALS TO THE PATENTS ACT, 1949

(United Kingdom)

It might be thought that as the most fundamental and far-reaching change in the Canadian patent system which we are recommending is the basing of priority rights on the filing date rather than the date of invention, and as this is a fundamental principle of the Patents Act, 1949 (United Kingdom) we should recommend the adoption of that Act either in toto or substantially so. But to go substantially the whole way along this road would, we think, be unwise. The Canadian Patent Office, patent agents and patent counsel have for a long time been accustomed to a system very different from the British system. So our recommendations would leave many of the features of our present system intact and many features of the British system out of the legislation that we recommend.

We would not, for example, recommend the British practice of intentionally granting two patents for the same invention when there are co-pending applications and when it appears to the Commissioner that one applicant's priority date is earlier than the other's. In that event the practice under the United Kingdom Act is to direct that a reference to the specification with the earlier priority date be inserted in the claim with the later priority date and to issue patents on both. As the claim with the earlier priority date may turn out for some reason to be invalid the risk of refusal of an application which might eventually prove to be one on which a valid patent could have been granted is eliminated or minimized. But we consider it desirable to avoid the granting of two patents to different applicants on the same invention if possible, and we are therefore not recommending the adoption by Canada of the British system of directing references. Our proposal is rather that the granting of the patent with the specification having the later priority date be delayed until the patent application with the specification having the earlier priority date is either granted or refused. If it is granted, the Commissioner should give the applicant for patent with the specification having the later priority date three months in which to attack it. If he does not apply for revocation within this time the Commissioner should refuse to grant the patent with the specification having the later priority date. If revocation proceedings are taken within the three-month period the Commissioner will have to await the outcome of those proceedings. If the Commissioner refuses the application for grant of the patent with the specification having the earlier priority date he will be free to grant the application for patent on the other co-pending application. (We have discussed the matter as though a specification could have only one priority date but, of course, each claim may have a separate one).

Another feature of the British patent system we would not adopt is the provision for oppositions to grants of patents. There is much to be said in favour of oppositions—that is for provisions under which any person interested may appear before the Commissioner or some tribunal and oppose the granting of a patent to the applicant on one or more of a number of specified grounds. If this were possible, it is likely that fewer invalid patents would be issued than otherwise would be the case. Opinion was divided among those who made representations

to us but it appeared to us that the weight of opinion was against oppositions. It was felt by some that an opposition system would be used very little because persons having an interest in a valid patent not being granted would be afraid that by appearing and opposing they would merely prompt amendments which would make invalid claims valid. It was felt by others that to the extent the opposition was used it would add to the delay and expense of application proceedings and that the wealthier party would have the greater advantage. We are not convinced, on the whole, that it would be advisable to introduce the opposition system into our law and practice. As will be seen, we are recommending that a complete specification be published not later than one year after it is filed. This publication may elicit protests from those who detect invalidity in claims and in this way may fulfil part at least of the function of oppositions.

As will be seen we are not recommending provisions enabling a court to extend a patent beyond its statutory term on the ground that the patentee has not been adequately remunerated, or on any other ground; we are not recommending provisions for applications for patents of addition after grant; and we are not recommending provisions for the restoration of lapsed patents or patent applications. These are all features of the United Kingdom legislation. Nor are we recommending provisions for licences of right, or any but the most limited amendments after acceptance of the complete specification or after grant. We have already referred to our view that secret use by a person other than the patentee or someone under whom he claims or who claims under him before the priority date should not be a ground for refusal of the application or for revoking the patent if granted. This view is at variance with the provisions of the United Kingdom Act.

There are, of course, many other respects in which the legislation we recommend differs from the United Kingdom legislation, but those we have mentioned are among the most important. In the place of some of the features we have mentioned as not being recommended for adoption, we are recommending the retention of some features of our present Act and others which bear some resemblance to features of the United States Patent Act, for example, the provisions for reissue, disclaimer and dedication, and for the definition of "invention".

DIVISION IV—RELATIONSHIP OF OUR PROPOSALS TO THE PRESENT CANADIAN ACT

Section 1. Some Features of Present Act to be Retained

As will be seen, we are recommending the retention, with or without some modifications, in any new legislation, of many features of our present Act. Among these may be mentioned the provisions for the general organizational structure of the Patent Office and its staff, that is, a Commissioner, an Assistant Commissioner and Examiners, power in the Governor in Council on the recommendation of the Minister to make rules and regulations, the issue of patents by the Commissioner under seal and, generally speaking, the contents of patents, a register for patent attorneys or agents, registration in the Patent Office of assignments, etc., the right of the Government of Canada to use patented inventions, paying reasonable compensation, the free use of patented inventions on foreign ships, etc., annual reports by the Commissioner, requirements as to the contents of (complete) specifications, compulsory licensing when there is abuse of patent rights and, in part, the definition of invention.

The definition of invention requires at this point some observations.

The definitions to be found in the Patents Acts of the United Kingdom, Australia and New Zealand are the following:

United Kingdom

“Invention” means any manner of new manufacture the subject of letters patent and grant of privilege within section six of the Statute of Monopolies and any new method or process of testing applicable to the improvement or control of manufacture, and includes an alleged invention.

Australia

“Invention” means any manner of new manufacture the subject of letters patent and grant of privilege within section six of the Statute of Monopolies, and includes an alleged invention.

New Zealand

“Invention” means any manner of new manufacture the subject of letters patent and grant of privilege within section six of the Statute of Monopolies and any new method or process of testing applicable to the improvement or control of manufacture, and includes an alleged invention.

The key words in each of these definitions are the words “any manner of new manufacture”. It is apparent from the cases that “manner” means “kind” not “method” but what does “manufacture” mean? It has been authoritatively construed as applying not only to things made but to the practice of making: Fox on Patents, 3rd ed. p. 52. Accordingly it includes not only a product but a process. Fox in the work cited at p. 56 says, “It may, therefore, be accepted in principle that the requirements with regard to subject matter are co-extensive under the British and Canadian statutes, and that the jurisprudence established on this point by the Courts of England and Scotland is authoritative in this country”. The

learned author was referring to the jurisprudence under the definition before the words "and any new method or process of testing applicable to the improvement or control of manufacture" were inserted but we consider that a method or process of testing applicable to the improvement or control of manufacture would come within the word "process" used in the present Canadian definition. At the same time it is not precisely correct to say that the Canadian definition is identical in legal effect with the United Kingdom and New Zealand definitions quoted above. Many, but not all, of the judicial decisions in the United Kingdom based on the definition in the United Kingdom Act are applicable to the Canadian definition.

Our present definition is more nearly identical with that contained in the United States and South African statutes.

It is provided in the United States Code, Title 35—Patents, section 101 that:
Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

The definition in the South African Act of 1952 is as follows:

"Invention" means, subject to the provisions of this Act, any new and useful art (whether producing a physical effect or not), process, machine, manufacture or composition of matter which is not obvious, or any new and useful improvement thereof which is not obvious, capable of being used or applied in trade or industry, and includes any distinct and new variety of plant, other than a tuber-propagated plant, which has been reproduced asexually, and any alleged invention.

It will be noted that the United States definition does not include the word "art", but otherwise is the same as the Canadian. Fox in the work cited at pp. 47-49 cites several cases in which some courts have detected subtle distinctions between arts and processes but which disclose no reason, in our view, which indicates the desirability of omitting the word "art" from the Canadian definition of invention.

The South African definition contains the words "which is not obvious". We think that similar words should be included in our definition of invention so that in part it should read as follows:

"Invention" means any new and useful art, process, machine, manufacture or composition of matter, (which is not obvious) or any new and useful improvement (which is not obvious) in any art, process, machine, manufacture or composition of matter.

The word "obvious" has a somewhat technical meaning in the law of patents as pointed out by Rinfret, J. as he then was in a judgment concurred in by Duff, C.J. in *Crosley Radio Corpn, v. Canadian General Electric Co. Ltd.* (1936) S.C.R. 551. Something which is new and useful is not an invention unless it was the result of an inventive step. If there was no inventive step it is said to be obvious.

The following may be quoted from the judgment of Rinfret, J. at p. 556:

"We would suggest that, in England, the appearance, in later years, of the word 'obvious' in judgments dealing with patent matters, probably results from the fact that, under section 25 (subs. f) of the English Patents and Designs Act, a patent may be revoked upon the ground 'that the invention is *obvious* and does not involve any inventive step having regard to what was known or used prior to the date of the patent.' But although, perhaps, judgments under Canadian patent law may not have denied patentability to certain improvements upon the express ground that the advance over the prior art should be taken to have been obvious to the persons skilled in the art, the jurisprudence, both in the Canadian courts and in the Judicial Committee of the

Privy Council, is not wanting in pronouncements conveying the same idea. It has long been laid down in our courts that, in order validly to support a patent, it was, of course, necessary that the art, or the improvement thereon, should be new, that it must be useful and that it must not have been anticipated by prior knowledge or prior user by others within the meaning of sec. 7 of the Patent Act, in force at the time of the issuance of the patent in suit; but that something additional was also required. It was essential that there should be invention and that one did not hold a valid subject-matter of a patent unless he showed the exercise of the inventive faculties (See: Halsbury's Laws of England, *vbis.* Patents and Inventions, no. 288); and that is to say, in the words of Lord Watson (*Thomson v. American Braided Wire Company* (1889) 6 R.P.C. 518, (H.L.)) 'a degree of ingenuity . . . which must have been the result of thought and experiment.'

Many of the decisions dealing with obviousness were referred to in the judgment of Dumoulin, J. in *Visirecords of Canada Limited v. Malton et al* (1958) Ex.C.R. 116.

While the absence of the word "obvious" from our definition or its equivalent does not seem to have presented any difficulty to the courts in the past, which have always regarded the exercise of the inventive faculty as a prerequisite of an invention, we propose to introduce the word "obvious" into other provisions of legislation which we recommend, and we think it desirable to introduce it into the definition as part of the definition.

We are also recommending that "process" a word used in the definition of invention be defined as follows:

"Process" means process or method and includes a new use of a known process, machine, manufacture or composition of matter.

This provision is now part of the definition section in the Patent Act of the United States (see section 100 (b)) and is desirable for the elimination of uncertainty. It has already been decided by the Supreme Court of Canada in *Commissioner of Patents v. Ciba Ltd.* (1959) S.C.R. 378 that a new use of an old *process* is patentable when the result is new. It would be illogical in the light of this decision to deny protection to the new use of an old *product* when the result is new as would appear to follow from *Rohm & Haas Company v. Commissioner of Patents* (1959) Ex.C.R. 153. Where there is a new use of an old process the applicant would normally be entitled to protection of the product flowing from the new use of the old process, while in the case of the new use of an old product, often a new product would not result on which protection could be obtained. Protection in the latter case can, therefore, be more important than in the former and is, we think, at least equally to be desired.

Section 2. Some Features of Present Act to be Dropped

As will be seen, we are recommending omission of certain features of the present Act from future legislation. Some of these are as follows: the requirement of section 28 that for an invention to be patentable it must not have been known or used by any person other than the inventor, before he invented it, a fundamental alteration in the Act which is fully discussed above in Division I, section 5; the provisions of section 45 regarding conflicting applications which are also discussed in Division I, section 5; and the provision for caveats which will have no purpose in the system we recommend.

* * *

In the parts of this report which immediately follow we recommend the enactment of various sections which taken together should form a complete Act

based upon the principles which we have outlined in the report up to this point. We would have much preferred to give the substance of every provision we desire to recommend with no drafting, even tentative, but we found this to be impracticable. There are so many cross-references between sections, so many situations where everything depends on wording, that we have drafted a proposed Act section by section, fully realizing that perhaps every single section should be redrafted in accordance with the standards of parliamentary draftsmanship and that rearrangements may be necessary both of and in the sections. Our proposed sections follow with comments where these are considered necessary. We have divided the proposed Act into "*Parts*" which should not be confused with the "*Divisions*" into which we have divided our report. Throughout this report we have used such words as "we" and "our" sometimes as applying to Canada and sometimes as applying to this Commission, but we think the sense is always clear.

DIVISION V—SHORT TITLE AND INTERPRETATION OF PROPOSED ACT

Part I. Short Title and Interpretation

1. This Act may be cited as the *Patent Act*.
2. In this Act, and in any rule, regulation or order made under it,
 - (a) “applicant” means the person who according to the records in the Patent Office would on the grant of the patent applied for be entitled to the patent;
 - (b) “article” includes any substance or material, and any machinery or apparatus, whether affixed to land or not;
 - (c) “assignee” includes the personal representative of a deceased assignee, and references to the assignee of any person include references to the assignee of the personal representative or assignee of that person;
 - (d) “Commissioner” means the Commissioner of Patents;
 - (e) “exclusive licence” means, as to any right in respect of the patented invention conferred by the licence, a licence from the patentee which confers such right on the licensee and persons authorized by him to the exclusion of all other persons including the patentee;
 - (f) “Exchequer Court” means the Exchequer Court of Canada;
 - (g) “Her Majesty” means Her Majesty in the right of Canada;
 - (h) “invention” means any new and useful art, process, machine, manufacture or composition of matter (which is not obvious), or any new and useful improvement (which is not obvious) in any art, process, machine, manufacture or composition of matter;
 - (i) “inventor” does not include a person who merely imports an invention from abroad;
 - (j) “legal representative” of an inventor includes the personal representative of a deceased inventor, the guardian, curator, or tutor of an inventor, the assignee of any of them or of any inventor, or any person, except a licensee, claiming through or under an inventor;
 - (k) “Minister” means the Secretary of State of Canada or such other Minister of the Crown as may be appointed by the Governor in Council to administer this Act;
 - (l) “patent” means letters patent for an invention;
 - (m) “patent agent” means a person carrying on for gain in Canada the business of acting as agent for other persons for the purpose of applying for or obtaining patents in Canada or elsewhere;
 - (n) “patent of addition” means a patent granted in accordance with section 31 of Part IV of this Act;
 - (o) “patentee” means the person or persons for the time being on the Register of Patents as the owner or owners of a patent;

- (p) "prescribed" means prescribed by the Rules made pursuant to this Act;
- (q) "process" means process or method and includes a new use of a known process, machine, manufacturer or composition of matter;
- (r) "published", except in the relation to a complete specification, means made available to the public; and without prejudice to the generality of the foregoing provision a document shall be deemed for the purposes of this Act to be published if it can be inspected as of right by members of the public whether upon payment of a fee or otherwise.

These provisions are either self-explanatory, have been explained, or will become clear as the later sections are read. Attention, however, should be directed to the definitions of "invention" and "process".

DIVISION VI—ADMINISTRATION

Part II. Administration

1. There shall be attached to the Department of the Secretary of State of Canada or to such other department of the Government of Canada as may be determined by the Governor in Council an office called the Patent Office.

2. (1) The Governor in Council may appoint a Commissioner of Patents who shall, under the direction of the Minister subject to the provisions of this Act, exercise and perform the powers and duties conferred and imposed upon that officer by or pursuant to this Act.

(2) The Commissioner shall receive all applications, specifications, fees, papers, documents and models for patents, shall perform and do all acts and things requisite for the granting and issuing of patents, shall have the charge and custody of the books, registers, records, papers, models, machines and other things belonging to the Patent Office, and shall have for the purpose of this Act, all the powers that are or may be given by the *Inquiries Act* to a commissioner appointed under Part II thereof.

(3) The Commissioner holds office during pleasure and shall be paid such annual salary as may be determined by the Governor in Council.

3. (1) An Assistant Commissioner of Patents may be appointed in the manner authorized by law; he shall be a technical officer experienced in the administration of the Patent Office.

(2) When the Commissioner is absent or unable to act, the Assistant Commissioner, or, if he also is at the same time absent or unable to act, another officer designated by the Minister, may and shall exercise the powers and perform the duties of the Commissioner.

4. There may be appointed in the manner authorized by law, such examiners and other officers and employees as may be necessary for carrying out the provisions of this Act.

5. No officer or employee of the Patent Office shall buy, sell, acquire or traffic in any invention, patent or right to a patent whether granted in Canada or elsewhere, or any interest in any thereof or any licence under a patent, and every purchase, sale, assignment, acquisition or transfer of any patent or right to a patent or any interest in any thereof or of any licence under a patent made by or to any such officer or employee is null and void, but this section does not apply to a sale by any such officer or employee, who is an original inventor, of his invention or to an acquisition under the last will or by the intestacy of a deceased person.

6. (1) There shall be a seal of the Patent Office and every patent issuing from the Patent Office shall bear such seal; and impressions of the seal shall be judicially noticed.

(2) The Commissioner may cause to be sealed with the seal of the Patent Office any other instrument issuing from the Patent Office.

(3) The Commissioner may on payment of the prescribed fee issue a certified copy under the seal of the Patent Office of any entry in any register or of

any document kept in the Patent Office or of any patent, or an extract from any such register, document or patent.

7. The Commissioner shall, in each year, cause to be prepared and laid before Parliament a report on the proceedings under this Act, and shall, from time to time and at least once in each year, publish a list of all patents granted.

8. (1) Any applicant for patent who does not reside or carry on business at a specified address in Canada shall, at the time of filing his application or within such period thereafter as the Commissioner may allow, nominate as his representative a person or firm residing or carrying on business at a specified address in Canada.

(2) Subject as hereinafter provided, such nominee shall be deemed to be the representative for all purposes of this Act, including the service of any proceedings taken thereunder, of any such applicant and of any patentee of a patent issued on his application who does not reside or carry on business at a specified address in Canada, and shall be recorded as such by the Commissioner in a Register of Representatives to be open for public inspection at the Patent Office.

(3) An applicant for patent or a patentee may by written notice to the Commissioner nominate another representative in place for the last recorded representative, or may notify the Commissioner in writing of a change in the address of the last recorded representative, and shall so appoint a new representative or supply a new and correct address of the last recorded representative on the dispatch by the Commissioner to him of a notice in writing by registered mail that the last recorded representative has died or that a letter addressed to him at the last recorded address and sent by ordinary mail has been returned undelivered.

(4) Where, after the dispatch of a notice as aforesaid by the Commissioner, no new appointment is made or no new and correct address is supplied by the applicant or patentee within three months or such further period as the Commissioner may allow, the Exchequer Court, Patent Tribunal or the Commissioner may dispose of any proceedings under this Act without requiring service on the applicant or patentee of any document.

(5) No fee is payable on the appointment of a new representative or the supply of a new and correct address, unless such appointment or supply follows the dispatch of a notice in writing by the Commissioner as aforesaid, in which case a fee as prescribed shall be payable.

These administrative provisions in many respects follow the provisions of our present Act. In section 5 an amendment has been proposed to section 7 of our present Act to make it clear that that section does not apply to a sale by an original inventor who is an officer or employee of the Patent Office but does apply to a sale to an officer or employee.

It was represented to us that the Patent Office ought to be attached to the Department of Trade and Commerce rather than to the Department of the Secretary of State. It was pointed out that patents are intimately connected with commerce and there appeared to be a disposition to believe that the Office would receive more generous treatment from the Government if represented by a Minister more directly aware of the commercial implications of the work of the Office. No evidence was adduced which enabled the Commission to assess the validity of these representations and we therefore make no recommendations with respect to them.

DIVISION VII—THE REGISTER OF PATENTS, ETC.

Part III. Register of Patents, etc.

1. (1) There shall be kept at the Patent Office a Register of Patents in which shall be entered particulars of

- (a) all patents;
- (b) all assignments, mortgages, licences, judgments or other documents relating to any patent; and
- (c) such other matters as are specified in this Act or prescribed.

(2) The Register of Patents kept in the Patent Office immediately before the coming into force of this Act shall be incorporated with and form part of the Register under this Act.

(3) Subject to the provisions of this Act and to rules made by the Governor in Council thereunder the Register shall at all convenient times be open to inspection by the public.

(4) The Register of Patents shall be *prima facie* evidence of any matters required or authorized by or under this Act to be entered therein.

2. (1) In this Act a transfer of rights in a patent or a right to obtain a patent, herein called a transfer of rights, means:

- (a) any assignment or mortgage of a patent or right to obtain a patent;
- (b) any document in writing conferring a right to use an invention which is patented or in respect of which a person has a right to obtain a patent;
- (c) any agreement in writing under which any person becomes entitled to an interest in a patent or a right to obtain a patent;
- (d) any instrument under which a patent, right to obtain a patent, or interest in or right to use the invention therein devolves upon any person.

(2) Where any person becomes entitled by a transfer of rights he may apply to the Commissioner in the prescribed manner to register the transfer of rights in the Register of Patents.

(3) Any application for the registration of a transfer of rights shall be accompanied by

- (a) an affidavit of a subscribing witness or evidence to the satisfaction of the Commissioner that such transfer of rights was executed by the assignor, transferor or licensor; or
- (b) a certificate from the proper officer certifying to the authenticity of the instrument constituting the transfer of rights.

(4) Where any person applies pursuant to subsection (2) of this section for the registration of a transfer of rights, the Commissioner shall upon payment of the prescribed fee register such transfer of rights in the Register of Patents.

(5) Subject to the provisions of section 1, subsection (15) of Part V any patent, or interest in a patent or the right to obtain a patent whether or not an application has been filed in respect thereof may be assigned by instrument in writing and any person may be licensed in respect thereof.

(6) Subject to the provisions of section 1, subsection (15) of Part V the rules of law applicable to the ownership and devolution of what, according to the law of those provinces of Canada where there is property known as personal property, is personal property shall apply to a patent, an interest in a patent and the right to obtain a patent.

(7) A patent may be assigned in whole or in part, or for or in respect of all or any part of Canada.

(8) Every transfer of rights is void as against any person taking under a subsequent transfer of rights unless such prior transfer of rights is registered in the Register of Patents before the registration of the subsequent transfer of rights, subject, however, to any rights vested in any other person of which a prescribed notice is entered in the Register of Patents.

3. (1) The Exchequer Court may, on the application of any person interested, order the Register of Patents to be rectified by the making of any entry therein or the variation or deletion of any entry therein;

(2) In proceedings under this section the Exchequer Court may determine any question which it may be necessary or expedient to decide in connection with the rectification of the register;

(3) The Commissioner shall be entitled to appear and to be heard on the application and shall appear if so directed by the Exchequer Court; and

(4) Any order made by the Exchequer Court under this section shall direct that notice of the order shall be served on the Commissioner in the prescribed manner and the Commissioner shall, on receipt of the notice, rectify the register accordingly.

4. (1) The Commissioner, in accordance with the provisions of this section, may correct any clerical error or obvious mistake in any patent, or any error in the Register of Patents.

(2) A correction may be made in pursuance of this section either upon a request in writing made by any person interested and accompanied by the prescribed fee, or without such a request.

(3) Where the Commissioner proposes to make any such correction as aforesaid otherwise than in pursuance of a request made under this section, he shall give notice of the proposed correction to the patentee and to any other person who appears to him to be affected, and shall give such person or persons an opportunity to be heard before making the correction.

(4) Where a request is made under this section for the correction of any error or mistake in a patent, and it appears to the Commissioner that the correction would materially alter the meaning or scope of the patent, and ought not to be made without notice to persons affected thereby, he shall give notice to any person who appears to him to be so affected and shall require notice of the nature of the proposed correction to be advertised in the Patent Office Record in the prescribed manner.

(5) Within the prescribed time after any such advertisement as aforesaid any person interested may give notice to the Commissioner of opposition to the request, and where such notice of opposition is given the Commissioner shall give notice thereof to the person by whom the request was made, and shall give to him and to the opponent an opportunity to be heard before he decides the matter.

5. (1) A certificate purporting to be signed by the Commissioner and certifying that any entry which he is authorized by or under this Act to make has or has not been made, or that any other thing which he is so authorized to do has or has not been done, shall be *prima facie* evidence of the matters so certified.

(2) A copy of any entry in any register or of any document kept in the Patent Office or of any patent, or an extract from any such register or document, purporting to be certified by the Commissioner and to be sealed with the seal of the Patent Office shall be admitted in evidence without further proof and without production of the original.

6. In any action or proceeding respecting a patent authorized to be brought or taken in Canada under the provisions of this Act a copy of any patent granted in any other country or any official document connected therewith, purporting to be certified under the hand of the person entitled to issue such certificate may be produced before any court or a judge thereof, and the copy of such patent or document purporting to be so certified may be received in evidence without production of the original and without proof of the signature or of the official character of the person appearing to have signed the same.

Provisions regarding registration of assignments, etc. are found in section 74 of the United Kingdom Patents Act and in section 261 of the United States Patent Act. Our present provisions are to be found in sections 52 and 53 of our Act. The proposed provisions are not based wholly upon any of the foregoing but contain elements to be found in some or all of them.

Our recommendation that every transfer of rights be void as against any person taking under a subsequent transfer of rights unless such prior transfer of rights is registered before registration of the subsequent transfer of rights is similar in principle to the provision of our present Patent Act relating to the registration of assignments, being section 53 (4). Section 49 of the *Canada Shipping Act*, R.S.C., 1952, c. 29, with relation to the registration of mortgages is also based on the same principle. Under the registration sections in the patent acts of some countries, for example, the United States, an unregistered transfer is void only as against a subsequent transferee for valuable consideration without notice, not, as we recommend, as against every subsequent transferee who has registered his transfer. It may be unnecessary to point out that the system we recommend, as compared with the United States system, increases the danger to a transferee of delay in registering transfers and increases the pressure on him for immediate registration. It also eliminates the possibility of lawsuits to determine whether valuable consideration was given and whether there was notice of prior transfers. We consider the principle of the recommended provision, which makes no change in the principle of the corresponding present provision, a desirable principle.

Representations were made that failure to register any document of title or licence should entail pecuniary penalties. We find ourselves unable to make such a recommendation. We note that the Swan Committee rejected such a suggestion: paragraph 60 of Second Interim Report.

It will be noted that subsection (8) of section 3 refers to a prescribed notice. We think that the rules prescribing the kind of notice which will be required should provide (as to future licences) that the patentee at the time of the giving of the licence must be a party to the notice and that the notice express with reasonable certainty the rights conferred by the licence.

DIVISION VIII—APPLICATIONS FOR PATENTS

Part IV. Applications for Patents

1. (1) Any of the following persons may make an application for a patent for an invention:

- (a) the inventor thereof or his legal representative;
- (b) in the case of a joint invention, the inventors thereof but the legal representative of any such inventor may join in the application in lieu of such inventor;
- (c) Her Majesty the Queen in the right of Canada pursuant to the *Public Servants Inventions Act*, Statutes of Canada, 1953-54, Chapter 40.

(2) Any applicant other than an inventor shall within the prescribed time furnish such evidence to the Commissioner as may be prescribed of his right to apply or join in the application.

(3) An application may be made by an agent or attorney on behalf of any of the persons who may apply for a patent and such agent or attorney shall within the prescribed time furnish to the Commissioner such proof of his authority as may be prescribed.

(4) Application includes a convention application.

(5) (a) Convention application means in this Act an application in Canada for a patent for an invention made within twelve months after the making of an application for protection in respect of the invention in a convention country, herein called the foreign application, or, where more than one such application for protection has been made in one or more convention countries, from the date of the first such foreign application, by a person specified in the next paragraph, which application for a patent contains a statement that it is being made as a convention application.

(b) The person specified for the purposes of the last preceding paragraph of this subsection, being a person who by virtue of subsection (1) or subsection (3) of this section may make an application for a patent, is

- (i) the person who made the foreign application; or
- (ii) if the person referred to in subparagraph (i) is deceased, his personal representative; or
- (iii) the assignee of the person who made the foreign application.

(c) A foreign application shall be deemed to have been made where a person specified in paragraph (b) of subsection (5) has claimed or fully disclosed the invention in an application for protection in a convention country which

- (i) in accordance with the terms of a treaty subsisting between two or more convention countries, is equivalent to an application duly made in any one of those convention countries or
- (ii) in accordance with the law of any convention country, is equivalent to an application duly made in that convention country.

2. (1) Every application for a patent shall be made in the prescribed form and shall be filed at the Patent Office in the prescribed manner and when accompanied by a specification and the prescribed fee shall be given a filing date.

(2) Every application shall contain a statement that a person or persons named in the application is or are the inventor or inventors.

(3) Every convention application shall specify the date or dates on which and the convention country or countries in which the foreign application or applications relied upon was or were made, and shall state that no foreign application has been made more than twelve months before the making of the convention application by the inventor or any legal representative of the inventor.

3. (1) Every application for a patent (other than a convention application) shall be accompanied by either a complete specification or a provisional specification; and every convention application shall be accompanied by a complete specification.

(2) In the case of a convention application, in addition to the complete specification, copies of the application and specifications, or corresponding documents, filed or deposited in the Patent Office of the convention country where the relevant application for protection was made, certified by the official head of the Patent Office of the convention country or otherwise verified to the satisfaction of the Commissioner, shall be filed at the Patent Office at the same time as the application is filed or within six months thereafter and if any such application, specification or other document is in a language other than English or French, a translation of the application, specification or other document verified by evidence acceptable to the Commissioner shall accompany the application, specification or other document provided that on the payment of the prescribed fee the Commissioner shall extend the said six-month period to a date not later than the date of publication of the complete specification.

(3) Where an application for a patent is accompanied by a provisional specification, a complete specification shall be filed within twelve months from the date of filing of the application or within a further period of three months upon request of an extension and payment of the prescribed fee in such twelve-month period and if the complete specification is not so filed the application shall be deemed to be finally abandoned.

(4) Subject to the provisions of this and the next following section, where two or more applications for patent each accompanied by a provisional specification have been filed, or where more than one complete specification have been filed, or where one or more complete specifications and one or more provisional specifications have been filed, a single complete specification may with leave of the Commissioner and on payment of the prescribed fee, be proceeded with in respect of those applications.

(5) Where an application for a patent (not being a convention application) is accompanied by a specification purporting to be a complete specification, the Commissioner may, if the applicant so requests and pays the prescribed fee at any time before the publication of the specification, direct that it shall be treated for the purposes of this Act as a provisional specification, and proceed with the application accordingly.

(6) Where a complete specification has been filed in pursuance of an application for a patent accompanied by a provisional specification or by a specification treated by virtue of a direction under the last foregoing subsection as a provisional specification, the Commissioner may, if the applicant so requests at any time before the publication of the complete specification, cancel the

provisional specification and post-date the application to the date of filing of the complete specification.

4. (1) Every specification, whether complete or provisional, shall describe the invention, and shall begin with a title indicating the subject to which the invention relates.

(2) Subject to any rules made by the Governor in Council under this Act, drawings may, and shall if the Commissioner so requires, be supplied for the purposes of any specification, whether complete or provisional; and any drawings so supplied shall form part of the specification, and references in this Act to a specification shall be construed accordingly.

(3) Every complete specification

(a) shall describe the invention in such full, clear and accurate terms as to enable any person skilled in the art to which it pertains, or with which it is most closely connected, to make and use the same;

(b) shall disclose the best method of performing the invention which is known to the applicant; and

(c) shall end with a claim or claims clearly and succinctly defining the scope of the invention claimed.

(4) When the number of claims in a complete specification exceeds twenty a prescribed fee shall be imposed for each claim in excess of that number; but when the number of claims in a complete specification accompanying an application for a reissued patent exceeds the number of claims granted in the original patent, an additional fee shall be imposed only for each claim over and above twenty in excess of the number of claims granted in the original patent.

(5) The claim or claims of a complete specification shall relate to a single invention, and shall be fairly based on the matter disclosed in the specification.

(6) Where a complete specification claims a new substance the claim shall be construed as not extending to that substance when found in nature.

Subsection (3) as so drafted above would, we think, be applied by the courts in the way set out by Thorson, P. in his judgment in *Minerals Separation North American Corporation v. Noranda Mines Limited* (1947) Ex.C.R. 306 at pp. 315-18 as follows:

"The requirements of a valid patent specification have in Canada been reduced to statutory form. Section 14 of the Patent Act, Statutes of Canada, 1923, chap. 23, which governs the interpretation of the present specification, provides in part as follows:

'14. (1) The specification shall correctly and fully describe the invention and its operation or use as contemplated by the inventor. It shall set forth clearly the various steps in a process, or the method of constructing, making or compounding a machine, manufacture, or composition of matter. It shall end with a claim or claims stating distinctly the things or combinations which the applicant regards as new and in which he claims an exclusive property and privilege.'

The Act speaks of the specification as ending with a claim or claims, which indicates that it has two parts, the first dealing with what leads up to the claims, which may be called the disclosures, and the claims themselves. At the same time it should be borne in mind, in considering the cases, that the term specification in Canada includes both the disclosures and the claims.

The requirements of a specification generally were well stated by the former President of this Court in *De Forest Phonofilm of Canada Limited v. Famous Players Canadian Corporation, Limited* (1931) Ex. C.R. 27 at 42, but he did not attempt to separate the requirements into those that relate only to the disclosures and those that relate only to the claims. This is not easy to do for some requirements, such as freedom from avoidable obscurity or ambiguity, are applicable to both; nevertheless,

the requirements relating to the disclosures are not the same as those relating to the claims; and both sets of requirements must be complied with. In view of the attacks upon the disclosures it is, I think, desirable to set out, with more particularity than section 14(1) of the Act does, the duties of disclosure required of an inventor in consideration of the grant of a valid monopoly in respect of his invention.

Two things must be described in the disclosures of a specification, one being the invention, and the other the operation or use of the invention as contemplated by the inventor, and with respect to each the description must be correct and full. The purpose underlying this requirement is that when the period of monopoly has expired the public will be able, having only the specification, to make the same successful use of the invention as the inventor could at the time of his application. The description must be correct; this means that it must be both clear and accurate. It must be free from avoidable obscurity or ambiguity and be as simple and distinct as the difficulty of description permits. It must not contain erroneous or misleading statements calculated to deceive or mislead the persons to whom the specification is addressed and render it difficult for them without trial and experiment to comprehend in what manner the invention is to be performed. It must not, for example, direct the use of alternative methods of putting it into effect if only one is practicable, even if persons skilled in the art would be likely to choose the practicable method. The description of the invention must also be full; this means that its ambit must be defined, for nothing that has not been described may be validly claimed. The description must also give all information that is necessary for successful operation or use of the invention, without leaving such result to the chance of successful experiment and if warnings are required in order to avert failure such warnings must be given. Moreover, the inventor must act *uberrima fide* and give all information known to him that will enable the invention to be carried out to its best effect as contemplated by him. This statement of the extent to which the disclosures must go in describing the invention and its operation or use as contemplated by the inventor, if the patent is not to fail for either the ambiguity or insufficiency of such description, is abstracted from a number of cases cited by counsel for the defendant: *Smith Incubator Co. v. Seiling* (1937) S.C.R. 251; *French's Complex Ore Reduction Co. v. Electrolytic Zinc Process Co.* (1930) S.C.R. 462; *The British Ore Concentration Syndicate Limited v. Minerals Separation Limited* (1909) 26 R.P.C. 33 at 47; *Simpson v. Holliday* (1866) 1 E.&I. App. 315; *Natural Colour Kinematograph Co. Ltd. v. Bioschemes Ltd. (re G.A. Smith's Patent)* (1915) 32 R.P.C. 256; *Badische Anilin und Soda Fabrik v. La Société Chimique des Usines du Rhone and Wilson* (1897) 14 R.P.C. 875 at 888; *Gold Ore Treatment Company of Western Australia Ltd. v. Golden Horseshoe Estates Co. Ltd.* (1919) 36 R.P.C. 95 at 132; *Vidal Dyes Syndicate Ltd. v. Levinstein Ltd.* (1912) 29 R.P.C. 245 at 269, 273; *The Franc-Strohmenger and Cowan Inc. v. Peter Robinson Ltd.* (1930) 47 R.P.C. 493 at 501. Section 14. (1) does not, in my opinion, alter the requirements of the law, as laid down in the cases; it merely puts them into statutory form. If they are not complied with, then the patent fails, not for ambiguity or insufficiency of description, as the cases put it, for the Act does not refer to these terms, but for non-compliance with statutory conditions. The result is the same.

When it is said that a specification should be so written that after the period of monopoly has expired the public will be able, with only the specification, to put the invention to the same successful use as the inventor himself could do, it must be remembered that the public means persons skilled in the art to which the invention relates, for a patent specification is addressed to such persons."

The section of the new Act setting out the requirements of contents of complete specifications will be of the utmost importance. It is in the complete specification that the applicant makes his disclosure and stakes out his claim. Whether the brief statement of requirements set out in our draft section would be sufficient is a question for the parliamentary draftsman, who would we assume have in mind the principles of the relevant judicial decisions, at least in Canada and the United Kingdom. As guidance of the draftsman we cannot improve on the passage quoted from the judgment of Thorson P. in the *Minerals Separation* case quoted above. We think that what we have drafted is sufficient.

5. (1) Each claim of a complete specification shall have a priority date.

(2) The priority date of a claim shall, except as in this section otherwise provided, be the date of the filing of the complete specification.

(3) Where the complete specification is filed in pursuance of a single application accompanied by a provisional specification or by a specification which is treated by virtue of a direction under section 3, subsection (5) of this Part of this Act as a provisional specification, and the claim is fairly based on the matter disclosed in that specification, the priority date of that claim shall be the date of filing of the application.

(4) Where the complete specification is filed or proceeded with in pursuance of two or more applications, and the claim is fairly based on the matter disclosed in a specification accompanying one of such applications, the priority date of that claim shall be the date of filing of the application accompanied by that specification.

(5) Where the complete specification is filed in pursuance of a convention application and the claim is fairly based on the matter disclosed in a foreign application, or where the convention application is founded upon more than one such foreign application, in one of those applications, the priority date of that claim shall be the date of the relevant foreign application.

(6) Where the complete specification is filed or proceeded with in pursuance of two or more applications or in pursuance of a convention application founded upon more than one foreign application, and a claim in the complete specification must rely for support for the purpose of obtaining a priority date, on matter disclosed in more than one specification or foreign application, as the case may be, the priority date of the claim shall be the date of the last relevant foreign application as the case may be.

(7) Where, under any provision of this Act, any claim of a complete specification would, but for such provision, have two or more priority dates, the priority date of that claim shall be the earlier or earliest of those dates.

(8) Where an application, in this subsection called the parent application, is divided pursuant to section 32 of this Part and the applicant files one or more further applications, to be called in this subsection divisional applications, in respect of an invention disclosed in the provisional specification or complete specification filed in respect of the parent application, the priority date of a claim of the complete specification filed in respect of any such divisional application is the date which would have been the priority date of that claim if that claim had been included in a complete specification filed in respect of the parent application.

(9) A claim is not entitled to any priority date earlier than the date of filing of the last filed document upon which the claim must rely for support.

6. A patent is not invalid, so far as claimed in any claim of the complete specification by reason only of

(a) the publication or use of the invention so far as claimed in that claim on or after the priority date of that claim; or

(b) the grant of another patent upon a specification claiming the same invention in a claim of the same or a later priority date.

7. (1) The Commissioner shall publish in the Patent Office Record a notification that a complete specification is open to public inspection at the earliest of the following times:

(a) immediately on the expiration of one year from the date of filing of the complete specification;

- (b) if the applicant has requested the Commissioner in writing to open the complete specification to public inspection, forthwith after such request;
- (c) fifteen days from the date of notice of allowance of the application being given to the applicant unless within such fifteen days the applicant shall by written request require the Commissioner to defer publication of the complete specification until the expiration of the period of one year from the date of the filing thereof and pays the prescribed fee and so long as the publication of the complete specification is deferred the patent cannot be granted.

(2) On the date of publication of the notification provided for in subsection (1) of this section, the application, complete specification and provisional specification or specifications if any and, in the case of a convention application, the foreign application or applications and any translations thereof, shall, subject to this or any other statute of Canada, be open to public inspection, and the date of the Patent Office Record containing such notification shall be deemed to be the date of publication of the notification.

(3) When a complete specification has become open to public inspection in pursuance of the provisions of this section it shall be deemed to have been published.

(4) Subject to the foregoing provisions of this section, no reports of examiners, models, or other documents or papers relating to an application or specification shall, before grant of the patent, be open to the inspection of the public at the Patent Office, but thereafter they shall all be open to such inspection.

(5) Upon the request of any person who states in writing the name of the inventor, if available, the title of the invention, and

- (a) the number and date of a patent said to have been granted in a named country other than Canada; or
- (b) the number and date of publication of a complete specification said to have been published in a named country other than Canada,

and who pays the prescribed fee, the Commissioner shall inform such person whether an application for a patent of the same invention is pending in Canada, provided that the Commissioner may require the production of a copy of the foreign patent or the foreign complete specification as the case may be as a condition to the response under this subsection.

(6) After publication of a complete specification and until the grant of a patent on the application, the applicant has, subject to section 5 (3) of Part XI of this Act, the like privileges and rights as he would have had if a patent for the invention had been granted on the date of the publication of the complete specification.

Our proposal that the complete specification be published not later than a year after it is filed is a new feature of our patent legislation. In the United Kingdom legislation, the complete specification is opened to public inspection upon acceptance: section 13. Acceptance may take place considerably more than a year after filing.

Under the Australian Patents Act 1952 a complete specification is opened to public inspection at the expiration of six months after filing. The principal

advantage of a relatively early publication is that the specification gives information as to the invention to the public promptly so that the technology can go forward from there instead of starting from that point a considerable period, perhaps years, later.

An argument against publication before acceptance is that the applicant may not be given sufficient opportunity to develop and perfect his invention before others forestall him with their own patentable improvements on his invention. We do not find this argument convincing. We think that, on the whole, it is desirable that others should be encouraged to make improvements, even patentable improvements, at an early date.

The applicant, under our proposals, will have a reasonable opportunity of securing protection upon developments of the invention which he makes himself. Moreover, if some other inventor makes some patentable improvements at an early date, the compulsory licensing provisions that we recommend later will make it possible for the applicant to secure the right to use these improvements even though they are patented, providing he is willing to make available his own invention to the owner of the patent on the improvements and provided the other conditions set out in the compulsory licensing section are met.

Another argument against early publication is that it may prevent or delay applications in Canada by foreign residents. If a foreign resident must publish his specification a year after filing and wishes to keep the invention secret as long as possible, he may let the convention year run nearly out before filing in Canada or even forego his right to file a convention application and apply later if there has been no anticipation. We think, however, the possibility of the latter is not very great because of the danger of anticipation. And as to letting the full convention year nearly elapse, the possibility of this does not, in our opinion, counterbalance the advantage of early publication which we mentioned earlier.

8. (1) If the Commissioner is satisfied, on a claim made in the prescribed manner and upon payment of the prescribed fee, at any time before a patent has been granted, that by virtue of any assignment or agreement made by the applicant or one of the applicants for the patent, or by operation of law, the claimant would, if the patent were then granted, be entitled thereto or to the interest of the applicant therein, or to an undivided share of the patent or of that interest, the Commissioner may, subject to the provisions of this section, direct that the application shall proceed in the name of the claimant or in the names of the claimant and the applicant or the other joint applicant or applicants, according as the case may require.

(2) No such direction as aforesaid shall be given by virtue of any assignment or agreement made by either or any of two or more joint applicants for a patent except with the consent of the other joint applicant or applicants.

(3) No such direction as aforesaid shall be given by virtue of any assignment or agreement for the assignment of the benefit of an invention unless either

(a) the invention is identified therein by reference to the number of the application for the patent; or

(b) there is produced to the Commissioner an acknowledgement by the person by whom the assignment or agreement was made that the assignment or agreement relates to the invention in respect of which that application is made; or

(c) the rights of the claimant in respect of the invention have been finally established by a decision of a court of competent jurisdiction.

(4) If any dispute arises between joint applicants for a patent whether or in what manner the application should be proceeded with, the Commissioner may, upon application made to him in the prescribed manner by any of the parties and upon payment of the prescribed fee, and after giving to all parties concerned an opportunity to be heard, give such directions as he thinks fit for enabling the application to proceed in the name of one or more of the parties alone on behalf of all the persons entitled to proceed with the application or for regulating the manner in which it shall be proceeded with, or for both those purposes, according as the case may require.

(5) Persons shall not be deemed not to be joint inventors by reason only that they are not joint inventors of the invention so far as claimed in every claim of the complete specification. Persons shall be deemed to be joint inventors if there was a joint invention so far as the invention is claimed in any claim of the complete specification. If the invention was not a joint invention so far as claimed in any claim of the complete specification, then the persons are not joint inventors.

(6) An appeal shall lie to the Patent Tribunal from any decision of the Commissioner under this section.

We have sought to clarify the rights of joint inventors. Section 8, subsection (5) provides that it is not necessary for joint inventors to have participated in the invention in each claim of the patent. It is sufficient to constitute the inventors as joint inventors if they participated jointly in the invention of the subject matter of any claim.

9. (1) When the complete specification has been filed in respect of an application for a patent, the application, the specification or specifications and all documents required to be filed in connection therewith shall be referred by the Commissioner to an examiner.

(2) The examiner shall report forthwith to the Commissioner if any application or specification or any document required to be filed in connection therewith does not comply with any requirement of this Act or any rule made thereunder.

(3) The examiner shall as soon as possible

(a) investigate and report to the Commissioner in respect of the complete specification

(i) whether the invention, so far as claimed in any claim, is the subject of a claim of the complete specification of another application for a patent filed in Canada (which application is one which has not become finally abandoned or which has not been refused or withdrawn) being a claim entitled to a priority date earlier than that of the first-mentioned claim; and

(ii) whether the invention, so far as claimed in any claim, is the subject of a claim of earlier priority date contained in the complete specification of a patent granted in Canada which has not been revoked.

(b) report to the Commissioner whether, to the best of his knowledge, the invention, so far as claimed in any claim, was new having regard to what, before the priority date of that claim, was published in a document.

- (c) report to the Commissioner whether, to the best of his judgment, the invention, so far as claimed in any claim, did not involve an inventive step having regard to what before the priority date of that claim was published in a document or documents.

10. The Commissioner may give notice in writing to the applicant of any report of an examiner adverse to the application or specification made under section 9, and shall give notice in writing to the applicant of any ground whether appearing from such report or not, upon which the Commissioner considers that he is required to refuse the application or to reject any document necessary to the application or complete specification or to request amendment of the application, specification or any document filed in connection therewith, which notice in this Part is called an office action.

11. (1) The Commissioner shall refuse any application for patent

- (a) where the invention in respect of which the application is made is obviously contrary to well-established natural laws; or
- (b) where the use of the invention in respect of which the application is made would be an offence under the Criminal Code; or
- (c) where the invention, in respect of which the application is made, is a machine, manufacture or composition of matter which is either an aggregation of known parts or a mixture of known ingredients possessing only the aggregate of the known functions of the parts or an aggregate of the known properties of the ingredients or is a process producing a composition of matter by mere admixture.

(2) The Commissioner may reject any document filed in connection with any application that does not comply with any requirement of this Act or any rule made thereunder.

12. The applicant shall respond to each office action by filing at the Patent Office within a period of three months from the date of such action

(1) a response being a statement in writing in which is explained the manner in which the response meets the grounds of objection; and

(2) such amendment, if any, to the application for patent, specification or other document as the nature of the response to the office action requires.

13. On the receipt of a response, and any amendment pursuant to Section 12 of this Part or any amendment or document pursuant to section 22 of this Part, the Commissioner may refer the application, the specification or specifications and all documents required to be filed in connection therewith to an examiner for further report.

14. If in the opinion of the Commissioner a response to an office action fails to meet the grounds upon which the Commissioner considers that he is required to refuse the application, he may refuse the application.

15. An application shall be refused by the Commissioner by the issuance by him of an office action designated as a final action.

16. Unless the Commissioner is reasonably satisfied that there is, or remains after a response to an office action, some ground under this Act upon which he is required or considers that he is required to refuse the application, he shall allow the application by issuing an office action to be designated as a notice of allowance.

17. The applicant shall request the grant of a patent and pay the prescribed fee for grant within three months of the date of the notice of allowance.

18. The applicant may at the time of filing of the complete specification or any time thereafter prior to allowance of the application upon payment of the prescribed fee give notice to the Commissioner requesting him to postpone allowance of the application until such date not being later than twelve months from the date of filing of the complete specification as may be specified in the notice.

19. If within the time limited by this Act an applicant

(1) fails to respond to an office action, or

(2) fails to pay the prescribed fee for the grant of the patent, the application shall be deemed abandoned.

20. On the abandonment of any application the Commissioner shall issue a notice of abandonment to the applicant and unless the response or payment, as the case may be, required in the office action with which the applicant failed to comply, is made by the applicant within one month of the date of the notice of abandonment, the application shall become finally abandoned.

21. The applicant shall have the right to appeal in the manner prescribed to the Patent Tribunal from any refusal of an application for patent, within three months of the date of the final action, and from any rejection of a document filed in pursuance of or in connection with an application, with three months of the date of the rejection.

22. At any time prior to allowance of the application the applicant may

(a) amend the complete specification within the scope of the disclosure; or

(b) amend the application; or

(c) file other documents in support of the application or the complete specification.

23. The applicant shall have the right by written request to require the Commissioner within a period of three months of the date of such written request to allow or refuse the application by a final action on the application.

24. Where through a *bona fide* mistake an application or a patent contains the name of any person as an inventor who is not an inventor of the invention or does not contain the name of a person as an inventor who was in fact an inventor of the invention, the applicant or the patentee shall upon payment of the prescribed fee have the right to require an amendment of the application or the patent correcting the mistake if he applies to the Commissioner for such correction before any action is commenced by or against the patentee in respect of the patent in the Patent Tribunal or in the Exchequer Court.

25. A complete specification shall not be amended so as to enlarge the scope of the disclosure included therein.

We would draw attention to some changes in respect of the prosecution of applications for patent which we would recommend. It will be observed that sections 12 and 17 abridge the time for replying to office actions and paying final fees from six months to three months. This is in keeping with the recommendations made to us that the time for prosecution within the Patent Office should, where possible, be shortened. At the same time it will be observed from section

20 that inadvertent abandonment will be minimized in that the Patent Office will be required to give notice to an applicant where an application has become abandoned. We were informed that valuable rights to obtain patents have sometimes been lost where the time for further prosecution has elapsed. Notice to the applicant that the application is abandoned according to the office records should avoid the dangers of inadvertent abandonment. A period of one month from the date of notice of abandonment is provided, within which the applicant may further prosecute the application so as to avoid final abandonment.

It will be observed that by section 23 an applicant can require the Patent Office to issue a final action thereby enabling the applicant to have any issue between him and the Patent Office determined by the Patent Tribunal.

By virtue of section 22 an applicant is entitled to amend his specification within the scope of the disclosure up to the time of the allowance of the application.

26. The Commissioner may consider that he is required to refuse and may refuse an application for patent on any of the following grounds:

(1) On any ground on which the examiner is entitled to make a report adverse to the application or any specification;

(2) that the applicant was not entitled under the provisions of this Act to apply therefor;

(3) that the subject of any claim of the complete specification thereof is not an art, process, machine, manufacture, or composition of matter or an improvement therein;

(4) that the complete specification does not describe the invention in such full, clear and accurate terms as to enable any person skilled in the art to which it pertains or with which it is most closely connected, to make and use the same;

(5) that the complete specification does not disclose the best method of performing it which was known to the applicant;

(6) that any claim of the complete specification does not clearly and succinctly define the scope of the invention so far as claimed in that claim;

(7) that any claim of the complete specification is not fairly based on the matter disclosed in the specification;

(8) that the invention, so far as claimed in any claim of the complete specification, was not new, having regard to what before the priority date of that claim

(a) was known or used in Canada;

(b) was common knowledge in the art in Canada or in any other country;
or

(c) was published in a document in Canada or in any other country;

(9) that the invention, so far as claimed in any claim of the complete specification, did not involve an inventive step having regard to what before the priority date of that claim

(a) was known or used in Canada;

(b) was common knowledge in the art in Canada or in any other country; or

(c) was published in a document or documents in Canada or in any other country.

We have defined the duties of an examiner and those of the Commissioner with some particularity, bearing in mind the difficulties of their respective tasks in respect of patent applications.

The difference between the wording of subsection (8) paragraph (c) and subsection (9) paragraph (c) will be noted. It is our purpose to make it possible for a "mosaic" to be made for obviousness but not for anticipation. This we understand to be the present law.

See on 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, *The King v. Uhlemann Optical Co.* (1950) Ex. C.R. 142 and the cases therein cited (affirmed on appeal (1952) 1 S.C.R. 143).

See on obviousness or inventive step *Allmanna Svenska Elektriska A/B v. The Burnitsland Shipbuilding Co. Ltd* (1952) 69 R.P.C. 63, *Martin and Biro Swan Ld. v. H. Millwood Ld.* (1956) R.P.C. 125, and contributions to the Canadian Bar Review by Gordon F. Henderson and David Watson and by Harold G. Fox at pp. 950-966 of Vol. 34 (1956) Canadian Bar Review.

27. (1) If the invention so far as claimed in any claim of the complete specification was claimed in a claim of earlier priority date contained in the complete specification of another application for patent filed in Canada (which is still pending in the Patent Office), prosecution of the application, the complete specification of which contains the claim of later priority date, shall be suspended until the grant or refusal of a patent in respect of the application the complete specification of which contains the claim of earlier priority date.

(2) If a patent in respect of the application the complete specification of which contains the claim of earlier priority date is granted, the application, the complete specification of which contains the claim of later priority date, shall be further suspended for a period of three months from the date of notice of such grant from the Commissioner to the applicant whose application was suspended.

(3) If before the expiration of the said period of three months, proceedings have been instituted to revoke the claim of earlier priority, such suspension shall continue until the final disposition of such proceedings.

(4) If no such proceedings are instituted or if a result of such proceedings the claim of earlier priority date is not revoked, the application, the complete specification of which contains the claim of later priority date, shall be refused.

28. (1) If the invention so far as claimed in any claim of a complete specification of a patent is claimed in a claim of a complete specification of an application having a later priority date, the prosecution of the application, the complete specification of which contains the claim of later priority date, shall be suspended for a period of three months from the date of notice of such patent being given by the Commissioner to the applicant.

(2) If before the expiration of the said period of three months proceedings have been instituted to revoke the claim of earlier priority in the patent such suspension shall continue until a final disposition of such proceedings.

(3) If no such proceedings are instituted or if as a result of such proceedings the claim of earlier priority date in the patent is not revoked, the application shall be refused.

29. Nothing in sections 27 and 28 shall be deemed to affect the power of the Commissioner to refuse the application the complete specification of which contains the claim of later priority date on any ground other than the ground that it is of later priority date.

SECRECY

30. (1) Where an application for a patent is made in respect of an invention and it appears to the Commissioner that the invention is one of a class notified to him by a competent authority as relevant for defence purposes, the Commissioner shall hold the application in secrecy and give notice to such authority in writing that he is so doing and make the application available to such authority for inspection.

(2) Where the Commissioner gives notice to a competent authority as provided in subsection (1) the following provisions shall have effect, that is to say:

- (a) within three months of the receipt of the notice the competent authority shall consider the question whether the defence of the realm would be prejudiced by publication or communication of information with respect to the invention and shall give a written direction to the Commissioner;
 - (i) where he considers that the defence of the realm would be so prejudiced, that information shall not be published or communicated with respect to the invention without prior authorization by him and that the application shall be kept, either,
 - (A) in secrecy, but may be prosecuted to allowance provided that the grant of the patent is withheld, or,
 - (B) in a sealed packet without prosecution beyond the stage reached as of the time of the receipt by the Commissioner of the direction, until such time as the direction has been varied, amended or revoked by him, and
 - (ii) where he considers that the defence of the realm would not be so prejudiced, that the application may be proceeded with as otherwise provided in this Act;
- (b) upon receipt of a written direction made pursuant to subparagraph (i) of paragraph (a) of this subsection the Commissioner shall comply therewith and shall issue an order (in this Act referred to as a secrecy order) to the applicant;
- (c) upon receipt of a written direction made pursuant to subparagraph (ii) of paragraph (a) of this subsection the Commissioner shall deal with the application as otherwise provided in this Act;
- (d) the secrecy order shall direct the applicant not to publish information with respect to the invention, or to communicate such information to any person unless authorized by the Commissioner to do so;
- (e) from and after the receipt of the secrecy order by the applicant he shall be deemed, for the purposes of the Official Secrets Act, to be a person having in his possession or control information relating to the invention that has been entrusted to him by a person holding office under Her Majesty; and the communication of any of the said information by him

to any person other than to one to whom he is authorized by the Commissioner to communicate it, shall be an offence under section 4 of that Act;

- (f) except where a notice has been given under paragraph (g) of this subsection the question forming the subject of the written direction made pursuant to subparagraph (i) of paragraph (a) of this subsection shall be reconsidered by the competent authority before the expiration of twelve months from the date of filing of the application and at least once in every subsequent year and on each occasion that the question is so reconsidered the competent authority shall inform the Commissioner of the effect, if any, of the reconsideration on that direction or on any subsequent modification or variation thereof; provided, however, that if in any year subsequent to the year in which the application was filed, the Commissioner has not been so informed on or before the 31st day of December of that year, he may, after giving the competent authority such notice as may be prescribed, deal with the application as if notice had been given to him under paragraph (g) of this subsection;
- (g) if upon reconsideration of the question as aforesaid or at any other time it appears to the competent authority that the publication or communication of information with respect to the invention would no longer be prejudicial to the defence of the realm, that authority shall give notice to the Commissioner to that effect;
- (h) upon receipt of a notice made pursuant to paragraph (g) of this subsection the Commissioner shall
 - (i) treat any restriction imposed upon the prosecution of the application under subparagraph (i) of paragraph (a) of this subsection as at an end and deal with the application as otherwise provided in this Act and
 - (ii) revoke the secrecy order and inform the applicant of such revocation and may, subject to such conditions, if any, as he thinks fit, extend the time for doing anything required or authorized to be done by or under this Act in connection with the application, whether or not that time has previously expired.

(3) Where an application in respect of which a secrecy order has been issued is allowed, then, during the continuance in force of such secrecy order, if any use of the invention is made by or on behalf of Her Majesty the provisions of subsection (4) of section 2 of Part IX of this Act shall apply to that use as if the patent had been granted for the invention, provided that Her Majesty may oppose any application to the Patent Tribunal for compensation on the ground that any patent granted in respect of the application would have been revocable on any ground set out in section 10 of Part VI.

(4) During the continuance of the secrecy order any hearing before the Patent Tribunal on an application for compensation by reason of the use described in the last foregoing subsection shall be held *in camera*.

(5) If a secrecy order has been issued in respect of an application and it appears to the competent authority which gave the written direction as a result of which the secrecy order issued, that the applicant has suffered hardship by reason of the continuance in force of such direction, that authority may with the consent of the Treasury Board pay to the applicant such compensation, if any, as appears to that authority to be reasonable.

(6) Notwithstanding anything to the contrary in this Act, for the purpose of calculating renewal fees in respect of an invention held in secrecy the filing of the complete specification shall be deemed to have been made as of the date of the lifting of the secrecy order.

(7) No person resident in Canada shall, except under the authority of a written permit granted by or on behalf of the Commissioner, make or cause to be made any application for the grant of a patent outside Canada, unless,

- (a) an application for a patent for the same invention has been made in Canada not less than three months before the application outside Canada; and
- (b) either no secrecy order has been issued under this section in relation to the application made in Canada or where a secrecy order has been so issued it has been revoked;

provided that this subsection shall not apply in relation to an invention for which an application has first been made in a country outside Canada by a person resident outside Canada.

(8) (a) Any person who is aware that a secrecy order has been made in respect of an invention and who without proper authority publishes or communicates to others any information with respect to the invention shall be guilty of the offence of which he would have been guilty if he had been the applicant and shall be liable to the same punishment as if he had been the applicant;

- (b) if any person makes or causes to be made an application for a patent in contravention of this section, he shall be guilty of an offence and liable
 - (i) on summary conviction, for a first offence, to imprisonment for a term not exceeding three months or to a fine not exceeding five hundred dollars, or to both such imprisonment and such fine but if such person is a body corporate to a fine not exceeding one thousand dollars;
 - (ii) on summary conviction, for a second or subsequent offence, to imprisonment for a term not exceeding six months or to a fine not exceeding one thousand dollars, or to both such imprisonment and such fine but if such person is a body corporate to a fine not exceeding two thousand dollars; or
 - (iii) on conviction on indictment, for a first or subsequent offence, to imprisonment for a term not exceeding two years or to a fine not exceeding two thousand five hundred dollars, or to both such imprisonment and such fine but if such person is a body corporate to a fine not exceeding five thousand dollars;
- (c) if a body corporate makes or causes to be made an application for a patent in contravention of this section and a director, manager, secretary or other officer of that body corporate or person who purports to be acting in that capacity is knowingly a party thereto such party shall be liable as set out in paragraph (b) of this subsection insofar as it relates to persons other than corporations;
- (d) where an offence under subsection (2) (e) of this section is committed by a body corporate, every person who at the time of the commission of the offence is a director, manager, secretary or other officer of the body corporate, or is purporting to act in any such capacity, shall be deemed guilty of that offence unless he proves that the offence was committed

without his consent or connivance and that he exercised all such diligence to prevent the commission of the offence as he ought to have exercised having regard to the nature of his functions in that capacity and to all the circumstances.

(9) The term application when used in this section includes all specifications and other documents relating to the invention.

(10) In this section the expression "competent authority" means the Minister of National Defence or the Atomic Energy Control Board or both acting jointly.

This draft section is largely self-explanatory. It may be noted, however, that by subsection (7) a resident of Canada may not, except when authorized by the Commissioner, apply abroad for a patent until he has applied in Canada and three months after his application has elapsed. This subsection is a restriction upon a right to apply abroad which has not heretofore existed but is rendered necessary by the principle of the section as a whole.

PATENTS OF ADDITION

31. (1) Subject to the provisions of this section, where application is made for a patent in respect of any improvement in or modification of an invention (in this section referred to as "the main invention") and the applicant also applies or has applied for a patent for that invention, the Commissioner may, if the applicant so requests, grant the patent for the improvement or modification as a patent of addition.

(2) A patent shall not be granted as a patent of addition unless the date of filing of the complete specification therefor was

(a) the same as or later than the date of filing of the complete specification in respect of the main invention; and

(b) earlier than the date of grant of a patent in respect of the application for the main invention.

(3) An application for a patent of addition shall be accompanied by a complete specification.

(4) A patent of addition shall not be granted before the grant of the patent for the main invention; and if the period within which, but for this provision, a request for the granting of a patent of addition could be made under section 17 of Part IV of this Act expires before the period within which a request for the granting of the patent for the main invention may be so made, the request for the granting of the patent of addition may be made at any time within the last-mentioned period.

(5) A patent of addition shall be granted for a term equal to that for the main invention, or so much thereof as is unexpired, and shall remain in force so long as the patent for the main invention remains in force and no longer; provided that, if the patent for the main invention is revoked under this Act, the Exchequer Court or the Patent Tribunal, as the case may be, may order that the patent of addition shall become an independent patent for the remainder of the term of the patent for the main invention, and thereupon the patent shall continue in force as an independent patent accordingly.

(6) No renewal fees shall be payable in respect of a patent of addition; but, if any such patent becomes an independent patent by virtue of an order under the

last foregoing subsection, the same fees shall thereafter be payable, upon the same dates, as if the patent has been originally granted as an independent patent.

(7) The grant of a patent of addition shall not be refused, and a patent granted as a patent of addition shall not be revoked or invalidated, on the ground only that the invention claimed in the complete specification does not involve any inventive step having regard to any publication or use of

(a) the main invention described in the complete specification relating thereto; or

(b) any improvement in or modification of the main invention described in the complete specification of any other patent of addition to the patent for the main invention or of an application for such a patent of addition; and the validity of a patent of addition shall not be questioned on the ground that the invention ought to have been the subject of an independent patent.

(8) An appeal shall lie to the Patent Tribunal from any decision of the Commissioner under this section.

It will be seen that where it is sought to enlarge the scope of the disclosure, we recommend provisions for patents of addition.

Representations were received from the Patent Institute of Canada that the system of supplementary disclosure now found in the rules and regulations under the Canadian Patent Act is inadequate. The Patent Institute recommended that provision be made for a procedure similar to the continuation-in-part procedure in the United States or to patents of addition in the United Kingdom.

We have come to the conclusion that the present provisions for supplementary disclosures should be discarded and that a modified form of the patent of addition system existing in the United Kingdom and such other countries as have adopted the United Kingdom system should be adopted in Canada. We consider patents of addition to be better suited than continuation-in-part applications to the patent system which we are recommending, having, as it does, so many features in common with the United Kingdom system.

The objections to the existing system of supplementary disclosures were outlined in detail in an article on Supplementary Disclosures by David Watson, (1958) 29 C.P.R. 65; and in a panel discussion, Proceedings of the Patent and Trademark Institute of Canada, 32nd Annual Meeting, pp. 88-93.

We are recommending the adoption of a modified form of the United Kingdom system of patents of addition. By our proposal the scope of the disclosure in a complete specification may be enlarged by the filing of an application for a patent of addition for an improvement or modification of the original invention. We understand that an "application for a patent of addition" would have the status of an "application for patent" for the purpose of priority rights under The International Convention. (It is not clear whether a supplementary disclosure can be used as the basis for a priority date in a foreign country.)

It will also be noted that there is no limit to the number of patents of addition which can be obtained. The publication or use of the main invention or of the information in any prior patents of addition will not deprive a subsequent application for a patent of addition of "subject matter". As in the United Kingdom, patents of addition will not require additional renewal fees.

It will be noted, however, that we are recommending a modification of the system of patents of addition existing in the United Kingdom in that we are proposing that the specifications for a patent of addition must be filed before the

grant of a patent on the main invention. This proposal differs from the practice in the United Kingdom and is more in keeping with current practice in Canada and the United States.

While there are those who feel that a patentee should have an unlimited right to amend his patent throughout its term, we recommend that after grant of the patent the patentee be placed upon the same footing as others, viz. that he shall be able to obtain protection for only such improvements to his invention as will sustain an independent patent.

This is, we believe, the better approach as it will stimulate research, directed toward improvements of the patented invention over the widest area.

It should be noted that our recommendation of patents of addition, unlike our present Act, gives the applicant, in effect, unlimited right of development up to the date of the grant of his patent.

DIVISION

32. (1) Where any application for patent describes and claims more than one invention, the applicant may, and on the direction of the Commissioner to that effect shall, limit his claims to a single invention, and the invention or inventions defined in the other claims may be made the subject of one or more divisional applications.

(2) A divisional application shall be deemed to be an application for patent within the meaning of section 2 of this Part.

(3) No applicant shall be required to limit his claims pursuant to subsection (1) of this section unless, in the opinion of the Commissioner, the complete specification contains claims which are clearly directed to more than one invention.

We received representations to the effect that the present provisions relating to unity of invention were unclear, and that extended arguments between applicants and the Patent Office take place in respect of the matter of division. We feel that the applicant should be given the benefit of the doubt when a question arises whether a claim or claims relate to more than one invention. And we have sought to express this point of view in section 32, subsection (3). The Commissioner ought to require division only where it is clear that the subject matter relates to more than one invention. A reasonable practice within the scope of this principle can only be worked out through experience.

DIVISION IX—GRANT, TERM AND EFFECT OF PATENT

Part V. Grant, Term and Effect of Patent

1. (1) Subject to any power of the Commissioner to refuse an application, the Commissioner shall cause a patent to be granted in such form as may be prescribed and sealed with the seal of the Patent Office as soon as may be after the request for the grant of a patent and the payment of the prescribed fee for grant. The date on which the patent is granted shall be entered on the Register of Patents and shall be the date of the grant of the patent.

(2) Every patent shall be dated with the date of filing of the complete specification which date shall be the date of the patent.

(3) No proceedings for infringement shall be taken in respect of an act committed before the date of the publication of the complete specification, and no proceedings for infringement shall be taken until after the date of the grant of the patent.

(4) The term of the patent shall be seventeen years from the date of the patent.

It will be noted that we recommend that the term of the patent run from the filing of the complete specification instead of from the granting of the patent. This is a common feature of all patent acts of the British type which we have examined and indeed of the patent acts of most countries including nearly all major countries except the United States. The chief practical advantage, or at least one of the main practical effects, of the provision is that the applicant will have a strong incentive to proceed expeditiously with the prosecution of his application. Time will be running against him if he delays. We were led to believe that under the present system under which time begins to run only from grant, some applicants find it advantageous to keep their applications in the prosecution stage for long periods. This fact led to suggestions made to us that the patent protection should expire seventeen years after grant or twenty years after application whichever date might be the earlier.

By our proposed section we recommend that the term of protection be seventeen years commencing with the filing of the complete specification. We consider that a provision for seventeen years protection after filing of the complete specification is more appropriate than a provision that the protection run until the expiration of seventeen years from date of grant or the expiration of twenty years from date of application whichever is earlier. Arguments could be adduced that the tempo of industrial change has increased since the seventeen-year term was decided upon. But these arguments would suggest counterarguments and we think that there is not much more than can advantageously be said than that what is a proper length of term is a matter of judgment, and that in our judgment seventeen years from date of filing the complete specification is both long enough and short enough. It may be pointed out that the usual term in legislation of the British type is sixteen years from the date of filing the complete specification. This is the term in the United Kingdom, Australia, New Zealand and South Africa. Terms vary in other foreign countries, the term in the United States being seventeen years from date of grant.

(5) Where, at any time after a patent has been granted, the Commissioner is satisfied that any person to whom the patent was granted had died or (in the case of a body corporate) had ceased to exist before the patent was granted, he may amend the patent by substituting for the name of that person the name of the person to whom the patent ought to have been granted; and the patent shall have effect and shall be deemed always to have had effect accordingly.

(6) A patent shall have effect throughout Canada provided that a patent may be assigned for any place in or part of Canada as effectually as if it were granted so as to extend to that place or part only.

(7) The inventor or inventors shall be mentioned as such in the patent.

(8) A patent shall be granted for one invention only; but it shall not be competent for any person in an action or other proceeding to take any objection to a patent on the ground that it has been granted for more than one invention.

(9) Renewal fees shall be payable in respect of a patent in such amounts and at such times as shall be prescribed.

(10) A patent shall cease to have effect, notwithstanding anything therein or in this Act, on the expiration of the period prescribed for the payment of any renewal fee if that fee is not paid within the period so prescribed or within that period as extended by the next succeeding subsection.

(11) The period so prescribed for the payment of any renewal fee shall be extended to such period, not being more than six months longer than the period so prescribed, as may be specified in a request made to the Commissioner if the request is made and the renewal fee and such additional fee as may be prescribed are paid before the expiration of the period so specified.

Another new feature recommended by us is that renewal fees be payable. Most countries—all major industrial countries except the United States—charge what are known as “annual fees”, “renewal fees” or “taxes” during the term the patent is alive.

A system of renewal fees has the effect of clearing the register of dead wood. A feature of the renewal fee system is that the patent ceases to have effect if the renewal fee is not paid when payable. In countries which have the renewal fee system a large proportion of patents lapse after a few years for nonpayment of renewal fees. We think it desirable to encourage the removal of the clutter of worthless or doubtful patents from the register.

The system also probably has the effect (if the scale of renewal fees is roughly the scale we suggest) of increasing the revenue of the Patent Office, and, what is more important, ensuring that the revenue is collected from those receiving protection of value. In order to collect a revenue composed entirely of fees up to grant which would equal the revenue composed of fees up to grant plus renewal fees, the fees up to grant would have to be much higher than they are now and would be derived to a substantial extent from holders of commercially worthless patents. A system of renewal fees should ensure that a much larger proportion of the revenue of the office is paid by persons with valid and commercially useful patents.

It is interesting to note that the average deficit of the Canadian Patent Office (all sources) for the three years ending and including 1958-59 was, according to the Reports of the Commissioner of Patents, over \$464,541 a year, being \$584,012 for the year 1958-59.

We recommend that renewal fees be fixed by regulation and that the regulations provide *inter alia* as follows:

(1) That the first renewal fee be payable before the expiration of the fourth year after the date of the patent and be in respect of the fifth year.

(2) That renewal fees be payable before the expiration of each year thereafter up to and including the sixteenth year.

(3) That generally speaking each renewal fee be a little higher than the one for the year before.

(4) That, initially at least, the scale of renewal fees be such that the total renewal fees, if the patent runs for its full term, be between \$500 and \$600.

(5) That renewal fees be payable only if the patent is granted.

(6) That if at the expiration of four years after the date of filing the complete specification the patent applied for is not granted and is granted thereafter, no renewal fees shall be payable until the patent is granted, but so as not to reduce the total amount of renewal fees which would have been payable had the patent been granted not later than four years after date of filing of the complete specification. (The patentee will have had rights accruing from date of publication).

(7) That no renewal fees be payable on patents of addition.

Later in this report we shall make recommendations as to the amounts of renewal fees.

It will be noted that we do not recommend any provisions for restoration of a patent if it has lapsed because of nonpayment of renewal fees. The patentee will have a six-month period of grace for payment of renewal fees in respect of each year, and we think that this should sufficiently protect him from the consequences of inadvertent failure to pay.

(12) Every patent granted under this Act shall contain the title or name of the invention and shall, subject to the conditions contained in this Act and to adjudication in respect of the patent by a court of competent jurisdiction, grant to the patentee for the term therein mentioned the right to exclude others from making, using or selling the invention in Canada. A copy of the complete specification shall be annexed to the patent and be a part thereof.

We consider that the nature of the right conferred by a patent is more accurately expressed as a right to exclude others than as a right to make use and sell the invention. The latter right is not conferred by the patent but subsists without it. In other words, what the patent confers is a right to exclude rather than an exclusive right. One objection to the use of language purporting to confer an exclusive right is that the patent does not confer the right to make, use or sell the invention, if to do so would infringe another valid patent. This difficulty is removed by the use of the words right to exclude rather than exclusive right.

In view of the fact that we have departed from the language contained in section 46 of our present Act, which provides for the grant of an exclusive right, it is unnecessary to enact a provision similar to that found in section 34 of our present Act.

Language similar to that of the proposed section will be found in section 154, United States Code, Title 35.

(13) In any patent granted under this Act

- (a) a claim to a process does not extend to the product produced thereby;
- (b) a claim to a machine does not extend to the product produced thereby.

The question whether the sale of a product made in accordance with a patented process infringes the process patent even if the patent contains no claim to the product, was brought into prominence by the decision of the Supreme Court of Canada in the case of *F. Hoffman-LaRoche & Co. Ltd. v. Commissioner of Patents* (1955) S.C.R. 414. The decision was that a process-dependent product claim is not allowable unless the product itself apart from the process by which it is made is patentably novel. A typical process-dependent product claim would be as follows:

2. Products when prepared according to the process of claim 1.

But it was not the decision on this point that precipitated controversy; it was the following dictum in the judgment of the Chief Justice who delivered judgment for himself and Taschereau, Locke and Cartwright JJ. (p. 415):

“According to the decisions of the Court of Appeal in England in *Von Heyden v. Neustadt* following previous decisions of single judges, the applicant would have a monopoly in respect of aldehyde when prepared according to his process. In Canada it was decided in the same sense by Mr. Justice Burbidge in the Exchequer Court in *Auer Incandescent Light Manufacturing Co. and O'Brien* and by a Divisional Court in Ontario, in *Toronto Auer Light Co. Ltd. v. Colling*. There seems to be no reason to doubt the correctness of these decisions.”

In the Canadian Bar Review, issue of January, 1957, pp. 86-92, G. E. Maybee, Q.C., of Ridout & Maybee, Toronto, quoted this passage from the judgment of Kerwin, C. J. and took issue with the last sentence quoted and expressed the view that it is by no means certain that the Canadian courts, when it becomes necessary to go beyond dicta, will decide that the sale of a product made in accordance with a patented process infringes the process patent where the patent contains no claim to the product. Mr. Maybee quoted a passage from the judgment of Boyd, C. in his judgment in *Toronto Auer Light Co. Ltd. v. Colling* (1900) 31 O.R. 18, in which Boyd, C. points out that there is a distinct cleavage in the American decisions before and after the Patent Act of 1870 which provided for the specifications and claims as two distinct things, and required the inventor “not merely to specify and point out but to ‘particularly point out and distinctly claim’ his invention”, while under the pre-existing legislation he was merely instructed to specify what he alleged to be his invention. Mr. Maybee observed that the statement of Boyd, C. that “this restrictive policy does not obtain in England nor has it been adopted in Canada”, was wrong and intimated that it was therefore incorrect to say, as Boyd, C. said, “we stand on the old footing and the early decisions in the States are in conformity with the English cases”.

It would appear that in the United States the sale of a product made in accordance with a patented process does not infringe the process patent: *Foster D. Snell Inc. v. Potters* (1937) 88 F. (2d) 611.

There are provisions of the United States Customs Code (Title 19, Customs Duties, secs. 1337 and 1337 (a)), as a result of which in certain circumstances products manufactured abroad by processes which are patented in the United States

may be denied entry into the United States, but this is apart altogether from the United States Patent Code.

The letter of Mr. Maybee to the Canadian Bar Review elicited a reply from Harold G. Fox, Q.C., published in the issue of April, 1957, from which we quote the following (p. 479):

"Since the 1883 amendment to the British Patents Act there have been nine decisions in Great Britain in which the proposition is accepted, either as *ratio* or *dictum*, that importation of the product of a patented process constitutes infringement, and two in which the proposition has been established with relation to the product of a machine, a concept not differing in principle from that applying to the product of a process."

Mr. Fox regarded the point as therefore decided.

A reply to Mr. Fox's letter from Mr. Maybee was also published in the issue of the Canadian Bar Review for April, 1957, in which Mr. Maybee stated (pp. 481-3) that other than *Saccharin Corporation v. Anglo-Continental Chemical Works, et al.*, (1900) 17 R.P.C. 307, the post-1883 British cases mentioned by Dr. Fox were not very impressive. After dealing with them Mr. Maybee came to the following conclusion:

"Possibly, in that state of the authorities, the question is *stare decisis* in England, although of this I am doubtful. I am satisfied, however, that the English authorities do not establish the law in Canada and I am also satisfied that, when section 57 of the Canadian Patent Act refers to infringement, it was not, as Dr. Fox suggests, the intention of Parliament that the word 'infringement' would be interpreted in accordance with either the Canadian *Auer Light* cases or the British cases just referred to."

The state of the law in England is carefully considered in a paper entitled "Product Claims" by The Lord Cawley, Barrister-at-Law, read in 1958 before The Chartered Institute of Patent Agents. The learned author reviews not only the English cases referred to by the judges of the Supreme Court of Canada in the *Hoffman-LaRoche* case but the other English cases dealing with the question. He points out the change made in the requirements for a specification by the Patent Act of 1883, which appears to have been somewhat similar to the change made in the requirements in the United States by the Patent Act of 1870, and he states that he can find no binding authority as to whether or not under the 1907-1946 Acts a process claim or an apparatus claim covers the product of the process or the apparatus respectively.

In the *Saccharin* case mentioned above, it was held in respect of a patent which issued in 1894 that the importation from abroad of saccharin synthesized abroad from substances made abroad by the patented process constituted an infringement, but Lord Cawley gives his reasons for stating that it seems to him that this case is of doubtful authority. The implication of Lord Cawley's argument as a whole are that under the present system of claims in specifications a patent for a process does not protect the product. This was the conclusion arrived at by the Commissioner of Patents in South Africa in a judgment published in the South African Patent Journal of August 14, 1957 and which was then under appeal. Much of this judgment is set out in a letter from Mr. Maybee to the Editor of the Canadian Bar Review in vol. 36, pp. 135-137 (1958).

The question has given several judges a great deal of trouble. Such problems as the following arise: What if the patented process plays a relatively unimportant or trifling part in the production of a product? And what if the patented apparatus though used in connection with the manufacture of the product is so used in an unimportant or trifling respect?

It was even argued in the case of *V.D. Ltd. v. Boston Deep Sea Fishing and Ice Company Ltd.* (1935) 52 R.P.C. 303, where the subject of the patents in suit was trawling gear and the claims were for trawling gear, a method of hauling trawling gear and for slats, that "fish in the marketable state are the product of the use of the invention and their sale in the United Kingdom deprives the patentee of the benefit of his monopoly".

The following passage from the judgment of Tomlin, J. in *Wilderman v. F. W. Berk & Co. Ltd.* (1925) 42 R.P.C. 79 is of interest in reference to patented apparatus claims and unpatented products and whether the sale or importation of such products is an infringement:

"It is argued on the Plaintiff's behalf that, once I am satisfied that there has been used in connection with the manufacture of an imported article, in however an unimportant or trifling respect, some apparatus or material in respect of which there is a subsisting patent the importation of the article manufactured is necessarily an infringement. I do not think that the cases to which I have been referred compel me to accept so wide a proposition, and I do not accept it. I cannot think, for example that the employment of a patented cutting blowpipe or a patented hammer in the manufacture of some part of a locomotive would necessarily render the importation of the locomotive an infringement.

In my judgment, each case must be determined on its own merits by reference to the nature of the invention, and the extent to which its employment played a part in the production of the article, the importation of which is complained of."

However, the textbook writers on patents commonly express the law in the sense of the dictum of Kerwin C. J. quoted above (e.g. Blanco White 2nd ed. p. 73, Terrell 9th ed. p. 157) and cases, British and Canadian, whether or not applicable to a different system of claiming, support that point of view.

This being true, we think we should make some recommendation which will make the situation more certain for the future. In our view it is out of keeping with what we understand to be patent principles for the use or sale of an unpatented product made by a patented process to be regarded as an infringement of the patent whether that product is imported or not. We have considered whether we could not recommend a provision which goes part way toward the adoption of this principle—such a provision, for example, as allowing an encroachment upon pure principle only in the case of process patents and not in the case of apparatus patents and, in the case of process claims, devising some division between cases where the process plays a dominant role in the producing of the product and those in which it plays only a subordinate or subsidiary role. We have found ourselves unable, however, to devise any compromise with principle which would be defensible. So, far from recommending that the Act quiet doubts by making it clear that the sale of a product made in accordance with a patented process infringes the process patent even if the patent contains no claim to the product, we think the very reverse should be made clear and unmistakable, namely, that the sale or use of a product made in accordance with a patented process or by a patented machine does not infringe the process or machine patent. To protect the product, the patent must contain a claim to the product.

We need hardly say that in our view it should be impossible to obtain a patent on an old product whether or not it results from a new process, and that accordingly it should not be possible to obtain a process-dependent product patent where the product is old. We do not see why anyone would want to obtain a process-dependent product patent where the product is new if our present section 41 is amended as recommended by us, as he would then be able to patent the product as such and without limitation to any particular process.

- (14) (a) Every patent granted under this Act shall be *prima facie* valid.
- (b) The burden of proving invalidity of a patent rests on a party asserting it and is not a burden of proving it beyond a preponderance of probability.

This subsection may not be strictly necessary. It is a statement of what we consider the law would be if there were no statutory enactment. As to paragraph (b), it has been suggested to us that the presumption arising under section 48 of our present Act imposes a heavy burden upon a party attacking the validity of a patent. In our opinion the onus on such a party should be the ordinary onus in a civil case. While we think there must be such a presumption, we realize, having in mind the proportion of patents which when they get to the courts are held invalid, how insecure the rational foundation of a presumption of validity is.

(15) (a) Where a patent is granted to two or more persons (other than in a representative capacity), each of those persons shall, unless an agreement to the contrary is in force, be entitled to an equal undivided share in the patent.

(b) Subject to the provisions of this section, where two or more persons are registered as the patentee of a patent (other than in a representative capacity), then, unless an agreement to the contrary is in force, each of those persons shall be entitled, by himself or his agents to make, use and sell the patented invention for his own benefit without accounting to the other or others.

(c) Subject to any agreement for the time being in force, a licence under a patent shall not be granted, and a share in a patent shall not be assigned, except with the consent of all persons who are registered as the patentee of the patent.

(d) Where an article is sold by one of two or more persons registered as the patentee, the purchaser and any person claiming through him shall be entitled to deal with it in the same manner as if the article had been sold by a sole patentee.

It will be noted that where a patent is granted to two or more persons (other than in a representative capacity) they will take as tenants in common and not as joint tenants.

DIVISION X—REVOCATION, ANTICIPATION, etc.

Part VI. Revocation of Patents, Anticipation, etc.

1. (1) Subject to the provisions of this Act, at the suit of the Attorney General of Canada, the Attorney General of any Province of Canada or any interested person, in the Exchequer Court, a patent may be revoked, either wholly or insofar as it relates to any claim of the complete specification on one or more of the following grounds:

- (a) that the applicant was not a person entitled to apply for a patent, so far as the invention is claimed in any claim;
- (b) that the patent, so far as the invention is claimed in any claim, was obtained in contravention of the rights of the party instituting the revocation proceedings or of some person under or through whom such party claims;
- (c) that the complete specification does not describe the invention in such full, clear and accurate terms as to enable any person skilled in the art to which it pertains, or with which it is most closely connected to make and use the same.
- (d) that the complete specification does not disclose the best method of performing the invention which was known to the applicant;
- (e) that any claim of the complete specification does not clearly and succinctly define the scope of the invention so far as claimed in that claim;
- (f) that any claim of the complete specification is not fairly based on the matter disclosed in the specification;
- (g) that the subject of any claim of the complete specification is not an art, process, machine, manufacture or composition of matter or an improvement thereof;
- (h) that the Commissioner should have refused the application for the patent under section 11(1) of Part IV of this Act;
- (i) that the invention so far as claimed in any claim was not new having regard to what, before the priority date of that claim
 - (i) was known or used in Canada;
 - (ii) was common knowledge in the art in Canada or in any other country; or
 - (iii) was published in a document in Canada or in any other country;
- (j) that the invention, so far as claimed in any claim, was obvious in that it did not involve an inventive step having regard to what, before the priority date of that claim
 - (i) was known or used in Canada;
 - (ii) was common knowledge in the art in Canada or in any other country; or
 - (iii) was published in a document or documents in Canada or in any other country;

- (k) that the invention, so far as claimed in any claim, was claimed in a valid claim of earlier priority date contained in the complete specification of another patent granted in Canada;
 - (l) that the invention so far as claimed in any claim is not useful;
 - (m) that the patent was obtained on a false suggestion or representation;
 - (n) that the invention, so far as claimed in any claim, was secretly used in Canada on a commercial scale by the patentee or any person under or through whom he derives title or any other person with the consent or acquiescence of the patentee or of any person under or through whom the patentee derives title, before the priority date of the claim.
- (2) For the purposes of paragraph (n) of subsection (1) of this section no account shall be taken of any use of the invention
- (a) for the purpose of reasonable trial or experiment only; or
 - (b) by a Government department or any person authorized by a Government department, in consequence of the applicant for the patent or any person under or through whom he derives title having communicated or disclosed the invention directly or indirectly to a Government department or person authorized as aforesaid, and for the purposes of paragraphs (i) and (j) of section 1, no account shall be taken of any secret use.
- (3) Government department for the purpose of this section shall mean a department of the Government of Canada or of any Province of Canada.
- (4) Every ground on which a patent may be revoked is available as a ground of defence in an action for infringement of a patent.

Section 62 of our present Act provides in effect that proceedings may be taken in the Exchequer Court for the impeachment of a patent or any claim in a patent at the instance of the Attorney General of Canada or at the instance of any interested person. No mention is made in subsection (1) of section 62 of the Attorney General of a Province. However, subsection (3) of section 62 refers to an Attorney General of a Province, and the section we have drafted provides for proceedings for revocation at the suit of the Attorney General of Canada, the Attorney General of any Province, or of any interested person.

As to the grounds of revocation, those contained in paragraphs (i) and (j) of subsection (1) should be noted. By virtue of paragraph (i) an invention will be anticipated by what before the priority date was known or used in Canada or was common knowledge in the art in Canada or in any other country or was published in a document in Canada or in any other country. The comparable paragraph in the revocation section of the United Kingdom Act provides for anticipation only by what was known or used before the priority date of the claim in the United Kingdom. This requirement of what may be called local anticipation is common to the Patent Acts of the United Kingdom, Australia, New Zealand, South Africa, India and Pakistan—and in the United Kingdom is consistent with the treatment of the first importer of the invention as the inventor. But, as appears from our draft section, we do not think that it should be adopted in unmodified form in New Canadian legislation. Under our present Act an invention may be unpatentable by reason of prior *invention* anywhere in the world. We would expect that if it were provided that knowledge or use before the priority date in order to be an invalidating fact must be in Canada many false applications would be made, that is, applications by persons who were not

the inventors or who had derived title from inventors, but persons who had obtained the invention in some other country, most probably the United States.

On the other hand, if it were provided that any knowledge or use anywhere in the world before the priority date is an invalidating fact, the door would be open to false revocation proceedings and false defences in infringement actions, as the difficulty of negating evidence that the invention was published or used in some particular foreign country would in some instances be very great if not insurmountable.

We have therefore suggested as a workable compromise between these extremes the wording in paragraph (i) (containing subparagraphs (i), (ii) and (iii)). Subparagraph (i) creates no more difficulty than do similar words in several patent acts of the British type. The words "known . . . in Canada" are used in the sense in which the words "known . . . in the United Kingdom" have been construed in cases in the English courts and do not include such knowledge as is the consequence of disclosure by the applicant or patentee, or any person through whom he claims, in circumstances of confidence or secrecy.

Subparagraph (ii) and paragraph (i) raises few difficulties. Common knowledge in the art, even in a foreign country, may fairly readily be proved or disproved without much chance of false statements about it prevailing. The same observation applies, but to a greater degree, to subparagraph (iii) of paragraph (i). The difficulty about the adoption by Canada of subparagraph (i) of paragraph (i) alone ("known or used in Canada") arises mainly from the closeness of our relationship with the United States, geographically, linguistically, industrially, and in the volume of travel between and in the two countries by the residents of each. We think it broadly true to say that what is common knowledge in the art or published in a document in the United States is known in Canada, although the difficulties of proof of that fact may be considerable.

What we have said with regard to paragraph (i) of subsection (1) of section 1 applies also to paragraph (j). The words of subparagraphs (i), (ii) and (iii) of paragraph (j) are the same words as the words of subparagraphs (i), (ii) and (iii) of paragraph (i) except that "document or documents" is used in paragraph (j) and only "document" in paragraph (i). The reason for this is stated earlier in this report.

2. Objection shall not be taken to an application for a patent, so far as the invention is claimed in any claim of the complete specification, and a patent so far as the invention is so claimed, is not invalid by reason only of

- (1) the invention, so far as claimed, having been published or used before the priority date of that claim, if the Commissioner, Patent Tribunal or Exchequer Court is satisfied
 - (a) that the publication was made or the user took place without the knowledge and consent of the applicant or patentee; and
 - (b) that the subject of the publication or user was obtained from the applicant or patentee or from some person from whom the applicant or the patentee derived his title; and
 - (c) if the applicant or patentee was aware of the publication or user before the priority date of that claim, that he applied for a patent for the invention with all reasonable diligence after becoming aware of the publication or user; or
- (2) the communication or disclosure of the invention
 - (a) by the patentee or applicant or by a person from whom he derives his title; or

- (b) by some other person with the consent of a person referred to in (a), being communication or disclosure
- (c) to a Department of the Government of Canada or of any Province or
- (d) to a person authorized by a Department of the Government of Canada or of any Province to make an investigation of the invention; or

(3) anything done for the purpose of an investigation referred to in subparagraph (d) of the last preceding paragraph or

(4) (a) the exhibition of the invention, so far as so claimed, at an international exhibition certified by the Minister by notice in the Canada Gazette to be an exhibition for the purposes of this section; or

- (b) the disclosure to the public of the invention, so far as so claimed, in consequence of the display or use of the invention at the exhibition; or
- (c) the use of the invention, so far as so claimed, for the purpose of such an exhibition in the place where the exhibition is held; or
- (d) the use of the invention, so far as so claimed, during the period of the holding of such an exhibition by a person elsewhere without the knowledge and consent of the applicant or patentee;

provided that paragraphs (a), (b), (c) and (d) of subsection (4) apply only if the person so exhibiting such invention or some person deriving title from him applies for a patent for the said invention not later than six months after the opening of the exhibition; or

(5) the invention, so far as so claimed, having been publicly worked within one year before the priority date of that claim

- (a) by the patentee or applicant or by a person from whom he derives his title; or
- (b) by any other person with the consent of a person described in paragraph (a) of this subsection

if the working was for the purpose of reasonable trial or experiment only and if it was reasonably necessary, having regard to the nature of the invention, that the working for that purpose should have been in public.

The provisions of section 2, subsection (4) are recommended as a compliance with Article 11 of The International Convention.

3. At any time within twelve months after the date of the grant of a patent, and if no action is then pending in respect of the patent in the Exchequer Court, the Attorney General of Canada, the Attorney General of any Province of Canada, or any interested person may apply to the Patent Tribunal to revoke a patent either wholly or insofar as it relates to any claim of the complete specification on any one or more of the grounds on which the Exchequer Court could revoke it.

4. When an application for revocation is pending before the Patent Tribunal in respect of any patent, no action shall be commenced in the Exchequer Court in respect of the patent until a final adjudication has been made in the proceedings before the Patent Tribunal.

5. An appeal shall lie to the Supreme Court of Canada from any final order made by the Patent Tribunal under section 3 of this Part within sixty days from the making of such order.

Our recommendation for the setting up of a Patent Tribunal will be made and discussed later. At this stage we may say that we think that at any time within one year after the date of grant of a patent the Attorney General of Canada, the Attorney General of any Province, or any interested person should have the right to apply to the Patent Tribunal for revocation of the patent on any grounds on which it could be revoked by the Exchequer Court. Such proceedings should be informal to the extent that patent agents whether members of the bar or not should be free to represent parties in the proceedings. At the same time a judgment of revocation on the part of the Patent Tribunal should have the effect of voiding the patent. There should be an appeal and in our view this appeal should lie to the Supreme Court of Canada. It would, we think, unjustifiably prolong litigation to provide for an appeal from the Patent Tribunal, which will consist of a person having the qualifications of a judge who is expert in patent matters, to the Exchequer Court where the case would be heard *de novo* by another judge.

Our reason for recommending that it be made possible for anyone to attack the patent in the year following its grant before the Patent Tribunal is that our other recommendations are directed toward a somewhat speedy prosecution and processing of the application without opposition proceedings and, we hope, without delays, and it is, we consider, advisable that it be possible for a limited time after grant for anyone to attack the patent by somewhat informal proceedings.

DIVISION XI—REISSUES, DISCLAIMERS, DEDICATION

Part VII. Reissues, Disclaimers, Dedication

1. (1) Whenever any patent is deemed wholly or partly defective by reason of any defect in the description, drawings or claims of the complete specification, or by reason of the patentee claiming more or less than he had a right to claim in the patent, and it appears that the patent is defective by reason thereof, but that the defect arose from inadvertence, accident or mistake and without any fraudulent or deceptive intention, the Commissioner may within three years from the date of grant of the patent, and on the surrender of such patent and the payment of the prescribed fee, by grant reissue the patent for the invention disclosed in the original patent in accordance with a new amended application for the unexpired part of the term of the original patent.

(2) No new matter shall be introduced into an application for reissue.

(3) The surrender of the original patent shall take effect upon the grant of the reissued patent.

(4) Every such reissued patent shall have the same effect in law on the trial of any action commenced after the grant of the reissued patent for any cause thereafter arising as if such reissued patent had been originally granted in such amended form; but insofar as the claims of the original and reissued patents are identical, such surrender shall not affect any action then pending nor abate any cause of action then existing, and the reissued patent, to the extent that its claims are identical with the claims of the original patent, shall constitute a continuation thereof and have effect continuously from the date of the patent.

(5) No such reissued patent shall abridge or affect the right of any person or his successors in business who made, used, purchased in Canada or imported into Canada prior to the grant of the reissued patent any article patented by the reissued patent to use or sell or continue to use or sell the specific article so made, used, purchased or imported unless the making, use or sale of such article, infringes a valid claim of the reissued patent which was in the original patent, and the court, before which the matter dealt with in this subsection is in issue, may provide

(a) for the continued manufacture of the article,

(i) which was made before the grant of the reissued patent; or

(ii) for the making of which substantial preparation was made before the grant of the reissued patent

and the use and sale thereof.

(b) for the continued practice of any process patented by the reissued patent practised, or for the practice of which substantial preparation was made, before the grant of the reissued patent;

to the extent, for such period and under such other terms as the court deems reasonable for the protection of any investment made or business commenced before the grant of the reissued patent.

(6) The Commissioner may grant several reissued patents for distinct and separate parts of the invention patented upon the request of the applicant and payment of the prescribed fee for the reissue of each of such reissued patents.

2. (1) A patentee may, with the written consent of every person who appears on the Register of Patents as a transferee under a transfer of rights in respect of the patent,

(a) disclaim any complete claim; or

(b) dedicate to the public the entire term or any terminal part of the term of the patent granted or to be granted.

(2) Any disclaimer of a complete claim or dedication of an entire patent shall be entered in the Register of Patents and shall be irrevocable from the date of such entry and thereafter any such claim or patent as the case may be shall be deemed to have no force and effect.

(3) Any contract or agreement which requires any person to pay royalties or which otherwise affects the rights of such person with respect to a patent which has been dedicated to the public, shall cease to have force and effect from the date of entry of the dedication on the Register of Patents insofar as it requires such payment or affects such rights.

These two sections are self-explanatory. There are provisions in our present Act for reissue and disclaimer, in the United States Act for reissue, disclaimer and dedication, and in the United Kingdom Act for surrender. The recommended provisions for dedication will have significance only in the early years of a patent, as nonpayment of renewal fees will achieve the same end.

**DIVISION XII—COMPULSORY LICENCES, MISUSE OF PATENTS,
RESTRAINT-OF-TRADE ABUSES**

Part VIII. Compulsory Licences, etc.

CONDITIONS

1. (1) The Commissioner shall, on the request of any person who pays the prescribed fee, by notice in writing addressed to the patentee of any patent specified in the request, or to his registered representative in Canada, and to every registered transferee of rights in respect of such patent (and to every person who has a registered interest in such patent if granted on an application filed before the coming into force of this Act), require the patentee and such persons, in respect of such patent, to transmit or deliver to the Commissioner within sixty days from the date of such notice, or within such further time as the Commissioner may allow, a return stating:

- (a) whether the patented invention is being commercially worked in Canada, and the place where and the name and address of the person by whom the patented invention is being so worked; and
- (b) the reasons, if any, why such patented invention is not being commercially worked in Canada.

(2) The failure of the patentee or such representative in Canada or that of any such registered transferee to comply with the terms of the notice mentioned in the next preceding subsection, shall be deemed to be an admission on the part of the patentee or such person, as the case may be, so failing, that the patented invention is not being commercially worked in Canada.

2. (1) Subject to the provisions of section 5 of this Part, any person interested may, at any time after the grant of a patent, apply to the Patent Tribunal upon any one or more of the grounds specified in the next following subsection for an order for the grant of a licence under the patent.

(2) The grounds upon which application may be made for an order under this section are as follows, that is to say:

- (a) that the patented invention, being capable of being commercially worked in Canada, is not being commercially worked therein or is not being so worked to the fullest extent that is reasonably practicable;
- (b) that a demand for the patented article in Canada is being met to a substantial extent by importation;
- (c) that a demand for the patented article in Canada is not being met on reasonable terms;
- (d) that use has been made of the exclusive rights and privileges conferred by the patent, or the patent and one or more other patents, in such a way that the Exchequer Court could on an information exhibited by the Attorney General of Canada by virtue of section 30 of the Combines Investigation Act, make an order directing the grant of licences under any such patent;

- (e) that the commercial working of the invention in Canada is being prevented or hindered by the importation of the patented article;
- (f) that by reason of the refusal of the patentee to grant a licence or licences on reasonable terms
 - (i) a market for the export of the patented article manufactured in Canada is not being supplied;
 - (ii) the working or efficient working in Canada of any other patented invention which makes a substantial contribution to the art is prevented or hindered; or
 - (iii) the establishment or development of commercial or industrial activities in Canada is unfairly prejudiced;
- (g) that by reason of any condition imposed by the patentee—
 - (i) upon the grant of a licence or licences under the patent; or
 - (ii) upon the purchase, hire or use of the patented article or process, the manufacture, use or sale by any person of any article not protected by the patent is unfairly prejudiced; or the establishment or development of commercial or industrial activities in Canada is unfairly prejudiced.

(3) Subject as hereinafter provided the Patent Tribunal may, if satisfied that any of the grounds aforesaid are established, make an order for the grant of a licence under the patent, which order may require the licence to be granted upon such terms as the Patent Tribunal deems advisable, provided that

- (a) where the application is made on the ground that the patented invention is not being commercially worked in Canada or is not being worked to the fullest extent that is reasonably practicable, and it appears to the Patent Tribunal that the time which has elapsed since the grant of the patent has for any reason been insufficient to enable it to be so worked, the Patent Tribunal may by order adjourn the application for such period as will in its opinion give sufficient time for the invention to be so worked;
- (b) any licence granted under this section on the ground that a market for the export of the patented article is not being supplied shall contain such provisions as appear to the Patent Tribunal to be expedient for restricting the countries to which the patented article may be exported;
- (c) no order shall be made under this section in respect of a patent on the ground that the working or efficient working in Canada of another patented invention is prevented or hindered unless the Patent Tribunal is satisfied that the patentee in respect of that other invention is able and willing to grant to the patentee and his licensee a licence in respect of that other invention on reasonable terms.

(4) No licence granted under the last foregoing subsection shall be an exclusive licence nor shall it be transferable even in the form of the grant of a sublicense.

(5) An application under this section may be made by any person notwithstanding that he is already the holder of a licence under the patent; and no person shall be estopped from alleging any of the matters specified in subsection (2) of this section by reason of any admission made by him, whether in such a licence or otherwise, or by reason of his having accepted such a licence.

(6) In this section the expression "patented article" includes any article made by a patented process.

3. (1) Where the Patent Tribunal is satisfied, on application made under the last foregoing section, that the manufacture, use or sale by any person of materials not protected by the patent is unfairly prejudiced by reason of conditions imposed by the patentee upon the grant of a licence or licences under the patent, or upon the purchase, hire or use of the patented article or process, it may, subject to the provisions of that section, order the grant of licences under the patent to such customers of the applicant as it deems advisable as well as to the applicant.

(2) Where an application under the last foregoing section is made by a person being the holder of a licence under the patent, the Patent Tribunal may, if it makes an order for the grant of a licence to the applicant, order the existing licence to be cancelled or may, if it deems advisable, instead of making an order for the grant of a licence to the applicant, order the existing licence to be amended.

(3) Where on an application under the last foregoing section the Patent Tribunal orders the grant of a licence, it may direct that the licence shall operate to cancel or amend any existing licence in respect of the patented invention.

The constitutionality of subsection (5) of section 2 and of subsections (2) and (3) of section 3 should probably be given some consideration. The basis for considering them within the powers of Parliament is that they relate to patents, in that subsection (12) of section 1 of Part V (the subsection providing for the terms of the grant) makes the grant of a patent conditional, and what the subsections under consideration do is to impose conditions. However, it is arguable that these subsections are really provisions relating to property and civil rights in a Province. We merely bring the matter to the attention of the law officers of the Crown.

4. (1) The powers of the Patent Tribunal upon an application under section 2 of this Part shall be exercised with a view to securing the following general purposes, that is to say—

- (a) that patented inventions which can be commercially worked in Canada and which should in the public interest be so worked shall be worked therein without undue delay and to the fullest extent that is reasonably practicable;
- (b) that the patentee shall receive reasonable remuneration;
- (c) that the interests of any person for the time being working or developing an invention in Canada under the protection of a patent shall not be unfairly prejudiced;

(2) Subject to the foregoing subsection, the Patent Tribunal shall, in determining whether to make an order in pursuance of any such application, take account of the following matters, that is to say—

- (a) the nature of the invention, the time which has elapsed since the grant of the patent and the measures already taken by the patentee or any licensee to make full use of the invention;
- (b) the ability of any person to whom a licence would be granted under the order to work the invention to the public advantage; and
- (c) the risks to be undertaken by that person in providing capital and working the invention if the application is granted;

but shall not be required to take account of matters subsequent to the making of the application.

5. No application for an order for the grant of a licence under section 2 of this Part shall be made on any of the grounds set out in subsection (2) (a), (2) (b), (2) (e) or (2) (f) (i) of section 2 before the expiration of a period of four years from the date of the filing of the complete specification of that application for the patent or three years from the date of the grant of the patent whichever of such periods is the last to expire.

Provisions for compulsory licensing for patent abuses so-called have been in Canadian legislation since 1923. Before that the remedy was revocation. Information obtained by us from the Commissioner of Patents on May 19, 1959 is that the records of the Patent Office do not show any application prior to August, 1935 and that whether there were applications before that is unknown in the Office as there are no indexes or files prior to 1935 showing applications for licences.

Between August, 1935 and May, 1959 there were 31 applications under section 67 of our present Act. Disposition of these applications was as follows:

Licences granted	5
Applications refused	6
Applications abandoned	12
Applications withdrawn	4
Agreements between parties	2
Applications pending	2
	—
Total number of applications	31

Few matters connected with the law of patents have been more extensively discussed than compulsory working of patented inventions and compulsory licences under patents.

The provisions of section 67 to 73 of our present Act deal with the powers of the Commissioner to order the grant of compulsory licences in cases where there has been what is referred to in section 67(1) as "abuse of the exclusive rights" under a patent. Section 67(2) sets out six classes of circumstances in which the exclusive rights under a patent shall be deemed to be abused. The first class of abuse, that in 67(2)(a), may be described as failure without satisfactory reason to work in Canada. It would appear that failure to work may be due to inertia or what is sometimes called "suppression" of the invention or by the supply of the Canadian market by importation. (No evidence of "suppression" was adduced.) The second class of abuse, that in section 67(2)(b), is the prevention or hindrance of working in Canada by importation. These two classes are the lineal descendants of a long line of ancestor provisions in Canadian, United Kingdom and other statutes applying or attempting to apply the principle of compulsory working. The usual sanction of such provisions is revocation of the patent—and indeed section 68(d) provides for revocation if the Commissioner is satisfied that the objects of sections 67 and 68 cannot be attained by the grant of compulsory licences. But the right of Canada, and indeed of all countries which are parties to The International Convention, to impose revocation as a sanction is now restricted by Article 5 of that Convention the relevant provisions of which are as follows:

"A.—(1) The importation by the patentee into the country where the patent has been granted of articles manufactured in any of the countries of the Union shall not entail revocation of the patent.

(2) Nevertheless each country of the Union shall have the right to take the necessary legislative measures to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example failure to work.

(3) These measures shall not provide for revocation of the patent unless the grant of compulsory licences is insufficient to prevent such abuses.

(4) In any case, an application for the grant of a compulsory licence may not be made before the expiration of three years from the date of the grant of the patent, and this licence may be granted only if the patentee fails to justify himself by legitimate reasons. No proceedings for the cancellation or revocation of a patent may be instituted before the expiration of two years from the granting of the first compulsory licence."

These provisions were revised by the Lisbon Conference in 1958 to read as follows:

"A.—(1) The importation by the patentee into the country where the patent has been granted of articles manufactured in any of the countries of the Union shall not entail revocation of the patent.

(2) Each country of the Union shall have the right to take legislative measures providing for the granting of compulsory licences to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example failure to work.

(3) Revocation of the patent shall not be provided for except in cases where the granting of compulsory licences would not have been sufficient to prevent such abuses. No proceeding for the cancellation or revocation of a patent may be instituted before the expiration of two years from the granting of the first compulsory licence.

(4) An application for a compulsory licence may not be made on the ground of failure to work or insufficient working before the expiration of a period of four years from the date of filing of the patent application or three years from the date of the grant of the patent, whichever period last expires; it shall be refused if the patentee justifies his inaction by legitimate reasons. Such a compulsory licence shall be non-exclusive and shall not be transferrable, even in the form of the grant of a sub-licence, except with that part of the enterprise or good-will using such licence."

The third, fourth, fifth and sixth classes of abuses set out in section 67(2) which are (c), (d), (e) and (f) are not connected with compulsory working. They might strike many as more truly abuses of exclusive rights, in the sense in which the word abuse is commonly understood, than the supply of the market by importation. But the words of section 67(3) should be noted. These words have a tendency to stamp section 67 as mainly a section directed against failure to work in Canada. The provisions of our present Act in relation to compulsory licensing are substantially the same as those of section 27 of the Patents and Designs Act, 1907 (United Kingdom) as amended up to the time when it was replaced by the Patents Act 1949. The Swan Committee, Second Interim Report, p. 9, said:

"In our opinion, this Section as it now stands, and as now applied, does not provide a sufficient remedy against the restrictive use of patents."

and at p. 13:

"The proposal which we prefer is to make some extension of the existing provisions as to compulsory licences, so that facilities are given for the grant of such licences in cases where a more extended use of a patent could be made, even if no actual abuse of patent rights has taken place. In particular, where a patentee is exploiting a patent to the full extent of his ability, but there are still other uses of the invention, or potential demands for the patented article, which remain undeveloped or unfulfilled, we feel that it would be in the public interest that an applicant who is in a position to open up a new field of manufacture should be at liberty to apply for a licence. The same argument applies where the patentee is meeting the demand in the home market to the fullest extent, but the export market is neglected or insufficiently supplied with

the patented article. There is also the case of a subsequent inventor who has made a substantial contribution to the art, and is prevented or hampered in working his invention or process by reason of the refusal of the patentee to grant him a licence on reasonable terms."

When the new United Kingdom Act was passed it omitted any reference to abuses and provided (section 39(1)) that the powers of the comptroller upon an application for a compulsory licence shall be exercised with a view to securing the following general purposes, that is to say:

"39.—(1) The powers of the comptroller upon an application under section thirty-seven of this Act shall be exercised with a view to securing the following general purposes, that is to say:—

- (a) that inventions which can be worked on a commercial scale in the United Kingdom and which should be in the public interest be so worked shall be worked therein without undue delay and to the fullest extent that is reasonably practicable;
- (b) that the inventor or other person beneficially entitled to a patent shall receive reasonable remuneration having regard to the nature of the invention;
- (c) that the interests of any person for the time being working or developing an invention in the United Kingdom under the protection of a patent shall not be unfairly prejudiced.

The effect of changes made by the 1949 Patents Act (United Kingdom) in the then existing law was to make at least two changes in the character of the compulsory licensing provisions. First instead of compulsory licensing resting on abuse it now rests on the principle that a patent should be dealt with in the public interest and in particular in such a way that the fullest practicable use is made of the rights conferred by the patent. And secondly the licensing authority is not to take it as an overriding or fundamental principle that "patents are granted not only to encourage invention but to secure that new inventions shall so far as possible be worked on a commercial scale in the United Kingdom without undue delay" (section 27(2), proviso Patents and Designs Act 1907 as amended). Instead, the fundamental principles are the three quoted above, the immediately relevant comparable one being "that inventions which can be worked on a commercial scale in the United Kingdom and which should in the public interest be so worked shall be worked therein without undue delay and to the fullest extent that is reasonably practicable". As will be seen, we are recommending similar provisions for a Canadian Act.

As an example of the principle that compulsory licensing is justifiable when necessary to ensure that the fullest practicable use may be made of the rights conferred by the patent we may consider a case where A has a patent for a product and B a patent for a process for making that product. Generally speaking, the progress of industry and the fullest practicable utilization of the rights conferred by the patents would seem to require that either patentee, if he is prepared to reciprocate, should be able to obtain a licence from the other. Similar considerations apply to the owner of a basic patent and the owner of an improvement patent. It will be seen that the provisions we recommend deal with these situations.

In considering whether we should recommend broader provisions for compulsory licensing we have carefully considered the arguments against compulsory licensing which are listed by Mrs. Penrose in her book "The Economics of the International Patent System" as follows at p. 172:

- "There are six arguments frequently advanced against compulsory licensing:
1) It is an unacceptable violation of property rights. 2) It reduces the value of patents

as an incentive to invention so severely that invention is seriously retarded. 3) It hurts large firms with expensive research laboratories because frequent and inevitable experimental failures can only be supported if an unconditional monopoly is permitted on successes. 4) It hurts small firms because they have to license large competitors. 5) It calls for 'reasonable royalties' although there is no way of determining what royalties are reasonable. And 6) It is ineffective as a means of reducing restrictions on industry."

Mrs. Penrose deals fully with these arguments, for the most part not agreeing with them, and we consider that they are not as convincing as the arguments in favor of the system of compulsory licensing which we recommend.

Mrs. Penrose at p. 181 disapproves of one ground of application for a compulsory licence which we recommend, namely "that the commercial working of the invention (in Canada) is being prevented or hindered by the importation of the patented article", and particularly disapproves of the word "hindered". We would point out that the authority of the tribunal hearing the application is discretionary and is limited by the three general purposes mentioned above.

There are doubtless situations in which it would be so grossly uneconomic to exploit an invention in Canada that substantial importation of a patented article would be justified from every point of view. But there are other situations where a patented invention which can be profitably exploited in the country granting the patent for it is not exploited there. Mrs. Penrose says (footnote to p. 170), "There is therefore good reason for including failure to work as one ground for the issuance of a compulsory license". The following passage from her book (p. 107) should be noted:

"It is argued that if a foreign firm could produce the products concerned more cheaply in another country than in its own, it would do so since its profits would therefore be greater. This statement from the field of theory must of course have a *ceteris paribus* clause attached to it. We are therefore led to ask the question whether there may be conditions under which domestic firms, if permitted to use the inventions, would find it advantageous to adopt certain techniques or produce certain products whereas the foreign firms not permitting others to use their inventions, would find it more advantageous to export the product rather than establish a branch plant in the country?

Clearly there are a number of conditions under which this question would have to be answered affirmatively. A foreign firm may face or fear discrimination at the hands of the domestic authorities—for example, possible expropriation once the plant is established, discriminatory taxation, special difficulties in raising capital in the domestic market, etc. But even if special discrimination is not feared the difference in the general position of all firms in the other country as compared to its own country will affect a firm's decision. For example, the level of taxation may be higher, political instability may mean that property in general is less secure, exchange controls may prevent the withdrawal of profits, etc. Hence, for many reasons foreign firms may consider it less advantageous to produce abroad, while domestic firms, who do not have the same choices open to them, would find it advantageous to produce the product in competition with imports.

Even apart from these considerations, however, there are good reasons why a foreign firm will not necessarily want to produce a particular product in the cheapest location. If, for example, there is a limited supply of capital available to a firm, it will want to invest its new capital in those lines of production where the return is greatest. If the use of a new invention requires expansion of plant, the firm may find it more profitable to use its new capital in an entirely different direction. Alternative possibilities of domestic investment may yield a higher rate of return. Firms in other countries may not have the same alternative domestic possibilities for the use of capital. It is easily possible that the return on capital in different countries or in different lines of production within the same country may be different or that firms may have more trouble raising capital in foreign than in domestic markets. Hence firms in other

countries might find it profitable to use the new invention whereas the firm holding the patent might not. But the latter may wish to use its patent to prevent inroads into its existing market for such amounts of product as it finds profitable to produce with its old plant."

We agree with the following from Mrs. Penrose, p. 170:

"But if the *sole criterion* for revocation or compulsory licensing is whether the patent is worked domestically, the provision is too wide and at the same time, too narrow. It is too wide because, in itself, the working of a patent in the country granting it is not necessarily desirable; it is too narrow because the patentee's failure to work in only one—and probably the least—of the costs of granting foreign patents."

In our opinion the tribunal for dealing with applications for compulsory licences should be the Patent Tribunal, not the Commissioner. The nature of the inquiries which will be necessary on these applications will be largely judicial rather than largely administrative.

It is our expectation that the compulsory licence provisions of the proposed Act will, in appropriate circumstances, assure to domestic producers opportunity, on reasonable terms, to exercise rights which, but for these provisions, they might otherwise be denied.

Unlike the present legislation, which in accordance with section 67, subsection (3) would appear to regard the Patent Act as a scheme which has as a major purpose the establishment, "so far as possible", of new facilities for working new inventions in Canada, the design of the proposed Act is to assure that Canadian working of any invention is not unduly hindered by reason of the existence of a patent. Whether or not actual working would take place would, as we conceive it, depend on where the public interest lies.

Primarily, the difference between the present and proposed legislation is one of emphasis. There probably are many inventions which it is "possible" to work in Canada but where it is very doubtful whether it is in the public interest to do so. On the other hand, we are firmly of the opinion that whether production is to occur in Canada or not should not depend simply on the decision of the patentee.

In short, as we foresee the effect of our proposals, it is this: the rights under patents will be potentially available to persons able and willing to work inventions in Canada, and whether or not capital and labour should be applied to their working will depend on such considerations as would normally affect such a decision in the absence of any patent rights.

We see no particular merit in attempting, by a bias in our legislation, to direct investment to the working of new inventions. Rather, we believe, the public interest will best be served if investment finds its way into the most productive fields available rather than being artificially diverted into exploitation of new inventions where the value of the enterprise to the economy is doubtful.

We see little danger that the granting of non-exclusive compulsory licences would ever be contrary to the public interest in the circumstances contemplated by our proposed sections. Orders for exclusive licences cannot be granted under our proposals.

Subsection (2)(g) of section 2 provides a remedy where a patent is used in an attempt to extend the patent monopoly to articles or materials not covered by the patent. This is a misuse of a different sort from the others in this section and it will be noted that there are other sanctions in the proposed Patent Act against this kind of misuse. See Part X.

It will be noted that by virtue of our proposed subsection (5) of section 2, where the applicant for a compulsory licence is already a licensee but where, arguably, the terms of the licence are such that there are grounds for ordering the grant of a compulsory licence under the section, the applicant is not estopped "from alleging any of the matters specified in subsection (2) of this section by reason of any admission made by him, whether in such licence or otherwise, or by reason of his having accepted such a licence". This provision, which is also in the United Kingdom Act recognizes the fact that in many cases a contract made between patentee and licensee may well reflect a very strong bargaining position of the patentee. In such cases it is highly questionable whether it is sound policy to saddle the licensee, and perhaps in many cases the public, with the consequences of a licence negotiated in such circumstances for the life of the patent, or even longer.

The grounds set out in our proposed paragraph (d) subsection 2 of section 2 require extended consideration. This paragraph refers to section 30 of the Combines Investigation Act. That Act contains two references to patents. The first reference is in paragraph (e) of section 2 of the Act. Paragraph (e) is as follows:

"(e) 'merger, trust or monopoly' means one or more persons

- (i) who has or have purchased, leased or otherwise acquired any control over or interest in the whole or part of the business of another, or
- (ii) who either substantially or completely control, throughout any particular area or district in Canada or throughout Canada the class or species of business in which he is or they are engaged,

and extends and applies only to the business of manufacturing, producing, transporting, purchasing, supplying, storing or dealing in commodities which may be the subject of trade or commerce; but this paragraph shall not be construed or applied so as to limit or impair any right or interest derived under the *Patent Act*, or under any other statute of Canada;"

The concluding words appear to mean merely that the monopoly conferred by a patent is excluded from the definition of "merger, trust or monopoly" found in the part of section 2(e) which ends with the penultimate semicolon. It would appear that they do not mean that where there is a combination of two or more persons having or designed to have any of the effects enumerated in section 2 of the Act, that combination is removed from the ban of the Act by the fact that the persons combining own patents and that it is the use of their patents which constitutes their activities in becoming parties or privies to or knowingly assisting in the formation or operation of a combine. It would appear to us that where A and B enter into an agreement to suppress competition in respect of articles of commerce they do not escape the ban of the Combines Investigation Act merely by reason that these articles of commerce are protected by patents. Section 2(e) does not appear to conflict with section 30 about to be set out.

The second reference to patents in the Act is section 30 which is as follows:

- "30. In any case where use has been made of the exclusive rights and privileges conferred by one or more patents for invention or by one or more trade marks so as
- (a) unduly to limit the facilities for transporting, producing, manufacturing, supplying, sorting or dealing in any article or commodity which may be a subject of trade or commerce; or
 - (b) unduly to restrain or injure trade or commerce in relation to any such article or commodity; or
 - (c) unduly to prevent, limit or lessen the manufacture or production of any such article or commodity or unreasonably to enhance the price thereof; or

(d) unduly to prevent or lessen competition in the production, manufacture, purchase, barter, sale, transportation or supply of any such article or commodity;

the Exchequer Court of Canada, on an information exhibited by the Attorney General of Canada, may for the purpose of preventing any use in the manner defined above of the exclusive rights and privileges conferred by any patents or trade marks relating to or affecting the manufacture, use or sale of such article or commodity, make one or more of the following orders:

- (i) declaring void, in whole or in part, any agreement, arrangement or licence relating to such use;
- (ii) restraining any person from carrying out or exercising any or all of the terms or provisions of such agreement, arrangement or licence;
- (iii) directing the grant of licences under any such patent to such persons and on such terms and conditions as the court may deem proper, or, if such grant and other remedies under this section would appear insufficient to prevent such use, revoking such patent;
- (iv) directing that the registration of a trade mark in the register of trade marks be expunged or amended; and
- (v) directing that such other acts be done or omitted as the Court may deem necessary to prevent any such use;

but no order shall be made under this section which is at variance with any treaty, convention, arrangement or engagement respecting patents or trade marks with any other country to which Canada is a party."

The history of this section is set out in Fox on Patents, 3rd ed., pp 1028-1034. The section, or one almost identical with it, except that it provided only revocation as a remedy, was first enacted as section 13 of the Combines and Fair Prices Act, 1919. This Act was held *ultra vires* by the Judicial Committee of the Privy Council in *In re The Board of Commerce Act, 1919* and the *Combines and Fair Prices Act, 1919* (1922) 1 A.C. 191. It was restored in identical terms as section 24 of the Combines Investigation Act 1923 and this statute including section 24 was held to be *intra vires* by the Judicial Committee in *Proprietary Articles Trade Association et al v. Attorney General of Canada et al* (1931) A.C. 310. The section was repealed in 1937 in the circumstances set out in note 18 of Fox on p. 1033. It was reenacted in its present form in 1946.

At pp. 1034-1044 of Fox, the learned author attacks the constitutionality of paragraphs (i), (ii), and (v) of the section and contends that paragraph (iii) is inconsistent with The International Convention, except to the extent that this inconsistency is removed by the words at the end of the section immediately after paragraph (v). We express no view as to the constitutionality of paragraphs (i), (ii) and (v), regarding this as a matter for the law officers of the Crown. But we think that paragraph (iii), insofar as it provides for the granting of compulsory licences will not in any way be inconsistent with the Convention after the Convention is revised in accordance with the proposals of the Lisbon Conference. This revision will, if enactments pursuant to it are passed by the Parliament of Canada, authorize applications for compulsory licences on the grounds set out in section 20 without a waiting period of three years elapsing. Insofar as paragraph (e) relates to revocation it is, taken by itself, inconsistent with the Convention even as it is proposed to revise it, but this inconsistency is rendered harmless by the concluding words of the section which provide in effect that no order shall be made under the section which is at variance with any International Convention to which Canada is a party. The result will be that no proceeding in the Exchequer Court can be instituted for revocation before the expiration of two years from the granting of the first compulsory licence.

It will be convenient to refer to the grounds for application for a compulsory licence set out (by reference) in section 30 as restraint-of-trade abuses of patents and to refer to the other grounds set out in our proposed draft of the compulsory licensing sections as instances of misuse of patents.

We are informed that no proceedings have ever been taken under section 30. However, we do not take this fact as indicating that the section is a dead letter—it may be an effective deterrent to the use of patents for the purposes mentioned in the section.

The fact that the word “unduly” as used in section 30 has not been judicially defined may be an objection to importing it by reference or otherwise into our proposed compulsory licensing section. Cases decided under a similar section in the Criminal Code may, however, be helpful. See *Weidman v. Shragge* (1912) 46 Can. S.C.R. 42. But we are recommending a provision for an appeal from the Patent Tribunal to the Supreme Court of Canada, and, if applications for compulsory licences are made on the grounds of a restraint-of-trade abuse, the extent to which a restraint of trade under a patent may go before it becomes undue would, we expect, in time be made clear by judicial decision. In all probability the standard of what is judicially regarded as undue will probably change with the “felt necessities of the times”. It may be noted that changes in judicial view as to what constitutes antitrust abuses of patents in the United States have taken place in recent years. This is a situation where too much rigidity of definition is unsuitable.

Since about 1941 courts in the United States have been ordering compulsory licences of patents used for the purpose of violating antitrust laws forbidding restraint of trade, monopoly and attempts to monopolize. They have been doing so without any specific statutory authorization, unless authorizations in certain legislation to grant orders which will prevent and restrain violation of antitrust laws may be regarded as such. Orders for compulsory licences have been granted in infringement suits in which the recovery of damages for infringement has been denied. In some infringement actions the disentitlement to recover damages imposed upon the plaintiff has not been permanent but provision has been made for its termination upon revision by the patentee of his commercial practices. It is this latter principle that we recommend for application in the tying clause and price fixing clause provisions which we recommend as set out in Part X below. The principle is more fully developed there.

Orders for the grant of compulsory licences are not the only remedies for antitrust abuses of patents in the United States. It would appear that some orders provide for dedication or for royalty-free compulsory licences (although the power of the courts to make such decrees has not been settled by the Supreme Court of the United States). The literature on the development of remedies for antitrust abuses of patents in the United States is voluminous. Reference may be made to the following: Report of the Attorney General’s National Committee to Study the Antitrust Laws, March 31st, 1955, pp. 223-260; Study No. 2 by Frost mentioned above; Research Interim Report by George E. Frost, published in the Patent, Trade-Mark, Copyright Journal of Research, Education, Vol. 1, 1957, pp. 127-144; Article by Bartholomew Diggins entitled The Patent-Antitrust Problem, published in the Michigan Law Review, vol. 53, 1955, pp. 1093-1118. The subject has been treated in a large number of other publications, as appears from those we have mentioned.

We see no escape from the logic of including the provisions set out in paragraph (e) of our proposed compulsory licensing section in that section if they are permitted to remain in the Combines Investigation Act.

The Combines Investigation Act provides for a remedy on the information of the Attorney General of Canada. The proposed provisions in the Patent Act would provide for a similar remedy in a different forum on the application of any person interested. In both cases an appeal would lie to the Supreme Court of Canada.

Apart from any considerations as to the constitutionality of paragraphs (i), (iii) and (v) we are not in favour of repealing or amending section 30 of the Combines Investigation Act. This section has a long history in Canada and we think it is right in principle.

Representations were made to us on behalf of the Regina Leader-Post as the Saskatoon Star-Phoenix that these restraint-of-trade abuses should be placed in the Patent Act as grounds for the granting of compulsory licences on the application of private persons, and we think these representations should be acceded to in the manner we have mentioned. It may be noted that the Patents Act 1949 of the United Kingdom contains provisions for the granting of licences of right where conditions to which the Monopolies and Restrictive Practices (Inquiry and Control) Act, 1948 apply in respect of the supply of goods which consist of or include patented articles, or in respect of exports of such goods, or in respect of the application to goods of any description of any process which consists of or includes a patented process, if certain preliminary conditions are complied with: Section 40.

We have just mentioned the submission of the Regina Leader-Post and Saskatoon Star-Phoenix. These submissions were made by Mr. Thurman W. Arnold of Washington, D.C. and Mr. Ian M. MacKeigan, Q.C. of Halifax, who were supported by the late Dr. Walton Hamilton of Washington, D.C., and who were presented to the Commission by Mr. Clifford Sifton. Some of their more important submissions may be summarized as follows:

Mr. Arnold's Submissions

Mr. Arnold submitted that the patent system, as at present established, was evolved to deal with a situation which, for nearly all practical purposes, has disappeared. The patent system is, he said, an appropriate institution for providing incentive and reward for the individual private inventor. As such, it was reasonably suitable for the technological situation that existed during the nineteenth century.

However, perhaps the greatest invention of the twentieth century was the discovery of how to effect inventions. Nowadays, the great majority of really useful inventions are a consequence of co-operative research in fully equipped laboratories, the individual role being merely as a member of a research team. In these circumstances, it is largely accidental which member of the team took the last step leading to a patentable invention and, since modern research workers are ordinarily salaried employees, it is of little practical importance to the individual. Indeed, if the patent incentive were to reach in to the individual of a research team it would—to the extent that it affected him—probably interfere with the co-operation that is essential to modern research.

In any event, this latter-day discovery of the art of invention has led to the accumulation of large portfolios of patents in the hands of corporations that operate large research laboratories.

There is no objection to the existence of large patent portfolios. Modern technology being what it is, there are many lines of industry which could not effectually be prosecuted without access to and the use of large numbers of patents. If these patents were owned individually, the frustrations involved in attempting to negotiate scores of individual licences can well be imagined. Hence it is a matter of considerable convenience that patent rights in the various sectors of the industrial art tend to accumulate in one or a few hands. Indeed, any corporation that has control of the basic technology in any branch of the industrial arts becomes, in effect, the only market for the patentable improvements in that basic art. In this situation, the seventeen-year limitation in the patent grant becomes largely meaningless and the monopoly tends to be perpetual. To the extent that a monopoly reward is essential to the promotion of research, patent domination would tend to deter research directed towards improvements in the basic art outside the laboratory of the corporation exercising the domination.

It is unrealistic to regard a modern patent portfolio as a lot of separate little inventions.

In deciding whether a patent should be enforced, regard should be had to the amount of monopoly power which that patent taken in connection with other patents (in its portfolio) gives to a great research organization.

Where substantial monopoly power inheres in a patent portfolio and where this power is exercised substantially to lessen competition, injunctive relief should be denied to the proprietor of the portfolio.

"Wherever a particular patent is before a court, the following questions should be determined:

1. Is the patent a part of an accumulation of patents controlled by the same owner?
2. Does that accumulation of patents effectively control a substantial sector of industrial art?

If the two questions are answered in the affirmative, a third question must be decided, to wit:

3. Have the owners of the patent portfolio used their power in a way the effect of which is substantially to lessen competition in the field they control. If so, no injunction should issue restraining the infringement of any patent in the portfolio."

Royalties assessed on great accumulations of patents should be determined somewhat as rates are fixed for the services of a public utility. Cost of research and cost of the purchases involved in the accumulation ought to be taken into account but no regard should be had for the value of the monopoly as such.

Moreover, where a patent portfolio is clearly used to dominate or to attempt to dominate an important sector of the industrial art, treble damages might, at the discretion of the court, be awarded.

At least two other obligations should be imposed on owners of large patent portfolios:

- (a) They would be required before threatening or commencing an infringement action to disclose "complete detailed information as to the precise manner in which they claimed any or all their patents were infringed".
- (b) They "should be compelled to register with the Restrictive Trade Practices Commission a list of their patents, a statement of their patent policy . . . a justification for royalties which they charge . . . and a general description of the field which they cover. Failure to do so would deprive them of the right to enforce their patents".

As regards licences under a patent, estoppel should be legislated away. It should be provided that it is contrary to public policy to incorporate in a patent licence a provision that the licensee cannot, at any time, contest the validity of the patent. Should the licensee successfully contest validity, he would be relieved of the liability to account for royalties as would all other licensees and where the patent or patents under which he was licenced were so dubious as to have been improvidently litigated he should recover all royalties paid.

(As we understand this latter proposal, the licensor could avoid the risk of having to pay back royalties by not suing on his patents.)

Many issued patents are invalid and there is a public interest in encouraging litigation. The courts and the patent office apply different standards of invention and this dual standard justifies promoting litigation, where the evidence can readily be adduced and where proper standards of invention prevail.

He believed that licences are widely used to bolster weak patent positions. His proposals would make this procedure less attractive and, in some situations, hazardous.

Mr. MacKeigan's Submissions:

Our compulsory licensing provisions should be amended and enlarged in a variety of ways. Applications for compulsory licence should be considered in situations where the proprietor of a patent portfolio exercises substantial control over a sector of the industrial art or where patents have been used contrary to section 30 of the Combines Investigation Act. If applications for licences are to be restricted to "interested" persons, the statute should be so framed as to assure a broad meaning to the word "interested".

Where goods are not manufactured in Canada, Mr. MacKeigan would be inclined to grant compulsory licences to import, though under questioning he somewhat modified his position. As we understand his final position on this question, it is this: he would grant licences to import where the patentee abused his patent in some manner additional to the abuse of non-working; e.g., importing only expensive models leaving a market for less costly models unsatisfied.

As regards the traditional abuse sections, Mr. MacKeigan thought that as a minimum they should be amended so as to conform with the corresponding sections in the new United Kingdom Patents Act. He was particularly anxious that "satisfying demand" would be construed so as to include demand for articles within the various appropriate price ranges.

The provisions of section 41, subsection (3) should be enlarged so as to embrace corrective and curative devices such as glasses, wheel chairs, hearing aids, etc. and should also be extended so as to cover agricultural chemicals and machinery for farmers and fishermen.

Mr. MacKeigan urged that compulsory licences be granted on groups of patents as well as on a single patent. Presumably, he was referring to a group of patents owned by a single proprietor.

He would ban price-fixing abuses in a patent licence agreement and would make it clear, if it is not clear already, that the fixing of resale price is unlawful for patented as well as for unpatented goods.

These Submissions Considered

With regard to Mr. Arnold's suggestion that the seventeen-year limitation in the patent grant is largely meaningless where a patentee has a number of basic

patents because there is no incentive to anyone else to invent improvements, these being unworkable so long as the basic patents remain in force, it will be noted that our recommendations include what we regard as a most important provision that in these circumstances the inventor of the improvement could upon patenting it apply for compulsory licences under the basic patents provided he is willing to give to the patentee a cross-licence under his improvement patent. This provision should go far to prevent a monopolization of the technology for a long period of years.

With regard to the important submission that where substantial monopoly power inheres in a patent portfolio, and where this power is exercised substantially to lessen competition, injunctive relief should be denied, we do not feel that we can recommend its acceptance.

It was apparent from Mr. Arnold's submission that Mr. Arnold would not in an infringement action where such circumstances existed deny the plaintiff financial relief. He would allow him to recover royalties covering the use in past infringements and presumably providing for royalties covering future use. This would be much like a compulsory licence, to be granted in an infringement suit by the court and both retroactive and prospective in its effect.

If this is a restraint-of-trade abuse on the facts of any particular case it should be dealt with in the same way as other restraint-of-trade abuses under section 30 of the Combines Investigation Act or the compulsory licensing provisions of the Patent Act. To go further and allow this particular state of alleged facts to be raised as a defence in an infringement action would be to throw an enormously difficult and virtually insoluble problem into the action. Such questions as these would emerge: How many patents must there be before there is an *accumulation*? When does an accumulation *effectively* control a sector of industrial art? When is this sector a *substantial* one? When is competition *substantially* lessened? These questions should not, in our judgment be thrust on courts in infringement actions. If they are material for consideration in determining whether restraint-of-trade abuses of patents exist they should be raised only in proceedings where there is a direct attack by the Attorney General under the Combines Investigation Act or by an interested person under the compulsory licensing provisions of the Patent Act.

It may be that accumulations of patents would in some circumstances have considerable significance in actions where restraint-of-trade abuses are alleged to exist. Frost in his Study 2 mentioned above says at p. 39: "Yet the possibility of an accumulation of patent rights imparting a dominant market position, or even monopoly, demands reconciliation with the general market functioning of the patent system in the competitive economy". But we would not constitute such an accumulation a *per se* restraint-of-trade abuse but leave it to be relied on where it can be relied on in proof of one or more of the existing restraint-of-trade abuses as set out in section 30 of the Combines Investigation Act.

The only two abuses of patents which we would allow by statute to be pleaded by a defendant as defences in infringement actions are trying clauses and price fixing clauses under licences. These are relatively easy of determination by a Court. Moreover, they are in their nature deliberate.

Beyond this we would not give statutory recognition to the principle expressed by Frost in Study No. 2 as being applied by courts in the United States as follows at p. 32:

"It is also well settled that where a patent is used as an integral part of activity in violation of the antitrust laws, such as an attempt to monopolize, relief for patent infringement will be denied."

It should be pointed out, however, that even without any statutory enactment of this principle, there are situations in which, under a principle of the existing law, a patentee who has been guilty of a restraint-of-trade abuse may be met by a successful defence in an infringement action. This principle and its limits appear from the following passage from the opinion of Duff, C. J. in *Philco Products Ltd. et al v. Thermionics Ltd. et al* (1940) S.C.R. 501 at pp. 503-504:

"There is one principle upon which it is conceivable that the defence discussed on the argument, if properly pleaded and proved, might be available: *ex dolo malo non oritur actio*. This principle is stated in the judgment of Buckley L.J. in *Gordon v. Chief Commissioner of Metropolitan Police* (1910) 2 K.B. 1080 at 1098 in these words:

"It is certainly the law that the Court will refuse to enforce an illegal contract or obligation arising out of an illegal contract, and I agree that the doctrine is not confined to the case of contract. A plaintiff who cannot establish his cause of action without relying upon an illegal transaction must fail; and none the less is this true if the defendant does not rely upon the illegality. If the Court learns of the illegality, it will refuse to lend its aid. The rule is founded not upon any ground that either party can take advantage of the illegality, as, for instance, the defendant by setting it up as a defence. It is founded on public policy. Lord Mansfield in *Holman v. Johnson* (1775) 1 Cowp. 341 at 343 said "Ex dolo malo non oritur actio. No court will lend its aid to a man who founds his cause of action upon an immoral or an illegal act."

The passage was quoted with approval by Lord Wright, M.R., in *Berg v. Sadler*, (1937) 2 K.B. 158 at 166-167.

I do not see any reason why this principle is not applicable to a case in which a plaintiff must necessarily, in order to establish his cause of action, prove that he is a party to an illegal conspiracy upon which his cause of action rests; nor can I understand why the principle does not apply to an action for infringement of a patent. If the plaintiff's title is founded upon an agreement which amounts to a criminal conspiracy to which he is a party, and which he must establish in order to prove his title, then he cannot succeed. There is nothing, in my opinion, in the provisions of the *Patent Act* referred to on the argument that affects the application of this fundamental principle.

I am not satisfied that in no circumstances can the existence of an illegal combine be an answer to such an action. A reference to a recent decision in the Supreme Court of the United States will illustrate my point. The first two paragraphs in the head-note to *Ethyl Gasoline Corp. v. United States* (1940) 84 Law. ed. 559 are as follows:—

- '1. The regulation of prices and the suppression of competition among purchasers of the patented article are not within the scope of the monopoly conferred upon a patentee by the patent laws.
2. A system of licences employed by the owner of patents for an improved motor fuel, whereby jobbers who do not conform to the market policies and posted gasoline prices adopted by the major oil companies may be cut off from the list of those to whom refineries licensed to manufacture such fuel may sell it, and which has been used to coerce adherence to those prices and policies, is not within the monopoly conferred by the patents and operates as an unreasonable restraint of interstate commerce in such fuel, in violation of the Federal Anti-trust Act.'

Now, if the plaintiff in an action for infringement must, in order to make out his title, prove such a combine, and that he is a party to it, and if his alleged rights are founded upon it or 'directly result from it,' I think he would find himself in great difficulties.

I do not pursue the subject further. The doctrine laid down by the learned President in his judgment is too sweeping if it is inconsistent with this."

With regard to the other submissions by Mr. Arnold, we would not accept them except to the extent that they are provided for in our recommendations elsewhere. Perhaps the most important of these is his submission that the principle of estoppel of a licensee from disputing the validity of the patent under which he

takes his licence should be abolished by legislation. The enactment of such a provision might, we think, seriously deter licensing under patents.

With regard to Mr. MacKeigan's submissions, it will be noted from our recommendations with reference to compulsory licensing provisions that many of them are accepted.

CANADIAN RADIO PATENTS LIMITED

Public representations were made to the Commission by S. G. Waters Limited, a company engaged in the distribution of various kinds of household electrical appliances, that the structure and operation of Canadian Radio Patents Limited should be examined to determine whether that Company offended the patent law insofar as it now prevails or ought to prevail in Canada, more particularly in reference to the utilization of a portfolio of patents to preclude the importation of certain articles into Canada. Similar representations were made by others.

Canadian Radio Patents Limited (hereinafter called CRPL) was incorporated in 1926 for the purpose of acting as a patent licensing agency. At the time of the presentation of its brief to this Commission it acted as the central patent licensing agency in the administration of patent rights in the radio, television and general electronic fields in respect of patents owned by its then five shareholders:

Canadian General Electric Company
Canadian Westinghouse Company
Northern Electric Company
Canadian Marconi Company, and
Canadian Radio Manufacturing Company.

It also acted as licensing agent in Canada for RCA Victor Company and Hazeltine Electronics Corporation. CRPL acquired from such companies a non-exclusive licence with the right to grant sublicences.

In its operation CRPL grants to any individual, firm or corporation a licence in respect of its portfolio of patents to manufacture in Canada radio and television receivers and certain electronic apparatus. In conjunction with such licence it makes available to licensees general information relating to the manufacture of such equipment. CRPL sought to distinguish itself from a patent pool, which it defined as a company that acquired patents to be licensed only to the entities comprising the pool.

The evidence establishes that no one intending to carry on manufacturing operations in Canada was refused a licence in respect of all patents contained in the portfolio. The licence in respect to the manufacture of radio and television receivers requires the licensee to pay to CRPL a royalty on the basis of $3\frac{1}{2}\%$ of the manufacturer's net selling price. Various deductions permitted by the licensor in respect of such items as the cost of tubes, batteries, record changers and cabinets reduces the royalty to $2\frac{1}{2}\%$ of manufacturer's net selling price.

The portfolio in respect of which CRPL had the right to grant licences consisted of 5,000 patents, and in the absence of a licence from CRPL it is doubtful if anyone could sell in Canada a radio or television receiver.

CRPL indicated that it does not grant a licence to any importer of radio or television receivers, except in the limited situation where the type or kind of radio or television receiver sought to be imported is not manufactured by any radio or television receiver manufacturer in Canada. It is particularly in respect of the policy

of CRPL in precluding importers from bringing into Canada radio and television receivers that the complaint was made to this Commission.

It was stated to be the policy of CRPL to enforce its patent rights against any person who sells in Canada an imported radio or television receiver which infringes any one or more of the patents in its portfolio except in the limited area where permission has been granted to import the apparatus which CRPL agrees is not of a type or kind made in this country. CRPL will tell anyone who submits to it a diagram showing the circuit and layout what patents, if any, would be infringed by the manufacture, use or sale of apparatus constructed according to such diagram.

CRPL has granted to the Department of Defence Production a licence whereby an annual royalty is payable covering all electronic products under the defence program.

CRPL expressed concern about the compulsory licensing provisions of the Canadian Patent Act in the event that it should grant a licence to any person to import in circumstances where any manufacturing was carried out in Canada under a patent included in the portfolio which it administered. This concern did not relate to the grant of a non-exclusive compulsory licence by the Commissioner of Patents on the payment of a reasonable royalty. CRPL was itself prepared to grant a licence of such a nature.

The concern manifested itself in relation to the possibility that an exclusive licence would be granted on the operation of sections 67(2), (b) and 68, (b) of the Act. The grant of an exclusive licence to any Canadian manufacturer would operate contrary to the purpose of the licensing agency in making patents available to any manufacturer in Canada. It is the intention of the licensing agency in fulfilling its purpose to avoid the delays and expense incident to patent litigation in the radio receiver and television receiver manufacturing fields. CRPL stated that the royalties would be used by it through its shareholders for the purpose of research or by CRPL directly in the purchase of other inventions to be licensed amongst its Canadian licensees. An exclusive licence would, therefore, be contrary to a fundamental purpose of its existence.

To avoid the risk of such a licence CRPL sought to justify its refusal to grant a licence to import in circumstances other than where a type of apparatus covered by a patent in its portfolio was not made in Canada. The recommendations which we propose will eliminate this risk. CRPL and any holder of a portfolio of patents will have the right but not the obligation to grant a licence to import where the circumstances warrant, without fear of an exclusive licence. The proposal made by the delegates to the International Convention at Lisbon that article 5 of the Convention be amended to provide that a compulsory licence be granted only on a non-exclusive basis is a proposal that we elsewhere in this report recommend be made part of our law.

A second concern expressed by CRPL in its evidence before us related to the possibility of an order of revocation of one or more of the patents in its portfolio following a compulsory licence application. Such a possibility flows from section 68, subparagraph (d) of the Patent Act as it now exists. We do not believe that it is likely that the Commissioner of Patents would revoke a patent where the abuse was based on the fact that a licence had been granted to import. If the abuse is importation on the payment of a royalty, an abuse of this nature would not be

remedied by revoking the patent and permitting importation by anyone and without royalty obligation. Such a course of action would not cure the mischief.

CRPL as it is now organized and as it now operates does not appear to us to be illegal. It is not illegal to acquire a portfolio of patents either by way of ownership of the patents or by way of acquiring a right to grant licences. The mere control of a sector of industry through the accumulation of patents is not in itself illegal.

The complaint against CRPL is that it refused to grant a licence to import. In refusing to grant such a licence CRPL was not going beyond its legal right when manufacture was taking place in Canada pursuant to licences granted by it in this country at reasonable royalty rates.

However, there is inherent in the accumulation of patents in respect of a sector of industry the possibility that the portfolio will be used to the public prejudice. When so used an abuse does exist in respect of which legislation must prescribe effective sanctions if the pool or licensing agency by monopolization through acquisition of patents seeks to assert the patents beyond the scope of the patent monopoly or for purposes in respect of which the patent is not adapted to be used or to assert the monopoly in such a way as to constitute a restraint-of-trade abuse of patents.

Sanctions which now exist will be found in the provisions of Sections 2 and 32 of the Combines Investigation Act and Section 411 of the Criminal Code. Section 30 of the Combines Investigation Act provides a civil remedy at the instance of the Attorney General. The nature of these remedies, which are dealt with elsewhere in this report, is not, in our opinion, sufficiently all-inclusive. We believe that where a pool or licensing agency in control of a portfolio, in practice, operates to the detriment of the public that a civil remedy ought to be available in the hands of an individual affected thereby. The remedy could take the form of a compulsory licence with a reasonable royalty, a dedication of the patent, a royalty free compulsory licence or, in lieu of the above relief in compulsory licence proceedings, relief of a similar nature by way of defence in a patent infringement action.

The evidence before the Commission did not indicate that the likelihood of the abuse by misuse of a patent portfolio was of such a nature as to justify the recommendation at this time of a sanction in addition to those now available other than a compulsory licence at the instance of any person interested in the circumstances defined by section 30 of the Combines Investigation Act.

The result flowing from the recommendation of the Commission is that a company holding a patent portfolio will have the right to grant a licence to import in a proper case. The mere granting of a licence to import will not in itself constitute an abuse that would give rise to the kind of compulsory licence in respect of which CRPL expressed concern. Such a licence could be granted. On the other hand, a company holding a patent portfolio is not obliged to grant a licence to import where the patents are being commercially worked in Canada under conditions that do not constitute a misuse of patents.

6. (1) Without prejudice to the foregoing provisions of this Act, where a patent is in force in respect of—

- (a) a substance capable of being used as food or medicine or in the production of food or medicine; or
- (b) a process for producing such a substance as aforesaid; or

- (c) any invention capable of being used as or as part of a surgical or therapeutic device;

the Patent Tribunal shall, on application made to it by any person interested, order the grant to the applicant of a licence under the patent on such terms as it deems advisable, unless it appears to it that there are good reasons for refusing the application.

(2) In settling the terms of licences under this section the Patent Tribunal shall endeavour to secure that food, medicines, and surgical and therapeutic devices shall be available to the public at the lowest prices consistent with the patentees deriving a reasonable advantage from their patent rights.

(3) A licence granted under this section shall confer upon the licensee the right

- (a) where the invention is itself a food or medicine or is or is part of a surgical or therapeutic device, to produce it;
- (b) to use the invention for the purposes of the production of food or medicine; or
- (c) to use the invention for the purposes of the production of, or part of, a surgical or therapeutic device; and to use and sell what has been so produced, but no other right.

(4) In this section "medicine" includes anaesthetics and analgesics.

Three questions arose in our consideration of section 41 of our present Act.

(1) Should substances prepared or produced by chemical processes be patentable except when prepared or produced by the methods or processes of manufacture particularly described and claimed or by their obvious chemical equivalents?

(2) Should substances intended for food or medicine be patentable except when prepared or produced by the methods or processes of manufacture particularly described and claimed or by their obvious chemical equivalents?

(3) Should inventions intended for or capable of being used for the preparation or production of food or medicine be subject to compulsory licensing without any proof of misuse?

We answer all three questions in the affirmative for reasons appearing from what follows.

Our section 41 was based on section 38A of the Patents and Designs Act 1907 (United Kingdom) as amended by the Patents and Designs Act 1919 (United Kingdom) but with the important substitution of "and" between the words "produced by chemical processes" and the words "intended for food or medicine" for "or", the word used in the United Kingdom Act.

So, while under the United Kingdom Act an applicant could in effect obtain only a process patent in respect of a chemical product, and could obtain in effect only a process patent in respect of a product whether chemical or not, intended for a food or medicine, an applicant under the Canadian Act can obtain a product patent in the full sense of the term on a chemical product which is not intended

for food or medicine and a product patent in the full sense of the term on a substance intended for food or medicine which is not prepared or produced by a chemical process. It is only when the product is both prepared or produced by a chemical process and intended for food or medicine that an applicant is denied a product patent in the full sense of the term and is limited to what is in effect a process patent.

Most new products which could in any event be regarded as patentable and which are intended for food or medicine are produced by chemical processes. So the broad question which presents itself is whether, as to chemical products, claims should be allowable only when limited to particular processes of manufacture. In many countries this is the law. The reason for it is that the welfare of the people may be greatly prejudiced if monopolization of the production of chemical substances becomes widespread, particularly if they are medicinal in character. If an applicant is denied a patent protecting the chemical product but given protection on the invented process for making that product others have a strong incentive to endeavour to invent new processes for making the same product. But there is no such incentive if he can and does obtain a patent on the product itself. It is obvious that similar considerations apply in a greater or lesser degree to all compositions of matter whether produced by chemical processes or not. But in the case of non-chemical products (not relating to foods or medicines) it may be considered that the lessening of incentive to try to invent a new product, which would flow from limiting the protection to the new process is a disadvantage which outweighs the advantage of leaving a strong incentive to invent a new process for making the same product.

The dilemma of the lawmaker, with regard to patents for all compositions of matter, is this: (For convenience of reference we shall refer to a patent on a product only when made by a particular process as protection of the process and to a patent on a product without that limitation as protection of the product). If the lawmaker provides only for protection of the process the advantage to an inventor from inventing a new product is less than it would be if he could secure protection of the product and it may be considered that his incentive is by that much reduced. If, on the other hand, the lawmaker provides for protection of the product as well as for the process the incentive to other inventors to devise new processes for making the patented product is reduced.

The Patents Act 1949 (United Kingdom) makes no exception of chemical products or foods and medicines from the range of patentable products. They can all be protected regardless of the processes by which they are produced. This horn of the dilemma, if such it can be called, was recommended by the Swan Committee and the reasons for its recommendation are to be found in paragraph 92 to 101 of its Final Report.

While the reasons given by the Swan Committee for its recommendations are not all equally convincing, we have come to the conclusion that we should make a similar recommendation, particularly in view of subparagraph (ii) of paragraph (f) of subsection 2 of section 2 of Part VIII relating to our proposed compulsory licensing provisions applicable to products and processes generally. It is for these reasons that we recommend that section 6 of Part VIII be enacted with regard to foods and medicines in place of our present section 41.

It will be noted that this proposed section makes several changes in our present section 41. There is no replacement of the subject matter of subsections

(1) and (2) of our section 41. The following changes in our present subsection (3) may be noted:

- (1) Surgical and therapeutic devices are added.
- (2) Medicines include anaesthetics and analgesics.
- (3) Royalties are from the standpoint of the patentee, to be fixed with reference to reasonable advantage to the patentee instead of due reward for research.

Under our proposed section as drafter it will still remain the duty of the Patent Tribunal to consider, on an application for an order for grant of a licence, whether there are good reasons for refusing the application, or, as it is expressed in our present section 41, whether "he sees good reason to the contrary".

This provision throws on the patentee opposing an application for a compulsory licence the burden of proving that good reasons for refusing it exist. We would expect that ordinarily the Patent Tribunal would make an order for the grant of a licence or licences. It is almost, though not quite, as if patents relating to foods and medicines were licensable as of right.

The question whether a provision for compulsory licences of substances and processes relating to foods and medicines should be enacted was argued at length before us. The arguments of those against such a provision have been fully considered. And while we realize that such a provision may have a tendency to encourage some manufacturers of pharmaceutical products to sit back and wait for research to be done by others with the comfortable feeling that if a new wonder drug, for example, is invented they will be able to obtain compulsory licences for its manufacture—to "suck the blood" out of research by others, to use the language of an argument advanced in the *British Drug Houses* case (1954) 72 R.P.C. 2 as quoted on p. 10—we nevertheless think the weight of the argument is in favor of a system of compulsory licensing so far as foods and medicines are concerned. The absence of such a provision would enable patentees of new drugs and medicines to profit unduly from the suffering or ailments of others. Foods should be coupled with medicines mainly because it is in some cases hard to say whether a substance is a food or a medicine.

Between August 1, 1935 and December, 1959 there have been fourteen applications to the Canadian Patent Office for compulsory licences under section 41.

The disposition of these has been as follows:

Licences granted	4
Applications refused	3
Applications abandoned	2
Applications withdrawn	1
Applications pending	4
<hr/>	
Total number of applications	14

It is probable that the number of compulsory licences ordered under our present section 41 is not indicative of its significance. It is generally considered that the mere existence of such provisions leads to voluntary licensing which otherwise would not take place.

It will be noted that in the proposed section the Patent Tribunal may refuse the application if it appears to it that there are good reasons for doing so. Reasons for refusing such applications have been considered in several British and Canadian

cases; see *In the Matter of Schou's Patents* (1924) 41 R.P.C. 298; *In the Matter of Applications by Glaxo Laboratories Limited for Licences in Respect of Certain Patents* (1941) 58 R.P.C. 12; *In the Matter of Applications by the British Drug Houses Ltd. for Licences in Respect of Certain Patents Relating to Medical Substances* (1955) 72 R.P.C. 2; *Frank W. Horner Ltd. v. Sharp & Dohme (Can.) Ltd.* (1952) 15 C.P.R. 68; *Charles E. Frosst & Co. v. Carter Products Inc. et al.* (1958) 29 C.P.R. 145; *Gilbert Surgical Supply Co Ltd. v. Parke, Davis & Co.* (1959) 30 C.P.R. 21; *Parke, Davis & Company v. Fine Chemicals of Canada, Limited* (1957) Ex. C.R. 300, and on appeal to the Supreme Court of Canada (1959) 17 D.L.R. (2d) 153. In this case Thurlow, J. in the Exchequer Court said, "Obviously, reasons affecting the public interest would be proper ones to be taken into consideration", (p. 312) and Maitland, J. in the Supreme Court said, "one of the main considerations before him is that of the public interest". (p. 160).

We considered whether we should recommend that the section provide for licences of right so that the Patent Tribunal would not be concerned with the question whether "there are good reasons for refusing the application". One of the objections to leaving this question of good reasons to the Patent Tribunal is that lengthy arguments may result, entailing delay and expense.

However, on the whole, and on balance, we think that it would be desirable to continue, for the time being at least, the principle contained in subsection (3) of section 41 of our present Act that licences shall not be of right but that the licensing authority may, if good reason to the contrary, or good reasons for refusing the application, are established, refuse to grant the licence. This principle is embodied in section 41 of the United Kingdom Patents Act of 1949. The guidance the courts have given as to what may be regarded as good reasons for refusing the application is decidedly vague, and perhaps necessarily so, as the future situations which may arise are unpredictable and almost infinite in number. Circumstances can readily be imagined where the licensing authority might reasonably consider that in the public interest the licence should not be granted. It occurs to us that this would normally be so if it were established that there was a probability that the granting of the licence would result in an increase rather than a decrease in the cost of the food or medicine to the public, or that the applicant had no *bona fide* intention of embarking upon the production of the food or medicine. There may be other circumstances the proof of which before the Commissioner would point to the conclusion that the granting of a licence would not be in the public interest which do not suggest themselves to us, at least in a form which would enable us to express them without complex qualifications.

One disturbing possibility is that delaying tactics on the part of patentees who oppose applications for compulsory licences will develop. In view of the possibility of large profits on some patented foods and medicines, particularly drugs, the field is such that a substantial delay may be of great financial advantage to the patentee. With respect to the possibility of such delays we make the following recommendations:

(1) That rules be made having as their purpose the complete disposition of every application, at least up to the time of the fixing of the royalty (if the application is granted) within three months after proof of service of notice of the application upon the patentee. These rules could provide for completion of all representation within a certain time after the beginning of the proceedings and might provide that the application, in the absence of a disposition of the matter

before the period of three months after proof of service of the initial notice, shall be deemed to be granted, the only matter remaining being the fixing of the royalties. Exceptions may have to be made providing for such contingencies as vacations, illness of the judge constituting the Patent Tribunal, and vacancies in that position.

(2) That it be provided by rule that the representations may be wholly in writing, the Patent Tribunal having a discretion to require oral submissions. We understand that this is the practice now followed by the Commissioner: *Fine Chemicals of Canada Ltd. v. Parke, Davis & Company* decided by the Commissioner on April 1, 1959, in respect of which an appeal was dismissed by the Exchequer Court (Case No. 154512) on October 2, 1959, leave to appeal to the Supreme Court of Canada refused; *Delmar Chemicals Limited v. American Cyanamid Company* decided by the Commissioner, September 14, 1959.

(3) That if it is found, notwithstanding the foregoing that there are serious delays, considerations be given to amending the section so that licences will be issuable as of right.

Later when we recommend a provision for an appeal to the Supreme Court of Canada from an order for the grant or refusal of a licence by the Patent Tribunal, we include as part of that provision a provision that an order granting a licence shall not be stayed by such an appeal. This should eliminate appeals taken only for delay.

The reference to anaesthetics and analgesics is to quiet doubt as to whether these are to be regarded as medicines.

Under the legislation recommended by us, invented substances whether foods or medicines or not and whether chemical substances or not would be patentable regardless of the process by which they are made. But a person who is considering whether he will work on research with a view to inventing a new process for making a patented substance should not regard such research as necessarily an unprofitable activity, because under the general compulsory licensing provisions recommended by us he may be able to obtain a compulsory licence to make the product provided he is willing to licence his invented process to the patentee of the product.

7. (1) Where an order for the grant of a licence under a patent has been made in pursuance of an application under section 2 of this Part, the Attorney General of Canada, the Attorney General of any province of Canada, or any person interested, may, at any time after the expiration of two years from the date of that order, apply to the Patent Tribunal for the revocation of the patent upon any of the grounds specified in subsection (2) of section 2 of this Part; and if upon any such application the Patent Tribunal is satisfied

(a) that any of the said grounds are established; and

(b) that the purposes for which an order may be made in pursuance of an application under the said section 2 could not be achieved by the making of any such order as is authorized to be made in pursuance of such an application,

he may order the patent to be revoked.

(2) An order for the revocation of a patent under this section may be made so as to take effect either unconditionally or in the event of failure to comply,

within such reasonable period as may be specified in the order, with such conditions as may be imposed by the order with a view to achieving the purposes aforesaid; and the Patent Tribunal may, on reasonable cause shown in any case, by subsequent order extend any period so specified.

8. (1) Any order for the grant of a licence under this Act shall, without prejudice to any other method of enforcement, have effect as if it were a deed, executed by the patentee and all other necessary parties, granting a licence in accordance with the order.

(2) Any person to whom an order for the grant of a licence under this Act has been granted, shall be entitled to call upon the patentee to take proceedings to prevent infringement of the patent, and if the patentee refuses, or fails to do so within two months after being so called upon, the licensee may institute proceedings for infringement in his own name as though he were the patentee, making the patentee a defendant. A patentee so added as defendant shall not be liable for any costs unless he participates in such proceedings. Service upon the patentee may be effected by service upon him or his registered representative.

9. Any order for the grant or the refusal of a licence under this Part shall be subject to appeal to the Supreme Court of Canada taken within sixty days of such order; and an order under this Part for the grant of a licence shall not be stayed by an appeal therefrom.