PATENT LICENSING: PROBLEMS FROM THE IMPRECISION OF THE ENGLISH LANGUAGE

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I. INTRODUCTION

In the last decade, industrialists have placed an increased emphasis on the patent right as an instrument in the sharing of industrial technology,[1] and it can be expected that this trend will continue. The patent right may be licensed alone or along with technical information. It may even be licensed along with a trade-mark right as long as the strict statutory requirements of the Trade Marks Act as to the control of the standard of quality of the wares or services are fulfilled.[2] There is a growing number of companies formed for the sole purpose of bringing together potential licensors and potential licensees of technical information.

One may speculate upon the forces impelling industrialists to share the property right in an issued patent. No catalogue of such forces would be complete but it might nonetheless include the cost and uncertainty of patent litigation, the pressure towards diversification and the risks incident to over-specialization, and government pressures directed towards the maintenance of competition. Legislative enactments providing for compulsory licence proceedings create a climate for voluntary licence agreements. Often the funds needed for further research can be acquired more readily through royalty payments than through a policy of pricing the patented product at what the market will bear under cover of the exclusive right of a patent. A patentee should always consider licensing as a possible course of action and should be familiar with the legal consequences.

A study of licensing involves a study of the law of contract.[3] A

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[1] An example of such emphasis is found in the successful formation and development of the Licensing Executive Society, an association, as the name implies, of executives interested in licensing of patents.

[2] In Canada, registered user provisions are defined in § 49 of the Trade Marks Act, Can. Stat. 1952-53 c. 49. Any registered user agreement or assignment of a trade mark must not, in its operation, result in a loss of distinctiveness as required by § 18 of the Trade Marks Act. Cheerio Toys & Games Ltd. v. Dubiner, [1966] Sup. Ct. 206, 48 Can. Pat. R. 226, 32 Fox Pat. Cas. 37 (1965); Wilkinson Sword (Canada) Ltd. v. Juda, 51 Can. Pat. R. 55, 34 Fox Pat. Cas. 77 (Exch. Ct. 1966).

[3] For a consideration of the law of contract as applied to patents see H. TURNER, SOME NOTES ON THE LAW OF CONTRACT, 72 TRANSACTIONS OF THE CHARTERED INSTITUTE OF PATENT AGENTS C165 (1953-54).

licence creates a new right in the licensor that will be enforced by the court; such a right is one separate and apart from the patent right. The licence also creates a right in the licensee under the terms of the contract, but in the ordinary course this does not give any rights in the patent unless these are prescribed by the contract.

As a matter of general principle, a patentee and a licensee are free to contract as they see fit and a consideration of problems in licensing involves a consideration of as many facets and legal situations as the ingenuity of the negotiating parties may devise.

Sir George Jessel expressed the principle of freedom of contract when he stated: "[I]f there is one thing which more than another public policy requires it is that men of full age and competent understanding shall have the utmost liberty of contracting, and that their contracts when entered into freely and voluntarily shall be held sacred and shall be enforced by Courts of justice." [4]

The principle inherently presupposes that the parties negotiate on relatively equal terms, [5] and that the agreement is not one in restraint of trade. [6] In most patent negotiations, the potential licensee is at a disadvantage. The patentee's right is exclusive, so the licensee does not have alternative supplies from which to obtain the rights he seeks. If he does not accept the patentee's terms, he must do without the invention or else infringe and take his chances with a lawsuit which could lead to an injunction and damages or the recovery of his profits by the patentee. The legislature in Canada has imposed statutory conditions upon the grant that have the effect, in certain situations, of placing the parties on a more equal footing, [7] but

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[4] Printing & Numerical Registering Co. v. Sampson, L.R. 19 Eq. 462, at 465 (M.R. 1875). In North Western Salt Coy. v. Electrolytic Alkali Coy., [1914] A.C. 461, Lord Haldane said: "[W]hen the question is one of the validity of a commercial agreement for regulating their trade relations, entered into between two firms or companies, . . . it [the law] still looks carefully to the interest of the public, but it regards the parties as the best judges of what is reasonable as between themselves." *Id.* at 471. *See also* Samuel v. Newbold, [1906] A.C. 461, at 468.

[5] Stevens v. Howitt, [1969] 1 Ont. 761 (High Ct.), is an example where the court gave effect to the fact that the parties were not in an equal bargaining position. Mr. Justice Hart refused to enforce a contract of release in favour of an insurer even though there was no fraud or misrepresentation. He said: "[T]here is a very heavy responsibility in these circumstances upon the representative of the insurance company when dealing with unknowledgeable parties to see to it that the terms of the agreement itself and their ramifications are clearly understood." *Id.* at 763.

[6] Herbert Morris Ld. v. Saxelby, [1916] 1 A.C. 688; Nordenfelt v. Maxim Nordenfelt Guns & Ammunition Co., [1894] A.C. 535; and in Canada *see* Canadian Factors Corp. v. Cameron, 49 Can. Pat. R. 101 (Que. 1966) and the cases listed in the *Editorial Note* attached to that case. *See* § 30 of the Combines Investigation Act reproduced below at note 14.

[7] The Patent Act, CAN. REV. STAT. c. 203, § 67 (1952) particularly relating to compulsory licences for abuse of monopoly; *id.* at §§ 41(3) and 41(4) relating to compulsory licences for food and medicine; *id.* at § 19 relating to use by Government of Canada, and *see* in this connection Formea Chems. Ltd. v. Polymer, 55 Can. Pat. R., 38 Fox Pat. Cas. 116 (Sup. Ct. 1968) (use by a Crown agent); Slater Steel Indus. Ltd. v. Payer, 55 Can. Pat. R. 61 (Exch. Ct. 1968) (use by the Crown in the right of a province); Defence Production Act, CAN. REV. STAT. c. 62, § 20 (1952) relating to

within the scope of such statutory limitations the basic principle, that the parties may contract with freedom, still applies.

II. WHAT IS A LICENCE?

A bare licence is a permission given by the owner of a right to another to invade that right free from legal recourse. Such permission may be oral or in writing.[8] It may be a mere dispensation that is revocable or it may be found in a contract that defines the respective rights and obligations of the licensor and licensee. Problems of revocability of such a contract have troubled the courts for some time.[9]

The rights of the respective parties in respect of any particular contract depend upon its particular terms. The ordinary rules of construction of contracts and the principles applicable to implied terms are all dependent upon the provisions that the parties have defined for themselves. But so that such provisions may be effective, they must be based upon an understanding of what a licence is in law.

In 1673, in a case[10] involving a sale of wine without a licence from the holder of letters patent relating to the right to the sale of such wine, a licence was described as follows: "A dispensation or licence properly passeth no interest, nor alters or transfers property in anything, but only makes an action lawful which without it had been unlawful."[11]

A bare licence and an exclusive licence do not differ in respect of their essential attributes. In *Heap v. Hartley*,[12] Lord Justice Fry said:

> An exclusive licence is only a licence in one sense. That is to say, the true nature of the exclusive licence is this. It is a leave to do a thing, and a contract not to allow anybody else to do a thing. But it confers no more than any other licence any interest or property in the thing. A licence may be, and often is, coupled with a grant and that grant then may convey an interest in property, but the licence pure and simple, and by itself, never conveys an interest in property. It only enables a person to do lawfully

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use by a contractor with the Crown who received an indemnity from the Crown; *see* in this connection Curtiss-Wright Corp. v. The Queen, [1968] 1 Can. Exch. 519, 53 Can. Pat. R. 144 (1967); Combines Investigation Act, CAN. REV. STAT. c. 314, § 30 (1952) relating to restraint of trade abuses.

[8] Crossley v. Dixon, 10 H.L. 293, at 304 (1863); Coppin v. Lloyd, 15 R. Pat. Cas. 373 (Q.B. 1893); Chadwick v. Bridges, [1960] R. Pat. Cas. 85 (Ch.).

[9] See Wade, *What is a Licence?*, 64 L.Q.R. 57 (1948). The conflicting opinions relating to contractual licences involving the entry of property generally as found in Wood v. Leadbitter, 13 M. & W. 838, 153 Eng. Rep. 351 (Ex. 1845) and Thompson v. Part, [1944] K.B. 408 (C.A.) on the one hand, and Hurst v. Picture Theatres Ltd., [1915] 1 K.B. 1 (C.A. 1914) and Winter Garden Theatre Ltd. v. Millennium Prods. Ltd., [1948] A.C. 173 (1947), are resolved by the author: "It is both logical and reasonable to treat contractual licences as in every way subject to agreement between the parties and revocable or irrevocable accordingly." Specifically as to termination of patent licences, see the text accompanying notes 111 to 132.

[10] Thomas v. Sorrell, Vaug. 330, 124 Eng. Rep. 1098 (C.P. 1673).

[11] *Id.* at 351, 124 Eng. Rep. at 1109. *See also* Muskett v. Hill, 5 Bing (N.C.) 694, 132 Eng. Rep. 1267 (C.P. 1839); Newby v. Harrison, 70 Eng. Rep. 799 (Ch. 1861).

[12] 6 R. Pat. Cas. 495 (C.A. 1889).

> what he could not otherwise do, except unlawfully. I think, therefore, that an exclusive licensee has no title whatever to sue.[13]

An exclusive licence relating to a patent involves: (i) A permission to the licensee to exercise the invention defined in the patent; (ii) As an incident of the contract, an obligation upon the licensor not to give anyone else the right to exercise the invention covered by the patent; and (iii) As a further incident of the contract, an obligation that the licensor will not himself exercise such invention.

Although patent licences are as different as the contracts that create them, there are three general classes in which they may be considered to fall: (i) non-exclusive licences, (ii) exclusive licences, and (iii) sole licences.

In the absence of an intent in the contract to the contrary, (i) a non-exclusive licence enables the patentee, at common law, to give as many and as different permissions to exercise the invention as he chooses.[14] A "most

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[13] *Id.* at 501. *Heap v. Hartley* was applied in The King v. Numont Ful-Vue Corp., [1945] Can. Exch. 34, at 43. However, the rule as regards patent licences has been modified by statute. See note 14. *Contra*, British Nylon Spinners Ltd. v. Imperial Chem. Indus. Ltd., 71 R. Pat. Cas. 327 (Ch. 1954).

[14] *Quaere*, the degree to which § 30 of the Combines Investigation Act, CAN. REV. STAT. c. 314 (1952) prevents discrimination amongst licensees:

> § 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
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> (a) unduly to limit the facilities for transporting, producing, manufacturing, supplying, storing or dealing in any article or commodity which may be a subject of trade or commerce; or
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> (b) unduly to restrain or injure trade or commerce in relation to any such article or commodity; or
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> (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
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> (d) unduly to prevent or lessen competition in the production, manufacture, purchase, barter, sale, transportation or supply of any such article or commodity;
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> 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:
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> (i) declaring void, in whole or in part, any agreement, arrangement or licence relating to such use;
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> (ii) restraining any person from carrying out or exercising any or all of the terms or provisions of such agreement, arrangement or licence;
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> (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;
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> (iv) directing that the registration of a trade mark in the register of trade marks be expunged or amended; and
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> (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.

favoured provision" clause in a licence agreement will serve to protect a licensee from being in a less competitive position than any other licensee; (ii) an exclusive licence gives the licensee the right to exercise the patented invention as against all persons, including the licensor; (iii) a sole licence gives to the licensee the right to exercise the patented invention as against all persons except the licensor. [15]

A patent licence should not express the permission in terms of "a sole and exclusive licence." [16] This expression is a contradiction in terms. The correct expression should be used to define the intended relationship.

Having regard to the legal relationship that arises from the personal nature of a licence (whether it is non-exclusive, an exclusive or a sole licence), certain rights and obligations of the parties can be defined. These rights and obligations arise apart from those that may be expressly set out in the licence agreement and apart from special relationships defined in such agreement.

A licence creates a personal obligation. [17] It does not create an interest in the thing. Hence, no property right is given in the patent by a patent licence. Since no property right is passed, the licence does not give to the licensee a right that can be assigned. [18] It cannot be subdivided by the licensee nor can it be sublicensed. [19] The licensed invention cannot be exploited by a licensee through an independent contractor [20] but it can be worked

[15] In Murray v. Imperial Chem. Indus. Ltd., [1967] R. Pat. Cas. 216 (C.A.), Lord Denning held that a "keep out" payment (whereby the licensor covenanted to keep out of an area defined for the benefit of the licensee) made to the licensor was a capital payment not subject to income tax. He said:

> An ordinary "licence" is a permission to the licensee to do something which would otherwise be unlawful. It leaves the licensor at liberty to do it himself and to grant licences to other persons also. A "sole licence" is a permission to the licensee to do it, and no-one else, save that it leaves the licensor himself at liberty to do it. An "exclusive licence" is a permission which is exclusive to the licensee, so that even the licensor himself is excluded as well as anyone else.

Id. at 217. The distinction between an exclusive and sole licence is set out in 29 HALSBURY, LAWS OF ENGLAND § 314, at 165 (3d ed. 1960): "A sole licence is one whereby the patentee agrees to grant no other licence for the technical field concerned within the licensed district during the currency of the licence; if the patentee also agrees that he will not himself exercise the invention in that technical field either generally or within the particular district, the licence is termed an exclusive licence." The authority given is Rapid Steel Co. v. Blankstone, 24 R. Pat. Cas. 529 (Ch. 1907).

[16] The expression "sole and exclusive licence" has been used loosely. *See* National Carbonising Co. v. British Coal Distillation Ltd., [1936] 2 All E.R. 1012, at 1016 (C.A.) (Slesser, L.J.). The relationship intended must then be found from an examination of the contract as a whole. *See* Lyle-Meller v. A. Lewis & Coy., [1956] R. Pat. Cas. 14, at 18 (C.A. 1955) where the court examined the whole tenor of the licence agreement rather than an isolated expression in it to interpret the intention. The licence grant in that case used the expression "sole and exclusive licence."

[17] As to licences, *see generally* King v. David Allen & Sons Billposting, 85 L.J.P.C. (n.s.) 229, at 233 (1916); Roberts v. Rose, 35 L.J. Ex. (n.s.) 62, at 63 (1865).

[18] Dorling v. Honnor, [1963] R. Pat. Cas. 205, at 210 (Ch.).

[19] Bower v. Hodges, 13 C.B. 765, 138 Eng. Rep. 1402 (C.P. 1853).

[20] Howard & Boullough Ld. v. Tweedales, 12 R. Pat. Cas. 519, at 524 (Ch. 1895); Dixon v. London Small Arms Co., 1 App. Cas. 632 (1876); Montreal v.

through agents, servants and workmen of the licensee.[21] If a different arrangement is intended by the parties, they must expressly so provide. If the licence agreement gives a licence to the licensee and his assigns, the licensee may then assign the benefit of the licence.[22] A licence that contains a clause that the licence shall enure to the benefit of the licensee, his heirs, executors, administrators and assigns may convert what would otherwise be a personal non-assignable licence into an assignable licence.

Even where a licence is personal to a licensee and not assignable by its terms the licensor cannot revoke the licence if he accepts royalties from the assignee of the licensee.[23] Although the personal right of a licensee cannot be assigned in the absence of an express provision authorizing it, the right of the patentee licensor is not so restricted. The patentee may assign the benefit of the licence.[24]

III. The Licensee as a Party to Proceedings Relating to the Licensed Patent

A. *The Licensee as Plaintiff in an Infringement Action*

In *Heap v. Hartley*,[25] the court held that the holder of an exclusive licence was not entitled to maintain an action for infringement in his own name. The statute applicable at that time[26] defined a patentee as "the person for the time being entitled to the benefit of a patent."[27]

A fortiori, under such a statutory provision, a non-exclusive licensee

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Montreal Locomotive Works, [1947] 1 D.L.R. 161 (P.C 1946) as to the distinction between an agency relationship and that of independent contractors.

[21] Bower v. Hodges, 13 C.B. 765, 138 Eng. Rep. 1402 (C.P. 1853); Howard & Boullough Ld. v. Tweedales, 12 R. Pat. Cas. 519, at 524 (Ch. 1895).

[22] Lawson v. Donald Macpherson & Co., 14 R. Pat. Cas. 696, at 698 (Ch. 1897).

[23] *Id.*

[24] National Carbonising Co. v. British Coal Distillation, Ltd., [1936] 2 All E.R. at 1016. The patentee was held to be entitled to assign the benefit of a licence including a right to the improvements of the licensee.

[25] 6 R. Pat. Cas. 495, and *see* British & Int'l Proprietaries Ltd. v. Selcol Prods., [1957] R. Pat. Cas. 3 (Ch. 1956).

[26] Patent Act, 46 & 47 Vict., c. 57 § 46 (1883).

[27] Two cases in Scotland consider the right of a licensee to sue. In J. P. Cochrane & Co. v. Martins, Ld., 28 R. Pat. Cas. 284 (Sess. Cas. 1911), Lord Dunedin considered in obiter that an exclusive licensee ought to have the right to maintain an infringement action. *Id.* at 286. But the matter was not in issue as the objection relating to the pursuer's right to sue was withdrawn.

In Scottish Vacuum Cleaner Co. v. Provincial Cinematograph Theatres Ld., 32 R. Pat. Cas. 353 (Sess. Cas. 1915), the action was not one for infringement of a patent, but was for infringement of the exclusive licence. The patentee (licensor) gave an exclusive licence to the plaintiff for Scotland. The licensor under a hire-purchase agreement sold infringing machines to a third party (defendant) for use in Scotland. The licensor on its own motion became a party respondent. It was held that the exclusive licensee had a right to sue but that since the defendant (third party) at the time of acquiring the offending machines was unaware of the exclusive licence (even though registered), it was not liable in the action.

does not enjoy a right that would entitle him to relief from infringement under the licensed patent.

In Canada, section 2(3) of the Patent Act (1923) also defined a patentee as "the person for the time being entitled to the benefit of a patent." Section 32 of the act provided that an infringer was liable for that infringement to the patentee or his legal representatives. Legal representatives included assigns. It did not include licensees.

Accordingly, in *Electric Chain Co. of Canada v. Art Metal Works Inc.*[28] it was held, applying *Heap v. Hartley*, that a licensee could not maintain the action for the recovery of damages.

However, section 55 of the Patent Act (1935)[29] added a new provision relating to the recovery of damages. It made any person who infringed a patent liable to *all persons claiming under* the patentee for damages. The patentee was made a necessary party to the proceedings. The definition of patentee remained unchanged from the 1923 act.

The section was considered by the Privy Council in the case of *Fiberglas Canada Ltd.* v. *Spun Rock Wools Ltd.*[30] Although in that case the plaintiff who took action was in fact an exclusive licensee, the language used by the court is equally applicable to a non-exclusive licensee.

> In the face of this consensus of opinion upon a Canadian statute their Lordships would in any case hesitate to express a contrary view. But it appears to them that the statutory amendment of 1935 following upon the decision of *Electric Chain Co. v. Art Metal Works Inc.*, [1933], 4 D.L.R. 240, S.C.R. 581, points irresistibly to the conclusion that licensees are persons claiming under the patentee within the meaning of the section. The patentee by definition means the person for the time being entitled to the benefit of a patent. Section 55(1) contemplates an action not only by the person for the time being entitled to the benefit of a patent but also by any person claiming under that person. Upon the plain language of the section a licensee answers that description.
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> The appellants as licensees were therefore entitled to sue for damages under s. 55. If so, it is clear that the Court could also grant an injunction restraining infringement, if it thought fit to do so. An attempt was made to limit the rights of a licensee at least to damages. There appears to their Lordships to be no reason why in an appropriate case the remedy of injunction should not be granted under s. 57 of the Act and this appears to them to be such a case.[31]

In the case of *Irwin Specialties Ltd. v. Allied Plastic Pipe & Profile Extruders Ltd.*,[32] Mr. Justice Sheppard held: "The plaintiff has established

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[28] [1933] Sup. Ct. 581.

[29] Can. Stat., c. 32, § 55 (1935):

55. (1) Any person who infringes a patent is liable to the patentee and to all persons claiming under him for all damages sustained by the patentee or by any such person, by reason of such infringement.

(2) Unless otherwise expressly provided, the patentee shall be or be made a party to any action for the recovery of such damages.

The § is identical to CAN. REV. STAT. c. 203, § 57 (1952).

[30] [1947] A.C. 313, 6 Can. Pat. R. 57, 6 Fox Pat. Cas. 39 (P.C.).

[31] *Id.* at 320-21, 6 Can. Pat. R. at 66, 6 Fox Pat. Cas. at 47.

[32] 54 Can. Pat. R. 29, 36 Fox Pat. Cas. 195 (Exch. Ct. 1967).

its exclusive licence . . . and therefore the plaintiff is a person claiming under a patentee within § 57 of the *Patent Act* and entitled to maintain an action for breach of a patent with consequential relief in damages and injunction." [33]

It is clear therefore that under the Canadian act an exclusive licensee may take action for infringement and recover damages and obtain injunctive relief. The patentee must be joined as a party to the action. If the patentee will not join as a party-plaintiff, he must be joined as party-defendant.

The words "claiming under" as held by the Privy Council are sufficiently broad to include a non-exclusive licence. The same right to institute proceedings joining the patentee would appear to have been given to a non-exclusive licensee under section 57 of the Patent Act.

B. *Licensee as Defendant in Impeachment Proceedings*

In impeachment proceedings, it is sufficient for the plaintiff to join as the defendant the person shown on the register as entitled to the benefit of the patent. He is the only person known to the person seeking to impeach the patent.

However, if a licensee is joined by the plaintiff he is entitled to remain in the proceedings. [34] But if the licensee, having no property interest in the patent, chooses not to be continued as a party, he may obtain an order removing him from the suit on agreeing to be bound by the result. [35]

IV. Construction of Licence Agreement

The construction of a contract is a matter of law for the court. [36] The words used in a written contract are to be given their ordinary and natural meaning, [37] but technical words used in a technical sense are given their technical meaning. [38] Evidence of particular usage is admissible to show the meaning of particular technical terms. [39]

The court must give effect to the intention of the parties, and the extent to which the court will go in order to do so is shown in *Gwyn v. Neath Canal Navigation Co.*:[40]

> The result of all the authorities is, that when a court of law can clearly collect from the language within the four corners of a deed, or instrument

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[33] *Id.* at 31, 36 Fox Pat. Cas. at 197.

[34] *In re* Brown's Patent, 24 R. Pat. Cas. 313, at 346 (Ch. 1907).

[35] In The King v. Numont Ful-Vue Corp., [1945] Can. Exch. 34, 4 Can. Pat. R. 163, the licensee obtained an order with costs dismissing it from the suit. *See also In re* Patent of the Stahlwerk Becker Aktiengesellschaft, 35 R. Pat. Cas. 81 (Ch. 1917).

[36] Bowes v. Shand, 1 App. Cas. 455, at 462 (1877).

[37] Lee v. Alexander, 8 App. Cas. 853, at 868-70 (1883); Grey v. Pearson, 6 H.L. 61, at 106 (1857).

[38] Robey v. Arnold, 14 T.L.R. 220 (C.A. 1898).

[39] Dawson v. Isle, [1906] 1 Ch. 633; Southland Frozen Meat Prod. Export Co. v. Nelson Bros., [1898] A.C. 442 (P.C.).

[40] L.R. 3 Ex. 209 (Ex. Chamb. 1868).

> in writing, the real intentions of the parties, they are bound to give effect to it by supplying anything necessarily to be inferred from the terms used, and by rejecting as superflous whatever is repugnant to the intention so discerned. [41]

The court may, therefore, give effect to an intention manifest from a recital in a patent licence agreement. [42] However, where a recital is in conflict with an express covenant in the agreement the express covenant will govern. [43]

A licence agreement that is expressed in clear and unambiguous terms defines the intention of the parties. In the absence of fraud or the existence of a collateral agreement between the parties the court will give effect to the plain meaning of the licence agreement. The court will not admit evidence showing an intention contrary to the effect of the plain meaning of the contract terms. [44] To deny the existence of a collateral agreement between the parties that may modify the express words of the agreement, some draftsmen include a term in the licence that the written agreement expresses the entire agreement between the parties.

It is also a rule of contract construction that the agreement must be considered in its entirety. In *Lyle-Meller v. A. Lewis & Coy.*, [45] Lord Justice Denning rejected an argument, based on an isolated phrase in the agreement, that royalties should be payable under a patent licence only where a patent had actually been issued. He stated: "They pick out that one phrase in this agreement and say that it means that no royalties are payable until valid Letters Patent are issued in the United Kingdom and sealed. I cannot agree with that construction for the simple reason that it flouts nearly every other clause in this agreement. It is in flagrant defiance of the whole tenor of this agreement." [46]

Interesting questions of construction of a licence agreement arose in the case of *Fluflon Ltd. v. William Frost & Sons.* [47] The licensor authorized the licensee to use an "invention" for the production of fluffed yarns in consideration for the payment of royalties. The licensee purchased machines for producing fluffed yarns from a third person and refused to pay royalties on the ground that the machines did not use the "invention" licensed by the licensor. The licensor sued for royalties. The licence contained a recital that the licensor was the owner of a novel process and apparatus that was sometimes referred to in the licence as "the invention." Another recital

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[41] *Id.* at 215.

[42] Aspdin v. Austin, 5 Q.B. 671, at 684, 114 Eng. Rep. 1402, at 1407 (1844); Mackenzie v. Childers, 43 Ch.D. 265 (1889); Easterby v. Sampson, 6 Bing. 644, 130 Eng. Rep. 1429 (Ex. Chamb. 1830).

[43] Dawes v. Tredwell, 18 Ch. D. 354 (C.A. 1881).

[44] Mechanical Pin Resetter Co. v. Canadian Acme Screw & Gear Ltd., [1969] 2 Ont. 61, at 70, *applying* Shore v. Wilson, 9 Cl. & Fin. 355, at 565-66, 8 Eng. Rep. 450, at 532 (H.L. 1842) and Forman v. Union Trust Co., [1927] Sup. Ct. 1, at 7-8.

[45] [1956] R. Pat. Cas. 14 (C.A. 1955).

[46] *Id.* at 16.

[47] [1968] R. Pat. Cas. 508 (H.L. 1966).

provided that the "invention" was "covered" by three applications for patent. A further recital stated that upon execution of the agreement the licensor would disclose to the manufacturer the processes and apparatus covered by the agreement. The agreement was executed by the licensee after it saw yarn produced by the inventions but before it saw the process and apparatus. The process and apparatus was then disclosed to the licensee but copies of the applications for patent were not given to the licensee. It was held by the House of Lords that "the invention" as used in the licence referred to that which was physically disclosed to the licensee and was narrower than that which was "covered" in the applications for patent.

It was considered that it would be absurd to hold that the licensee was bound by applications to the patent office which it never saw and which it had no right to see. The licensor failed to recover the royalties claimed. In this case, unlike that of *Mechanical Pin Resetter Co. v. Canadian Acme Screw & Gear Ltd.*,[48] the licence agreement was ambiguous. The House of Lords, therefore, had reference to the evidence of the surrounding circumstances as being relevant to the construction of the agreement. Lord Pearson also made reference to the principle of construction defined by the maxim *verba chartarum fortius accipiuntur contra proferentem.*[49] The agreement was on the printed form of the licensor and any ambiguity in it could be resolved against it.[50]

V. Improvements

Since each agreement must be considered in relation to the whole tenor of the document, difficult problems of construction arise in determining the intention of the parties as to the improvements that are to be passed from one to the other. If the agreement is silent on the point, no improvements will pass. It is not an easy matter to find clear-cut principles because the setting in which particular expressions are found will affect the result. Some general principles emerge.

It is clear that an improvement clause must be drawn with care. It is imperative that the subject matter in relation to which the improvement is made be defined with precision. By way of illustration, three different definitions of the subject matter of the improvement leading to three different results are: (1) the invention made in the sense of the essence of the invention; (2) the invention claimed in the sense that the improvement must be one that infringes the patent; (3) the article constituting the embodiment of the invention whereby the improvement would pass if it re-

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[48] *Supra* note 44.

[49] [1968] R. Pat. Cas. at 513.

[50] As to the principle of *contra proferentem, see also* Marshall v. Crown Assets Disposal Corp., [1957] Sup. Ct. 656; Price v. Dominion of Canada Gen. Ins. Co., [1937] 2 D.L.R. 369 (N.B.); Calder v. Law Soc'y of British Columbia, 9 B.C. 56 (Sup. Ct. 1902); Barthel v. Scotten, 24 Sup. Ct. 367 (1895); Catalytic Constr. of Canada Ltd. v. Austin Co., [1957] Ont. W.N. 290.

lated to the article whether or not it related to the basic invention.

In *Lyle-Meller v. A. Lewis & Coy.*,[51] Mr. Justice Lloyd Jacob in the context of the particular licence agreement before him considered the expression "embodying the said inventions or any of them" to be broader than the expression "falling in the patent claims." The invention made may be broader than the invention claimed.

In *Davies v. Curtis & Harvey Ltd.*,[52] the licence agreement provided that each party should communicate and explain to the other any *improvements in or additions to the said invention* which might be within or which might thereafter come to their knowledge and that all such improvements and additions should be deemed to be covered and included in the agreement. In this case the court considered the improvements in relation to the claims of the licensed patents. Lord Justice Romer stated:

> The way to treat the question whether any particular powder would be an addition to, or an improvement on, the Plaintiff's invention, would be to see whether, assuming the Plaintiff's Patent to be valid, and assuming a person to be using that powder without licence from the Patentee, it would be an infringement. Applying that test here, which is obviously the right test, it is clear to my mind that you would have the answer here that the "Bulldog" powder is no infringement whatever of the Plaintiff's Patent, either regarded as an improvement or an addition, or anything of the sort.[53]

The case of *Valveless Gas Engine Syndicate v. Day*[54] related to the construction of an agreement for the sale of certain patents in which the vendor undertook to include as part of the sale, improvements in the patents being sold. The particular provision provided that the purchaser would receive "the benefit of all inventions which [the vendor] may now have made, or be entitled to, or which he may hereafter make, being an *improvement upon the inventions* the subject of any of the Letters Patent or applications for the same . . . ." [55]

The majority of the court held that the particular improvement fell within the scope of the agreement and that the improvement passed to the purchaser having regard to the relationship of the improvement to the essence of the invention of the patents being sold. Lord Justice Smith stated:

> I do not propose to attempt to give a definition, as we were invited to do, of what constitutes an improvement within the meaning of the agreement, nor whether it is limited to the case of the one patent being an infringement of the other, for the latter is not the point now to be decided. I, myself, have come to the conclusion that the subsequent patents are improvements

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[51] [1956] R. Pat. Cas. at 14. The difficulty in interpreting the word "invention" in a licence agreement is illustrated by the decision in Fluflon Ltd. v. William Frost & Sons, [1968] R. Pat. Cas. 508 (H.L. 1966) where the "invention" was given a narrow meaning in the context of the agreement and the conduct required by it. It was held to relate to that disclosed physically by the patentee and not to that covered by the application for patent.

[52] 20 R. Pat. Cas. 561 (C.A. 1903).

[53] *Id.* at 572.

[54] 16 R. Pat. Cas. 97 (C.A. 1898).

[55] *Id.* at 104 (emphasis added).

> upon the prior inventions patented in April and June, 1891, if they enable the requisite explosion, which is the *sine qua non* of the invention, to be obtained in gas and vapour engines, when gas is not available, by the use of vapourised oil, which, as before stated, is of undoubted value.[56]

In *Davies v. Davies' Patent Boiler Ltd.*,[57] the employee patentee assigned a patent to the defendant and covenanted that he would make such application and do and execute all such assurances and things as might be necessary for the purpose of vesting in the defendants the "*benefits of the said invention and all improvements therein . . . .*"[58] It was held that the alleged improvement was "a separate and distinct invention; and it does not come within the language of the Agreement as an improvement."[59] It was also held that the agreement did not apply as the improvement was made after the employment of the patentee had ceased and the agreement, therefore, was not a subsisting agreement at the time the improvement was made.[60]

A different result occurred in the case of *Vislok Ltd. v. Peters.*[61] Mr. Justice Eve considered the expression relating to the passing of improvements to a purchaser of patents "the benefit of all improvements and future inventions which shall be made by [the vendor] in connection with the said inventions or any of them."[62] He held the improvement fell within the scope of the contract and said:

> So that the moment that it is shown that the Specification of 1910 extends to lock nuts of a type which is in all respects similar to the type which is covered by the 1921 Specification, it is, in my opinion, impossible to contend successfully that this new device for unlocking the nut is not an improvement on an invention which was one of the inventions the subject-matter of the Agreement between the Defendant and the Company. *A fortiori* it seems to me that one would be bound to hold that it was an invention connected with the inventions the subject-matter of the contract.[63]

Whatever the difficulty in construing the expressions "improvements upon an invention," "additions to an invention," or "improvements connected with an invention," it is clear that if the expression used refers to improvements in an article which is an embodiment of the invention, a broad range of improvements are covered.

In *Linotype & Machinery Ltd. v. Hopkins*,[64] the invention dealt with certain stereotype casting machinery. Under a licence agreement, the defendant undertook to grant an exclusive licence to the plaintiff to use any

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[56] *Id.* at 100.
[57] 25 R. Pat. Cas. 823 (Ch. 1908).
[58] *Id.* at 824 (emphasis added).
[59] *Id.* at 830.
[60] *Id. See also* Sadgrove v. Godfrey, 37 R. Pat. Cas. 7 (Ch. 1919), where it was held that the expression in an agreement of sale of patents including "all improvements and additions to the invention" did not cover the improvement as the improvement related to an invention that was distinct from that sold. *See also* London & Leicester Hosiery Ltd. v. Griswold, 3 R. Pat. Cas. 251 (Ch. 1886).
[61] 44 R. Pat. Cas. 235 (Ch. 1927).
[62] *Id.* at 243.
[63] *Id.* at 246.
[64] 27 R. Pat. Cas. 109 (H.L. 1910).

improvements in or additions to his machinery. The defendant made two additional inventions, the subject matter of which could be used in connection with his machinery. The plaintiff sought a declaration that they had an exclusive licence to use such inventions. The court held that the improvements were improvements relating to the machines and did not find it necessary to determine whether or not there was infringement. The agreement defined the improvements in broad terms. Lord Loreburn made the following statement:

> I now apply myself to the question whether or not the Patent of 1905 constitutes or rather contains improvements upon the *Hopkins* machine. I think that any part does constitute an improvement, if it can be adapted to this machine and it would make it cheaper and more effective or in any way easier or more useful or valuable, or in any other way make it a preferable article in commerce. So we have to see of what the *Hopkins* machine consists. It is not in my opinion merely so much of the machine as is novel or patentable; it is the machine itself, old and new, and includes every part of it.
>
> That being so, the chief improvement patented in 1905 was the substitution of an upright core for a horizontal core theretofore used in the "Autoplate" machine with other improvements included in the 1905 Patent which were either subsidiary or ancillary to the one I have described, or were admittedly improvements of the *Hopkins* machine itself. Everything turns upon whether or not the use of an upright core (which had previously been used in the Hopkins machine) with the addition of a rotatory motion not claimed in the 1905 Patent and the other subsidiary changes could be called an improvement upon the Hopkins machine itself.[65]

National Broach & Machine Co. v. Churchill Gear Machines Ltd.[66] is interesting in respect of the different obligations placed upon the licensor and the licensee in respect of improvements. The licensor was obliged to communicate to the licensee forthwith any improvements and further inventions in respect to gear shaving machines (whether patented or not) and all such improvements and inventions were deemed to fall in the scope of the licence agreement. The licensee was obliged to communicate to the licensor improvements in the gear shaving machines developed by the licensee during the subsistence of the agreement. The licensor had the right to obtain patents in respect of the improvements and the licensee had an exclusive licence in a defined area in respect thereof. If the licensor did not choose to obtain a patent on the improvement, the licensee had a right to take out and own any patent thereon. The licence was terminated. The licensee made an improvement during the subsistence of the licence which was patented by the licensor. It was held by the House of Lords that the exclusive licence back to the licensee only endured during the subsistence of the licence agreement, not for the life of the patents. The licensee who made the invention lost his right to use it for the period between the termination of the licence agreement and the expiration of the patent.

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[65] *Id.* at 113.

[66] [1967] R. Pat. Cas. 99 (H.L. 1966).

The decision is also of interest in respect to the test applied by the House of Lords as to the date when the obligation of the licensee to communicate the improvement to the licensor arose. The clause applicable to this obligation did not include the word "forthwith" as did the clause applicable to the obligation upon the licensor. The House of Lords considered that the obligation to communicate the improvement would arise at different times in relation to important improvements as opposed to mere workshop improvements. They refused to lay down any criterion and rejected those applied by the trial judge and the Court of Appeal. Lord Upjohn commented as follows:

> Cross, J. thought that the proper test to determine the time when the obligation to communicate arose was the moment when the licensees were satisfied in their own mind, rightly or wrongly, that they had got something which would work. In the Court of Appeal a rather different test was proposed. Willmer, L.J., thought that the time for communication arose as soon as it could be seen that an application for a patent could safely be made without incurring the risk of being held invalid for inutility. Harman and Salmon, L.JJ. came to much the same conclusion though expressed in slightly different words.
>
> My Lords, for my part I am unable to accept these tests. They certainly cannot be accepted as a judicial interpretation of the true meaning of the words of clause 10. The words are there; they are perfectly ordinary words of the English language; they must be, as I have already pointed out, interpreted through technical eyes but, apart from that, I do not think they are capable of further interpretation or exposition. All that one can say is that the Court, looking at the matter through such eyes, must in all the diverse circumstances which may arise, answer the double question in any particular case; at what time did the obligation to communicate something which had been developed arise? To show how impossible it is to give any further judicial interpretation to the construction of these words let me give examples of one or two cases. No doubt, when some idea has arisen which is likely to lead to some great and patentable improvement in the machine, an obligation will arise at a very early stage to communicate that to National for, in the world of patents, as we all know, an early application for a patent may make all the difference, especially when in other countries there may be others researching on the same lines, and National must have time to consider whether they want patents to be applied for not only in the United Kingdom but in other countries in which National are interested. On the other hand, there may be an improvement, hardly patentable but which may in fact be very important in the workshop in that it improves the speed, or ease of production or lowering its expense, something called in the patent cases "a workshop improvement". In such a case I would expect the licensees to test it out by practical work in ordinary manufacture to see whether in fact it was such an improvement, and did establish substantial commercial advantage before communicating it to National. So it seems to me quite impossible to lay down any criterion as a matter of construction as to the meaning of these perfectly ordinary words found in clause 10.[67]

From this case it can be seen that any clause relating to improvements

[67] *Id.* at 110.

must define with precision: (1) The intention as to what improvements the parties contemplate to pass one to the other; (2) The duration of any licence arising to the other party to licence for example, as to the life of the licence or the life of the patent; (3)The time when the obligation of communicating an improvement arises or alternatively when the rights under the agreement in favour of the other party to the agreement arise. The case also illustrates the risk of premature termination.

VI. Patent Right and Contract Right are Independent and Different Rights

Once a patentee has entered into a contract in which a permission to use the invention claimed in the patent is given to a licensee in consideration for a benefit such as a royalty payment, mutual rights and obligations, which are independent and distinct from the patent right, arise as between the licensor and the licensee. These separate rights should be considered separately.

A. *The Patent Right*

The patentee (licensor) may only give a limited permission to the licensee. The limitation may take any number of forms depending on the nature of the patent and the respective commercial interests of the parties. The licence may be limited to the manufacture of an article of a particular kind, [68] or of a particular construction [69] or to the territorial area within which the invention can be worked. [70] A usual term is a limitation as to duration. Sometimes the licensee may be limited to only one of the manufacture, use or sale of the article. The licence may be limited to specified persons. [71]

When the activity of the licensee is within the scope of the patent and within the scope of the licence, the patentee (licensor) cannot take infringement proceedings against the licensee. The licence is a good defence. [72] When the activity of the licensee is within the patent but outside of the scope of the licence, the licensee is liable for infringement. In such proceedings, the court must consider the scope of the claims of the patent as well as the

[68] Roberts v. Graydon, 21 R. Pat. Cas. 194 (Ch. 1904); La Société Anonyme pour la Fabrication D'Appareils D'Eclairage v. Midland Lighting Co., 14 R. Pat. Cas. 419 (Manchester Dist. Reg. 1897).

[69] Dunlop Pneumatic Tyre Co. v. Buckingham & Adams Cycle & Motor Co., 18 R. Pat. Cas. 423 (Ch. 1901).

[70] Fuel Economy Co. v. Murray, 47 R. Pat. Cas. 346 (Ch. 1930); Scottish Vacuum Cleaner Co. v. Provincial Cinematograph Theatres Ltd., 32 R. Pat. Cas. 353 (Sess. Cas. 1915).

[71] National Carbonising Co. v. British Coal Distillation Ltd., [1936] 2 All E.R. 1012 (C.A.); British Mutoscope & Biograph Co. v. Homer, 18 R. Pat. Cas. 177 (Ch. 1901).

[72] Basset v. Graydon, 14 R. Pat. Cas. 701 (H.L. 1897). The Exchequer Court will consider whether a licence exists: Libbey-Owens-Ford Glass Co. v. Ford Motor Co. of Canada, 58 Can. Pat. R. 193 (1968). It will also consider whether the licence does include the subject matter in question: McCracken v. Watson, [1932] Can. Exch. 83; Booth v. Sokulsky, 18 Can. Pat. R. 86, 13 Fox Pat. Cas. 145 (Exch. Ct. 1953).

scope of the licence. It is open to a licensee in such infringement proceedings to adduce evidence to limit the scope of the patent. [73] When the licensee set up the licence as a defence, the relationship of licensor and licensee creates an estoppel whereby the licensee cannot attack the validity of the patent. [74]

If, however, the licensor institutes proceedings for infringement for an activity of the licensee that is outside the licence but within the claim of the patent, the licensee does not have to set up the licence as a defence. On the basis of the decision in *Fuel Economy Co. v. Murray*, [75] it is quite possible that no estoppel arises out of the particular relationship of the parties. [76] Accordingly, it is advisable for a licensor to include an express covenant in the licence agreement whereby the licensee covenants not to attack, directly or indirectly, the validity of the patent. It is not advisable to rely on the estoppel that arises out of the mere relationship of the parties. The express covenant may be effective where the estoppel arising out of the relationship of the parties is ineffective.

The licensor may impose certain conditions upon the use of the licensed subject matter. Subject to the applicability of section 30 of the Combines Investigation Act [77] such conditions could relate to sale price, persons to whom sale can be made and type of use to which the article can be put. The licensee can be made liable in contract for a breach of such condition and, if the licence does not apply outside the condition, the patent can be asserted by the licensor. [78]

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[73] Loudon v. Consolidated Moulton Trimmings Ltd., 25 Can. Pat. R. 77 (Ont. High Ct. 1956); Rymland v. Regal Bedding Co., 51 Can. Pat. R. 137, 34 Fox Pat. Cas. 145 (Man. 1966).

[74] Adie v. Clark, 3 Ch. D. 134 (C.A. 1876); Mills v. Carson, 10 R. Pat. Cas. 9 (C.A. 1892); Duryea v. Kaufman, 21 Ont. L.R. 161 (High Ct. 1910); Gillard v. Watson, 26 Ont. W.N. 77 (Div. Ct. 1924); Anderson v. E. J. Shepard Ltd., 66 Ont. L.R. 105 (1930); Crossley v. Dixon, 10 H.L. 293 (1863); B. & S. Massey Ltd. v. R. D. Ross & Son, 32 R. Pat. Cas. 232 (Sess. Cas. 1915).

[75] 47 R. Pat. Cas. 346, at 358 (Ch. 1930): "In other words, there is not an absolute estoppel in all cases and in all circumstances on the part of the licensee under which he is prevented from at any time and under any circumstances saying that the patent is invalid, but only an estoppel which is involved in and necessary to the exercise of the licence which the licensee has accepted."

[76] For a discussion on estoppel see the text accompanying notes 133 to 160. The estoppel arising out of the relationship of licensor and licensee is more limited than that arising out of the relationship of assignor and assignee. In the latter relationship, an assignor cannot attack the validity of a patent because he cannot derogate from his own grant, Cheerio Toys & Games Ltd. v. Dubiner, [1966] Sup. Ct. 206, 48 Can. Pat. R. 226, 32 Fox. Pat. Cas. 37 (1965); Walton v. Lavater, 8 C.B. (N.S.) 162, 141 Eng. Rep. 1127 (C.P. 1860); and Franklin Hocking & Co. v. Hocking, 4 R. Pat. Cas. 255, at 259 (Ch. 1887). In Wantoch & Wray's Patent, [1968] R. Pat. Cas. 394, at 399 (Pat. App. Trib.), Justice Lloyd-Jacob held that an assignee who reassigned an application for patent could not attack it even in respect of claims added after the reassignment.

[77] CAN. REV. STAT. c. 314, § 30 (1952). This § is quoted *supra* at note 14.

[78] National Phonograph Co. of Australia v. Menck, 28 R. Pat. Cas. 229 (P.C. 1911); Dunlop Rubber Coy. v. Longlife Battery Depot, [1958] R. Pat. Cas. 473 (Ch.); Incandescent Gas Light Co. v. Cantelo, 12 R. Pat. Cas. 262 (Q.B. 1895); Columbia Graphophone Co. v. Murray, 39 R. Pat. Cas. 239 (Ch. 1922); Columbia Graphophone

B. *Contract Rights*

A right under a contract must be enforced in a provincial court[79] (*i.e.*, not the Exchequer Court). Since the rights of the licensor and the licensee under the licence agreement are independent and separate from the rights under the patent, they can subsist whether the patent subsists or not.

Unless the agreement specifically provides to the contrary, the licensor is entitled to collect royalties under the contract for the duration of the contract even if the patent has been held invalid.[80] There was consideration for the licence in that the patent was presumed to be valid at the time of the agreement. The licensee got at least a head start on his competitors by operating under the licence while it endured. The licensee may by the terms of the licence become obliged to pay royalties on the use of an invention which has not yet been patented.[81] In such event, he should provide that the royalties shall cease to be payable after a prescribed term until a patent does issue.

It is imperative that a licensee, especially a non-exclusive licensee, ensures that the licence agreement contains express terms that enable him to take himself out of the licence, if he should find that he is paying royalties for subject matter that is available to his competitors without monetary obligation. He must, therefore, include a term that enables him to terminate the agreement if the licensed patent is held invalid. Similarly, a non-exclusive licensee must be able to terminate the licence or to put his royalty payments into escrow if the licensor refuses to take proceedings against competitors who are using the subject matter without payment. The licensee otherwise is locked into a non-competitive situation. The licence agreement that was entered into to give him a competitive advantage has been converted into a competitive burden.

An example of a case in which the licensor by an express provision in a patent licence agreement obtained an extended right is that of *Coyle v. Sproule.*[82] By an express term of the licence agreement the licensee agreed

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Co. v. Thoms, 41 R. Pat. Cas. 294 (Ch. 1924); Columbia Graphophone Co. v. Vanner, 33 R. Pat. Cas. 104 (Ch. 1916); Gillette Indus. Ltd. v. Bernstein, 58 R. Pat. Cas. 271 (Ch. 1941).

[79] Bertrand v. Warré, [1932] Sup. Ct. 364.

[80] Trubenizing Process Corp. v. John Forsyth, Ltd., [1943] Sup. Ct. 422; Hall v. Conder, 26 L.J.C.P. 138 (1857); Smith v. Buckingham, 21 L.T.R. 819 (Q.B. 1870).

[81] In Lyle-Meller v. A. Lewis & Coy., 72 R. Pat. Cas. 307 (Q.B. 1955), *aff'd*, [1956] R. Pat. Cas. 14 (C.A. 1955), a licensee agreed to effect payment on the use of inventions which were the subject matter of applications for patent. In a suit for royalties the licensee sought to say that the agreement provided for payment only in respect of currently valid patents. The court held that the agreement when considered as a whole required payment of royalties on the use of the inventions even though patents had not issued.

[82] 2 Can. Pat. R. 125, 2 Fox Pat. Cas. 121 (Ont. High Ct. 1941). The express term of the agreement in which the licensee covenanted in favour of the licensor that he would not contest the patents after the termination of the licence read as follows:

> And it is understood and agreed that in case of the termination of this licence by reason of notice, served as above, nothing herein contained shall release the Licensee from the obligation to pay the royalty then already ac-

that he would not contest the validity of the patents after any termination by him of the licence by due notice according to its provisions. He further agreed that if he terminated the licence while the patents subsisted and continued to use the invention, he would be an infringer. Apart from the express term, the licensee would have been able to contest the validity of the patent when the relationship of licensor-licensee had ceased to subsist.

The wording of the licence agreement in *British Repetition Ld. v. Fomento Ld.*[83] resulted in the sub-licensee paying a royalty on its use of patents that had expired. The licence agreement between a licensee and a sub-licensee related to a large number of British patents and corresponding patents in certain export countries. The licence required the sub-licensee to pay a royalty *during the continuance of the sub-licence* on pens which *fell within any claim of any of the letters patent*; on the expiry of certain patents within the sub-licence, the sub-licensee sought to discontinue the payment of royalties relating to those patents. The court held that the sub-licensee was obligated to pay the full royalty defined in the agreement. The expression "falling within the claims of any of the patents" was merely descriptive of the physical character of the goods in question. It did not limit the obligation to pay royalties to any valid or subsisting claim. Justice Cross commented: "It certainly does not seem very reasonable that one particular person should be obliged to pay for the use of an invention after the monopoly granted to the inventor has expired and the rest of the world can use it free of charge. There is, however, nothing to prevent people entering into an agreement to this effect, if they choose to do so . . . ."[84] In this case he held that the words used did have this effect. As long as the contract subsisted, it required payment on the defined goods whether or not those goods infringed a valid or subsisting claim of a patent.

Another case that illustrates the risks facing a licensee who fails to ensure that the subject matter licensed to him is continuously available is that of *Torrington Manufacturing Co. v. Smith & Sons.*[85] The licensor and licensee entered into an agreement for ten years from 1958 relating to certain patents. The licensor also undertook to supply the licensee with technical information that the licensee would treat as confidential. The licensee agreed to pay a royalty on devices made by it. The licensor was given the right to terminate the agreement unilaterally after which the licensee would have the right to manufacture under the licence agreement for the balance of the ten-year term subject to the payment of the royalty. Nothing was stated as to the confidential technical information. The licensor terminated the agreement in 1963 and took action to restrain the licensee from using

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> crued at the date of such termination, nor relieve the Licensee in any way from the position of an infringer, if he continues thereafter to use the invention without a new licence, which new licence it shall be at the option of the Licensor to grant or refuse.

Id. at 128-29.

[83] [1961] R. Pat. Cas. 222 (Ch.).

[84] *Id.* at 226.

[85] [1966] R. Pat. Cas. 285 (Ch. 1965).

the confidential information. The licensee sought to have the action dismissed as showing no cause of action, and its motion was dismissed. The court refused to imply a right to use the confidential information. The licensee had to continue to pay the specified royalty on making devices within the licensed patents but could not use the technical information that was not patented.

It is for the parties to the contract to negotiate the terms necessary for their own protection. As stated by Mr. Justice Bailhache, in *Comptoir Commercial Anversois v. Power, Son & Co.*:[86] "Nothing, in my opinion, is more dangerous in commercial contracts than to allow an easy escape from obligations undertaken; and I desire to reiterate what the older judges have so often said, that parties must be held strictly to their contracts; it is their own fault if they have not adequately protected themselves by suitable language."[87] Intelligent negotiation and careful draftsmanship with an understanding of the legal implications involved are the essential ingredients to a long term licensing arrangement.

VII. Implied Terms

An appreciation of the area in which a court will and will not imply terms in a patent licence agreement will enable a negotiator to negotiate with confidence. It is a question of law whether a term is to be implied in a particular licence agreement.[88] The term to be implied must not be in conflict with any express term in the contract, although it may and indeed must, if it is to be of any use, add to or vary it.[89]

The basic principle applicable to implied terms is found in a decision described by Mr. Justice Megarry[90] as "the hardworked case" of *The Moorcock*[91] where Lord Justice Bowen said:

> I believe if one were to take all the cases, and they are many, of implied warranties or covenants in law, it will be found that in all of them the law is raising an implication from the presumed intention of the parties with the object of giving to the transaction such efficacy as both parties must have intended that at all events it should have. In business transactions such as this, what the law desires to effect by the implication is to give such business efficacy to the transaction as must have been intended at all events by both parties who are business men . . . .[92]

He also stated: "The question is what inference is to be drawn where the parties are dealing with each other on the assumption that the negotiations are to have some fruit, and where they say nothing about the burden of this

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[86] [1920] 1 K.B. 868.

[87] *Id.* at 878-79.

[88] Comptoir Commercial Anversois v. Power, Son & Co., [1920] 1 K.B. at 868.

[89] *Id.* at 885; Sutherland v. Cavin & Keay Home Builders Ltd., 2 D.L.R.3d 54 (B.C. Sup. Ct. 1968).

[90] "Weston" Trade Mark, [1968] R. Pat. Cas. 167, at 183 (Ch. 1967).

[91] 14 P.D. 64 (C.A. 1889).

[92] *Id.* at 68.

kind of unseen peril, leaving the law to raise such inferences as are reasonable from the very nature of the transaction." [93]

On the other hand, the court will not make a contract for the parties. If there are important matters to be settled or there is a mere agreement to agree there is no enforceable contract between the parties. [94] In *Comptoir Commercial Anversois v. Power, Son & Co.*, [95] the language of Mr. Justice Laurence in *Scottish Navigation Co. v. W. A. Souter & Co.* [96] was applied: "No such condition should be implied when it is possible to hold that reasonable men could have comtemplated the circumstances as they exist and yet have entered into the bargain expressed in the document." [97]

It is clear that in principle the court will be slow to imply a term in a contract. In *Hamlyn & Co. v. Wood & Co.*, [98] Lord Esher said: "I have for a long time understood that rule to be that the Court has no right to imply in a written contract any such stipulation, unless, on considering the terms of the contract in a reasonable and business manner, an implication necessarily arises that the parties must have intended that the suggested stipulation should exist." [99]

In *Shirlaw v. Southern Foundries (1926), Ltd.*,[100] Lord Justice MacKinnon said:

> I recognize that the right or duty of a Court to find the existence of an implied term or implied terms in a written contract is a matter to be exercised with care; and a Court is too often invited to do so upon vague and uncertain grounds. Too often also such an invitation is backed by the citation of a sentence or two from the judgment of Bowen, L.J. in *The Moorcock*. They are sentences from an extempore judgment as sound and sensible as all the utterances of that great judge; but I fancy that he would have been rather surprised if he could have foreseen that these general remarks of his would come to be a favourite citation of a supposed principle of law, and I even think that he might sympathize with the occasional impatience of his successors when *The Moorcock* is so often flushed

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[93] *Id.* at 70.

[94] In Hillas & Co. v. Arcos Ltd., 147 L.T.R. 503 (H.L. 1932), the intention of the parties was sufficiently expressed that a contract was found to exist. *See* Foley v. Classique Coaches Ltd., [1934] 2 K.B. 1 (C.A.); G. Scammell & Nephew Ltd., v. Ouston, [1941] A.C. 251 (1940); May v. The King, [1934] 2 K.B. 17 (H.L. 1929); British Homophone Ltd. v. Kunz, 152 L.T.R. 589 (K.B. 1935); National Bowling & Billiards Ltd. v. Double Diamond Bowling Supply Ltd., 27 D.L.R.2d 342, at 348 (B.C. Sup. Ct. 1961). *See also* Comment, 48 L.Q.R. 310 (1932).

[95] [1920] 1 K.B. at 868.

[96] [1917] 1 K.B. 222 (1916).

[97] *Id.* at 249. In Reigate v. Union Mfg. Co., [1918] 1 K.B. 592, at 605 (C.A.), Scrutton, L.J., said "The first thing is to see what the parties have expressed in the contract; and then an implied term is not to be added because the Court thinks it would have been reasonable to have inserted it . . . ."

[98] [1891] 2 Q.B. 488.

[99] *Id.* at 491. *See also* Le Sueur v. Morang & Co., 20 Ont. L.R. 594, at 599 (1910); Pigott Constr. Co. v. W. J. Crowe Ltd., 27 D.L.R.2d 258, at 267 (Ont. 1961); Netupsky v. Dominion Bridge Co., 58 Can Pat. R. 7 (B.C. 1969) and the cases referred to in the Editorial Note appended to the latter decision.

[100] [1939] 2 K.B. 206. *See also* Posluns v. Toronto Stock Exchange, [1964] 2 Ont. 547, at 601 (High Ct.).

> for them in that guise.
>
> For my part, I think that there is a test that may be at least as useful as such generalities. If I may quote from an essay which I wrote some years ago, I then said: "Prima facie that which in any contract is left to be implied and need not be expressed is something so obvious that it goes without saying; so that, if, while the parties were making their bargain, an officious bystander were to suggest some express provision for it in their agreement, they would testily suppress him with a common 'Oh, of course!' "
>
> At least it is true, I think, that, if a term were never implied by a judge unless it could pass that test, he could not be held to be wrong.[101]

A term will be implied only where it is necessary to give the transaction that business efficacy which both parties must have intended. Such intention may be made manifest in a recital contained in the licence even though it is not contained in the operative part of the agreement. [102]

The strict limits within which courts have defined the area open for implied terms make it advisable wherever possible to rely on an express provision to put the matter beyond doubt. However, the courts have tendered guidance in some cases where, specifically in a patent licence agreement, a term will and will not be implied.

There is no implied term that a licensee will manufacture or use his licence. [103] Accordingly, a licensor of an exclusive licence must protect himself by the written instrument to ensure that he will receive some reasonable compensation for the grant of the licence. This can be achieved in a variety of ways. Ordinarily, a licensor in such circumstances will ask for a sufficient down payment. He may exact a minimum annual royalty or he may provide for a suitable provision as to termination or the conversion of an exclusive licence into a non-exclusive licence. The same concern as to a suitable provision for termination that rests on a non-exclusive licensee moves to the licensor where there is an exclusive licence.

There is no implied warranty by the licensor in favour of a licensee that the patents are valid. [104] The licensor does not warrant that the exercise of the rights under the licence is free from infringement of patents of third parties. The licensee must protect himself by an express covenant or in a suitable termination clause. However, Terrell's *On the Law of Patents* [105] indicates that knowledge and concealment of the facts that the use of the patent will lead to infringement of a patent owned by another may be found to constitute fraud enabling the licensee to rescind the contract.

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[101] Shirlaw v. Southern Foundries (1926), Ltd., [1939] 2 K.B. at 227.

[102] Pallikelagatha Manor v. Sigg, L.R. 7 Indian App. 83, at 105 (P.C. 1880); Aspdin v. Austin, 5 Q.B. 671, 114 Eng. Rep. 1402 (1844).

[103] 29 HALSBURY, LAWS OF ENGLAND § 320, at 167 (3d ed. 1960). In Martin-Baker Aircraft Co. v. Canadian Flight Equip. Coy., 2 R. Pat. Cas. 236 (Q.B. 1955), it was held that the licensee was not required to make or sell under licence.

[104] Duryea v. Kaufman, 21 Ont. L.R. 161, at 169; Bull v. Williams Piano Co., 20 Ont. W.N. 304 (High Ct. 1925); Trubenizing Process Corp. v. John Forsyth, Ltd., [1943] Sup. Ct. 422, 3 Can. Pat. R. 1, 3 Fox Pat Cas. 123; Anderson v. E. J. Shepard Ltd., 66 Ont. L.R. 105, at 110 (1930); Hall v. Conder, 2 C.B. (n.s.) 22, 140 Eng. Rep. 318 (Ex. Ch. 1857).

[105] TERRELL ON THE LAW OF PATENTS § 623, at 251 (11th ed. Wm. Aldous 1965).

In *Basset v. Graydon*,[106] Lord Herschell considered that a licence to construct did not imply a licence to use. There is no implied warranty that the licensor will sue infringers.[107] A patent licence is to be construed in respect of implied terms on the same principles as are applicable to contracts generally.[108]

In *Chadwick v. Bridges*,[109] a patent licence agreement was made orally. The licensee commenced manufacture pursuant to the agreement. The court held that a term should be implied in the agreement that the licensee must pay a reasonable royalty for the use of the invention to be determined by the circumstances at the date of grant.

In *Fomento Ld. v. Selsdon Fountain Pen Coy.*,[110] the licensor exacted a covenant from the licensee that the licensee would keep all necessary books of account containing true and complete entries and showing sale prices with respect to the patented articles, would produce the books of account to the auditors of the licensor for inspection, and would provide the auditors of the licensor with such further information as would enable them to ascertain the amount of royalties payable under the licence. Although the case depended basically upon the construction of the specific covenant relating to auditors' reports, the different implications made in respect of the express covenant are interesting. It was held by a majority in the House of Lords that the express covenant created an obligation on the part of the licensee to make available to the licensor specimens of the types of articles referred to in general terms on the books of the licensee and in respect of which no royalty had been paid. The specific articles were requested by the auditor in order that he could make an intelligent determination as to whether there was an obligation for payment of royalties as to these articles. The majority held that the information was appropriate to the ascertainment of the royalties. However, Viscount Simonds, dissenting, refused to imply an obligation on the part of the licensee to supply the type of articles on which royalties had not been paid on the ground that it was the function of the auditor to verify the accounts and not to detect infringement.

VIII. Termination of the Licence

A. *Generally*

Since there is no implied term that the subject matter of the licence

[106] 14 R. Pat. Cas. 701, at 708 (H.L. 1897). *See*, however, the interpretation given to § 41(3) of the Patent Act, Can. Rev. Stat. c. 203 (1952), where the licence to use implied a right to sell: Parke Davis & Co. v. Fine Chems. of Canada Ltd., [1959] Sup. Ct. 219, and § 19 of that act where the right to use implied a right to make and sell: Formea Chems. v. Polymer Corp., [1968] Sup. Ct. 754, 55 Can. Pat. R. 38, 38 Fox Pat. Cas. 116.

[107] Anderson v. E. J. Shepard, 66 Ont. L.R. 105 (1930); Channel Ltd. v. O'Cedar Corp., 32 Ont. W.N. 224 (Div. Ct. 1927).

[108] E. I. DuPont de Nemours & Co. v. Imperial Chem. Indus. Ltd., 67 R. Pat. Cas. 144 (Ch. 1950).

[109] [1960] R Pat. Cas. 85 (Ch.).

[110] [1958] R. Pat. Cas. 8 (H.L.).

agreement will continue to exist,[111] the licensee must protect himself by an express provision allowing termination of the agreement if the patents are held invalid or if a patent does not issue in a given period of time. A non-exclusive licensee with no adequate right to terminate could be locked into an obligation to pay royalties where a patentee fails to sue infringers. If the licensor enters into more favourable terms of licence with a competitor, the licensee can be locked into a non-competitive situation if he has not expressly provided for "a most favoured provision" clause whereby he obtains the right to the more favourable treatment or the alternate right to terminate the licence.

These examples merely illustrate the importance of the termination clause in a licence agreement. It is obvious that the licence agreement should expressly define the rights of the parties to bring the agreement to a conclusion. As indicated above, the pressure is especially upon the licensee in a non-exclusive agreement and upon the licensor in an exclusive agreement.

If the agreement expressly provides for its termination, then there is no room for the implication of a right to terminate.[112] In *Cooke v. CKOY Ltd.*,[113] Justice Schatz applied the statement of Lord Oaksey in *McClelland v. Northern Ireland General Health Services Board*:[114] "The clauses I have set out all contain express powers of termination and, in my opinion, there is no ground for suggesting that it is necessary to imply a further power to terminate the contract in order to give the contract the efficacy which the parties must have intended it to have."[115]

Problems arise, however, when the agreement is silent relating to the respective rights of the parties to terminate the licence. The resolution of the problems depends upon the nature of the licence, and the subject matter with which it deals.[116] Three situations could arise: (1) The licence could be revocable at the will of the licensor. (2) The licence could be permanent and irrevocable. (3) The licence could be revocable on reasonable notice on the basis of an implied term.

B. *Revocation by the Licensor at His Will*

A bare licence granted otherwise than for valuable consideration can

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[111] Mills v. Carson, 10 R. Pat. Cas. 9 (C.A. 1892). The court would not imply a term that a sub-licensee could not oppose the extension of the patents. *See also* Bristol Repetition Ld. v. Fomento Ld., [1960] R. Pat. Cas. 163, at 165 (Ch.). For instance, there is no warranty that the patents are valid and will be kept in force. See *supra* note 80 and accompanying text.

[112] See the comment of Scrutton, L.J., in Reigate v. Union Mfg. Co., [1918] 1 K.B. at 605, *quoted* at *supra* note 95.

[113] [1963] 2 Ont. 257 (High Ct.).

[114] [1957] 2 All E.R. 129 (H.L.).

[115] *Id.* at 132. *See also In re* Berker Sportcraft Ld's Agreement, 177 L.T.R. 420 (Ch. 1947).

[116] The authorities have been considered in depth in Carnegie, *Terminability of Contracts of Unspecified Duration*, 85 L.Q.R. 392 (1969).

be revoked at any time [117] and the licensor will not be liable in damages to the licensee. In such a case, the licensor has not entered into a contract with the licensee. In revoking the licence, he has merely withdrawn the permission. [118]

However, where the licence is a contractual licence, the licensor is in a different position. In *Guyot v. Thomson*, [119] a licensor who had granted an exclusive licence for the manufacture and sale of the patented article sought to terminate the agreement. The contract contained an express termination provision in favour of the licensee but contained no express revocation power in favour of the licensor. Following a disagreement between the parties in respect of improvements made by the licensee to the patented inventor, the licensor sought to terminate the licence agreement by delivering a written notice to the licensee to that effect. It was held that the licence was not revocable at the will of the patentee.

C. *Contractual Licences*

However, a licence in respect of a patent is ordinarily defined in a contract between the patentee and the licensee. In such event the problem of revocability becomes more difficult. The principle that there is a presumption that the parties intend the contract to be perpetual and irrevocable is set out in *Llanelly Ry. & Dock Co. v. London & North Western Ry.* [120] Lord Justice James declared:

> I start with this proposition, that *prima facie* every contract is permanent and irrevocable, and that it lies upon a person who says that it is revocable or determinable to shew either some expression in the contract itself, or something in the nature of the contract from which it is reasonably to be implied that it was not intended to be permanent and perpetual, but it was to be in some way or other subject to determination. No doubt there are a great many contracts of that kind: a contract of partnership, a contract of master and servant; a contract of employer and employed in various modes — all of these are instances of contracts in which from the nature of the case, we are obliged to consider that they were intended to be determinable. All the contracts, however, in which this has been held are, as far as I know, contracts which involve more or less of trust and confidence, more or less of delegation of authority, more or less of the necessity of being mutually satisfied with each other's conduct, more or less of personal relations between the parties.[121]

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[117] The conduct of the patentee could constitute acquiescence if it amounted to a representation to the licensee that he could continue to invade the right of the patentee. Electrolux Ld. v. Electrolix Ld., 70 R. Pat. Cas. 127 (Ch. 1953), 71 R. Pat. Cas. 23 (C.A. 1953); Plimmer v. Mayor of Wellington, 9 App. Cas. 699 (P.C. 1884); Attorney-General of Southern Nigeria v. John Holt & Co., [1915] A.C. 599 (P.C.).

[118] Even in respect of such withdrawal the court required the licensee to give reasonable notice in Aldin v. Latimer Clark, Muirhead & Co., [1894] 2 Ch. 437.

[119] 11 R. Pat. Cas. 541 (C.A. 1894).

[120] L.R. 8 Ch. 942 (C.A. 1873), *aff'd*, L.R. 7 H.L. 550 (1875).

[121] L.R. 8 Ch. 942, at 949-50. *See also* the comment in the House of Lords by Lord Selborne, L.R. 7 H.L. 550, at 557.

In respect of licences relating to land, the contract often couples an interest in the land with a licence to enter upon the land. A licence to enter the land and cut down a tree and take it away is such a licence. [122] The right to enter and take something off the land of another is called a "profit à prendre." [123] At common law, such a licence or right of entry is irrevocable as an incident of the interest in the property. [124] Accordingly, if the patentee gives the licensee an interest in the patent, then a proprietary interest arises that is permanent and irrevocable.

The common case in respect of patent licences lies between the bare licence and a licence coupled with an interest. It is the case where the parties have defined their rights by a contract. Where the contract is silent as to termination, the question then arises as to whether a contractual patent licence falls within the general principle of perpetuity and irrevocability or within the exceptions to the general principle in which the court will imply a term of determinability upon reasonable notice. [125]

Martin-Baker Aircraft Co. v. Canadian Flight Equipment Coy. [126] resolves the question in favour of classifying contractual patent licences amongst those where the court will imply a term that the contract may be terminated on reasonable notice. The patentee gave a licence to the defendant to manufacture, sell and exploit the products of the licensor whether covered by patent or not. The invention that constituted the basis of the licensed products was for a self-ejecting pilot seat for use in aircraft. The licence was silent as to termination. Mr. Justice McNair considered the authorities including *Llanelly Ry. & Dock Co. v. London & North Western Ry.* [127] He considered that he should approach the question free from any presumption of permanence, but that if a presumption should exist, it should be against performance, because the contract was a contract in the commercial or mercantile field. [128] He held that the contract constituted a mere licence to manufacture, sell and exploit the products and that such a mere licence is terminable. [129] He considered that the notice of termination should be reasonable notice, which in this case he fixed as twelve-month notice expiring at any time. Since this decision, it has been generally considered that

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[122] James Jones & Sons v. Earl of Tankerville, [1909] 2 Ch. 440, at 442. In respect of a patent licence where the licence was coupled with an interest, *see* Ward v. Livesey, 5 R. Pat. Cas. 102 (Ch. 1887).

[123] Duke of Sutherland v. Heathcote, [1892] 1 Ch. 475, at 484. For the distinction between a personal non-exclusive licence and a grant in the nature of a profit à prendre *see* Collier & Beake Ltd. v. Commissioner of Stamp Duties, [1936] N.Z.L.R. 264 (Sup. Ct.).

[124] Hanley v. Wood, 2 B. & Ald. 724, at 738, 106 Eng. Rep. 529, at 534 (K.B. 1819). *See generally* Smith v. Daly & Booth Lumber Ltd., [1949] Ont. 601 (High Ct. 1948).

[125] *Compare* Wood v. Leadbitter, 13 M & W 838, 153 Eng. Rep. 351 (Exch. 1895); Hurst v. Picture Theatres Ltd., [1915] 1 K.B. 1 (C.A. 1914); Winter Garden Theatre Ltd. v. Millennium Prods. Ltd., [1948] A.C. 173, and see *supra* note 9.

[126] 72 R. Pat. Cas. 236 (Q.B. 1955).

[127] *Supra* note 120.

[128] 72 R. Pat. Cas. at 253.

[129] *Id.* at 244.

a patent licence agreement is determinable by a licensee on reasonable notice. [130]

Reasonable notice of termination of a licence agreement was considered in *Tungsten Electric Coy. v. Tool Metal Manufacturing Coy.* [131] A patentee granted licences in respect of a number of patents for the manufacture of tungsten carbide. The licence agreements called for a royalty of ten per cent together with an additional compensation on all sales above a monthly quota. Two years after the agreement was in force, the licensor informed the licensees that no claim would be made for the additional thirty per cent. [132] The defendant-licensee increased its production above the quota and did not pay the thirty per cent. Four years later, a draft of a new agreement was sent to the licensee who refused to sign it. The licensee sued the licensor for rescission of the agreement on the ground of misrepresentation, and the licensor counterclaimed for unpaid royalties including the thirty per cent. It was held by the House of Lords that the tender of a new agreement was not sufficient notice of termination of the arrangement that the thirty per cent was not payable, but that the delivery of the counterclaim was reasonable notice of such termination. After a reasonable period, such notice became effective, and nine months was considered to be such a reasonable period.

IX. Right of a Licensee to Attack the Validity of a Licensed Patent

A. *Express Covenant*

The licence agreement may contain an express covenant that the licensee will not directly or indirectly attack the validity of the licensed patent. [133] If there is a breach of such a covenant by a licensee, one recourse open to the licensor is to restrain the breach in an action based upon the covenant. The licensor does not need to rely on the estoppel that arises by the relationship of the parties or by any conduct that might have created an estoppel.

In an action between the licensor and the licensee, evidence adduced

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[130] As to the exceptions in Llanelly Ry. & Dock Co. v. London & North Western Ry., *supra* note 120, *see generally*, Kores Mfg. Co. v. Kolok Mfg. Co., [1957] R. Pat. Cas. 431 (Ch.), where an agreement between two companies that one company would not employ any person who had been in the employment of the other until a five-year period had elapsed, without the other's consent was void as a restraint of trade, or if not void, was impliedly terminable on twelve months notice.

[131] 72 R. Pat. Cas. 209 (H.L. 1955).

[132] Although the arrangement was not strictly a contractual agreement, it was one the court considered binding on the patentee but terminable on reasonable notice. Birmingham & Dist. Land Co. v. London & North Western Ry., 40 Ch. D. 268, at 296 (C.A. 1888), was applied.

[133] *See* note 75 and the accompanying text as to the need for such a covenant. Coyle v. Sproule, [1942] Ont. 307, 2 Can. Pat. R. 125, 2 Fox Pat. Cas. 121 (High Ct. 1941), and Watts v. Everitt Press Mfg. Co., 27 R. Pat. Cas. 400 (Ch. 1910), illustrate how effective it can be if favourably drawn.

by the licensee to impugn the validity of a patent is not admissible where there is an express covenant by the licensee that he will not attack the validity of the patent. [134]

In *Campbell v. G. Hopkins & Son,* [135] Mr. Justice Farwell stated:

> It is an express covenant that the Defendants will not, after the date of the Agreement . . . dispute the validity of the Plaintiff's Letters Patent. That, as it seems to me, clearly precludes the Defendants from setting up the Defence which they seek to set up in this action by putting in issue the validity of the Plaintiff's Letters Patent. It is not a question of estoppel. It is a question of express covenant.[136]

B. *Relationship of Parties Creating an Estoppel*

In the law of property a tenant is estopped from denying the title of his landlord, and a landlord would be estopped from denying the title of his tenant. The estoppel is mutual and reciprocal. [137] The estoppel also applies where the relationship in respect of land is that of licensor and licensee. [138]

The estoppel that arises between a licensor and licensee in respect of the licence of a patent has been said to be analogous to the estoppel that arises between a landlord and tenant in relation to land. [139] A licensee

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[134] *See* Watts v. Everitt Press Mfg. Co. 27 R. Pat. Cas. 400, *aff'd,* 27 R. Pat. Cas. 718 (C.A. 1910).

[135] 49 R. Pat. Cas. 38 (Ch. 1931), *rev'd on other grounds,* 50 R. Pat. Cas. 213 (C.A. 1933).

[136] 49 R. Pat. Cas. 38, at 45 (Ch. 1931).

[137] Mackley v. Nutting, [1949] 2 K.B. 55, at 62; Cuthbertson v. Irving, 6 H. & N. 135, 158 Eng. Rep. 56 (Exch. 1859); E. H. Lewis & Son v. Morelli, [1948] 2 All E.R. 1021, at 1024 (C.A.).

[138] Johnson v. Baytup, 3 A. & E. 188, 111 Eng. Rep. 384 (K.B. 1835); Tadman v. Henman, [1893] 2 Q.B. 168.

[139] In Clark v. Adie (No. 2), 2 App. Cas. 423, at 435-36 (1877), Lord Blackburn said:

> The position of a licensee who under a license is working a patent right, for which another has got a patent, is very analagous indeed to the position of a tenant of lands who has taken a lease of those lands from another. So long as the lease remains in force, and the tenant has not been evicted from the land, he is estopped from denying that his lessor had a title to that land. When the lease is at an end, the man who was formerly the tenant, but has now ceased to be so, may shew that it was altogether a mistake to have taken that lease, and that the land really belonged to him; but during the continuance of the lease he cannot shew anything of the sort; it must be taken as against him that the lessor had a title to the land. Now a person who takes a license from a patentee, is bound upon the same principle and in exactly the same way.
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> . . . .
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> So may a licensee under a patent shew that, although he accepted the license, and worked the patent, and the patentee could never, therefore, so long as that license was in existence, bring an action against him as an infringer, yet the particular thing which he has done was not a part of what was included in the patent at all, but that he has done it as one of the general public might have done it, and therefore is not bound to pay royalty for it. If he has used that which is in the patent, and which his license authorizes him

cannot, in any way, question the validity of the licensed patent during the continuance of his licence. He may show that what he has done, and is doing, does not fall within the limits of the patent. Depending on the wording of the licence, he would ordinarily be outside the licence if he is operating outside the licence.[140] However, the licence may be worded in such a manner that the licensee shall pay royalties on a particular article. This wording could call for royalties even though the article did not embody the invention. A licensee should ensure that his obligation to pay royalties is co-extensive with his use of the claims of the patent.

The estoppel that arises out of the relationship of the licensor and licensee depends upon the existence, and is co-extensive with the continuance of that relationship. This relationship may never be established. It is arguable that if the licensee never uses the subject matter of the licence the relationship is not in fact established and the estoppel does not arise. The argument is made by analogy to the law of property. If a tenant does not go into occupation, no estoppel is created because the relationship prerequisite to its existence has not been created.[141] Similarly, if the defendant has merely agreed to buy a licence, the relationship of licensor to licensee has not been established, and an estoppel does not arise.[142] An estoppel exists during the continuance of the licence. Once the licence has come to an end, both the relationship and the estoppel are terminated.[143] The estoppel has become "unmuzzled."

An estoppel does not arise out of the implied licence that relates to the sale of a patented article to, and in favour of, the purchaser of that article.[144]

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to use without the patentee being able to claim against him for infringement, because the license would include it, then like a tenant under a lease, he is estopped from denying the patentee's right, and must pay royalty. Although a stranger might shew that the patent was as bad as any one could wish it to be, the licensee must not shew that.

See also Duryea v. Kaufman, 21 Ont. L.R. 161 (High Ct. 1910) and cases referred to therein; Bowman v. Taylor, 2 Ad. & El. 278, 111 Eng. Rep. 108 (K.B. 1834); Beam v. Merner, 14 Ont. 412 (C.P. 1887); Noton v. Brooks, 7 H. & N. 499, 158 Eng. Rep. 569 (Ex.); Liardet v. Hammond Elec. Light & Power Co., 31 W.R. 710 (C.A. 1883).

[140] Clark v. Adie (No. 2), 2 App. Cas. 423 (1877). The estoppel that exists as between assignor and assignee is based upon the principle that an assignor cannot derogate from his grant. *See also* Gonville v. Hay, 21 R. Pat. Cas. 49, at 51 (Ch. 1903), and (a trade mark case) Cheerio Toys & Games Ltd. v. Dubiner, [1966] Sup. Ct. 206, at 220, 48 Can. Pat. R. 226, 32 Fox Pat. Cas. 37 (1965), *applying*, Walton v. Lavater, 6 C.B., N.S. 162, at 180, 141 Eng. Rep. 1127, at 1134 (1860) and Franklin Hocking & Co. v. Hocking, 4 R. Pat. Cas. 255, at 259 (Ch. 1887).

[141] Chanter v. Leese, 4 M. & W. 295, at 310, 150 Eng. Rep. 1440, at 1447 (Ex. 1838).

[142] Baxter v. Combe, 1 Ir. Ch. 284, at 288 (M.R. 1850).

[143] Hayne v. Maltby, 3 Term Rep. 438, at 441, 100 Eng. Rep. 665, at 666 (K.B. 1789); Lawes v. Purser, 6 El. & Bl. 930, at 934, 119 Eng. Rep. 1110, at 1111 (K.B. 1856).

[144] Gillette Safety Razor Co. v. Gamage Ltd., 25 T.L.R. 808, 26 R. Pat. Cas. 745 (Ch. 1909).

In *London & Leicester Hosiery Co. v. Griswold*,[145] Mr. Justice North refused to grant an interlocutory injunction to restrain the assignor of a patent from giving evidence in an action taken by one assignee against third parties; such evidence would tend to invalidate the patent. An interlocutory injunction restraining the defendant from obeying the subpoena was not granted. In principle the same reasoning should apply to the estoppel affecting a licensee.

In *Lyle-Meller v. Lewis & Co.*,[146] a licensee who had sent to the licensor a statement of account and had paid royalties in respect of certain articles, sought to assert that such articles were not in the claims of the licensed subject matter. It stopped paying royalties on the ground that its activities were, therefore, outside the licence agreement. At the trial the court considered that the principles applicable to an estoppel in pais as defined in *Greenwood v. Martin's Bank Ld.*[147] were applicable. It considered that the representations of the licensee estopped him from asserting that the articles in question did not command a royalty payment. On appeal, the court held that the representation by conduct of the licensee was effective against him even though a representation of present fact might not strictly be involved. The conduct related to what was a true interpretation of the contract. Lord Denning said:

> I am clearly of opinion that this assurance was binding, no matter whether it is regarded as a representation of law or of fact or a mixture of both, and no matter whether it concerns the present or the future. It may not be such as to give rise to an estoppel at common law, strictly so called, for that was confined to representations of existing fact: but we have got far beyond the old common law estoppel now. We have reached a new estoppel which affects legal relations.
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> . . . .
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> . . . I think the whole course of conduct by them amounted to a clear assurance that the lighters and refills which they were making did, within the meaning of the agreement, "embody the inventions" and that they were liable to pay royalties thereon.[148]

In his reasons,[149] Lord Justice Hodson applied *Birmingham & District Land*

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[145] 3 R. Pat. Cas. 251, at 253 (Ch. 1886): "I decline upon an interlocutory motion to go so far as to say that the Defendant can be restrained from communicating to other persons material information within his own knowledge relating to specifications or other matters antecedent to the granting of the patents in question."

[146] 72 R. Pat. Cas. 307 (Q.B. 1955), [1956] R. Pat. Cas. 14 (C.A. 1955).

[147] [1933] A.C. 51 (1932). The principles held to be applicable were stated in this manner: "The essential factors giving rise to an estoppel are I think:—(1) A representation or conduct amounting to a representation intended to induce a course of conduct on the part of the person to whom the representation is made. (2) An act or omission resulting from the representation, whether actual or by conduct, by the person to whom the representation is made. (3) Detriment to such person as a consequence of the act or omission." *Id.* at 57.

[148] [1956] R. Pat. Cas. 14, at 17 (C.A. 1955). An estoppel in pais differs from an estoppel by the record or res judicata such as was considered in Carl Zeiss Stiftung v. Rayner & Keeler Ltd., [1967] R. Pat. Cas. 497 (H.L. 1966) and *Re* Atlas Indus. Ld., [1967] R. Pat. Cas. 86 (Pat. App. Trib. 1968).

[149] [1956] R. Pat. Cas. 15, at 19 (C.A. 1955).

Co. v. London & North Western Ry., [150] where Lord Justice Bowen had said:

> [I]f persons who have contractual rights against others induce by their conduct those against whom they have such rights to believe that such rights will either not be enforced or will be kept in suspense or abeyance for some particular time, those persons will not be allowed by a Court of Equity to enforce the rights until such time has elapsed without at all events placing the parties in the same position as they were before.[151]

C. *Estoppel Generally*

(i) Rule of Evidence

In *Low v. Bouverie* [152] Lord Justice Bowen said: "Estoppel is only a rule of evidence; you cannot found an action upon estoppel. Estoppel is only important as being one step in the progress towards relief on the hypothesis that the defendant is estopped from denying the truth of something which he has said."

(ii) Duration

Estoppel created by covenant will endure the period defined in the agreement. [153] If it arises by the relationship of the parties, it endures for the continuance of the relationship. [154] If it arises from a representation, the period when it subsists may be for the life of the agreement[155] or until reasonable notice has been given the adverse party. [156]

(iii) Warranty as to Validity

If the licensor warrants the validity of the patent, an estoppel precluding an attack on the validity of the patent by the licensee does not arise. [157] An express warranty of validity [158] goes to the root and substance of the contract. [159]

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[150] 40 Ch. D. 268 (C.A. 1888) which applied Hughes v. Metropolitan Ry., 2 App. Cas. 439 (1877). *See also* Tungsten Elec. Co. v. Tool Metal Mfg. Co., 71 R. Pat. Cas. (Q.B. 1953).

[151] 40 Ch. D. 268, at 286 (C.A. 1888).

[152] [1891] 3 Ch. 82, at 105.

[153] Coyle v. Sproule, [1942] Ont. 307, 2 Can. Pat. R. 125, 2 Fox Pat. Cas. 121 (High Ct. 1941).

[154] *Supra* note 139.

[155] *Supra* note 146.

[156] Tungsten Elec. Co. v. Tool Metal Mfg. Co., 69 R. Pat. Cas. 108 (C.A. 1950); Birmingham & Dist. Land Co. v. London & North Western Ry., 40 Ch. D. 268, at 285 (C.A. 1888).

[157] *See* Rymland v. Regal Bedding Co., 51 Can. Pat. R. 137, 34 Fox. Pat. Cas. 145 (Man. C.A. 1966), referring to Nadel v. Martin, 23 R. Pat. Cas. 41 (H.L. 1905), and Henderson v. Shiels, 24 R. Pat. Cas. 108 (Ch. 1906). In Curtiss-Wright Corp. v. The Queen, [1969] Sup. Ct. 527, 57 Can. Pat. R. 227, it was held that an acknowledgement of validity was not a representation by the licensor that the patents were valid. The express covenant that the licensee would not dispute the validity of the patents was held to be binding.

[158] There is no implied term that the licensor warrants validity. See *supra* note 104 and accompanying text.

[159] Mills v. Carson, 10 R. Pat. Cas. 9 (C.A. 1892).

(iv) Fraud and Estoppel

Fraud defeats an estoppel.[160] If the licensor knows that the patent is invalid at the time he enters into the licence agreement, then there could be a fraudulent act sufficient to defeat the estoppel. A fraudulent misrepresentation by the licensor inducing the licensee to enter into the licence will suffice to defeat the estoppel.

X. Miscellaneous Clauses in a Patent Licence Agreement

A. *Generally*

The essential terms of a patent licence agreement depend upon the purpose of the respective parties. It will likely include a clear definition of the subject matter licensed and upon which the royalty will be paid. The area of the licence will be defined. The duration of the agreement will be provided for, and the respective rights of termination will be set out. The respective rights and obligations to take action for infringement and in respect of improvements may be covered. The obligation of the licensee relating to the disclosure of records and to an account will be set out.[161]

B. *Best Efforts Clause*

Some additional clauses that could be considered might include a covenant from the licensee that he will use his best efforts to promote the sale of the article covered by the licence. The nature of the obligation imposed by such a covenant was considered in *Terrell v. Mabie Todd & Co.*[162] to be an obligation to do what the licensee could reasonably do in the circumstances. The standard of reasonableness is that of a reasonable and prudent Board of Directors acting properly in the interests of their company, and applying their minds to their contractual obligations to exploit the inventions. The defendant was found to have been in breach of its duty under the covenant.[163]

C. *Conflict of Laws—Proper Law of Contract*

Although a patent has effect throughout Canada, the rights of the parties under the contract are civil rights and depend upon provincial law. Where the parties are not located in the same jurisdiction, the parties may wish to

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[160] Rymland v. Regal Bedding Co., *supra* note 146; Lawes v. Purser, 6 E. & B. 930, at 936, 119 Eng. Rep. 1110, at 1112 (K.B. 1856).

[161] See 3 O'Brien's Encyclopedia of Forms 385 & 695 (10th ed. J. Honsberger 1966).

[162] 69 R. Pat. Cas. 234 (Q.B. 1952).

[163] *Id.* at 235: "The Licensee expressly agreed that the Defendants should make their best endeavours to promote the sale of as many fountain pens under the said Letters Patent as reasonably possible in the countries named in the said agreement, and should with all diligence place the said invention on the market and proceed to exploit it."

define the law of the province that will apply to its construction. Apart from an express provision in the agreement, the court will look to the "proper law of the contract." [164] The proper law of the contract, in the absence of an express provision in the agreement, must be determined from the terms of the contract, the situation of the parties and all the surrounding facts. [165] The determination of the proper law of the contract is not always an easy one and can give rise to serious problems, and where the possibility of a problem arises it is in the interests of the parties to state the proper law of the contract. The court will generally give effect to such express intention. [166]

D. *Arbitration*

The parties may not be in a position to define an essential term of the contract. To avoid the likelihood that their understanding might be interpreted not as a contract but merely as an agreement to agree, the parties may provide a formula for the determination of that essential term. One expedient is to provide for its determination by arbitration. [167] Arbitration may be a useful method of resolving disputes. It may provide simple and expeditious machinery for resolving matters of construction that do not justify the expense of proceedings in court. [168]

E. *Entire Contract*

It is often useful to include in a patent licence agreement a provision that the written document constitutes the entire agreement. It serves to deny the existence of any collateral agreement that might be sought to be asserted from the negotiations, and to deny any presumed intent leading to implied terms.

F. *Sub-licence*

Because a licensee cannot sub-licence without an express term it is not unusual for a licence to contain a provision to permit sub-licensing. It is obvious that the sub-licence cannot extend for a period of time beyond the duration of the head licence. The sub-licensee must be vigilant to ensure that his licensor has acquired from the head licensor the rights he purported to pass on.

In *Bristol Repetition Ld. v. Fomento Ld.*, [169] a sub-licensee agreed to

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[164] The King v. International Trustee for the Protection of Bondholders Aktiengesellschaft, 53 T.L.R. (C.A. 1936), *rev'd*, [1937] A.C. 500.

[165] Mount Albert Borough Council v. Australasian Temperance & Gen. Mutual Life Ass. Soc'y Ltd., [1938] A.C. 224 (P.C. 1937).

[166] Bunnell v. Shilling, 28 Ont. 336 (High Ct. 1897); Vita Food Prods. Inc. v. Unus Shipping Co., [1939] A.C. 277 (P.C.).

[167] Calvan Consol. Oil & Gas Co. v. Manning, [1959] Sup. Ct. 253.

[168] North West Co. v. Merland Oil Co., [1936] 2 W.W.R. 577, [1936] 4 D.L.R. 248 (Alta.); Scott v. Avery, 5 H.L. 811 (1856); Czarnikow v. Roth, Schmidt & Co., [1922] 2 K.B. 478 (C.A.).

[169] [1960] R. Pat. Cas. 163 (Ch.).

recognize the validity of the licensed patents and not to raise, or assist in raising any question as to their validity. It was held that the sub-licensee was not precluded from opposing an application for the extension of the life of the patents.

The effect upon a sub-licensee of the surrender of the head licence by the head-licensee was considered in the case of *Fomento Ld. v. Refill Improvements (Ri-Co) Co.* [170] The patentees sought an interlocutory injunction against the sub-licensee for selling articles made under the sub-licence. The interlocutory relief was refused by Mr. Justice Lloyd Jacobs on equitable grounds rather than on the real rights of the parties. He considered that the plaintiffs (patentees) had known of the sub-licence and its operation when they negotiated the surrender. The court would not aid the plaintiffs because by their own act they had converted the lawful act into an unlawful one. The Court of Appeal refused the interlocutory injunction on the basis of the balance of convenience.

It was not necessary to the case to decide the real rights of the parties. Did the surrender terminate the sublease or did it continue? By analogy to the law of property and that applicable to leases, it could be argued that it survived. Suppose a lessor leases land to a tenant for a term certain, perhaps twenty-five years, and the tenant grants a sublease in relation to the land for a term of shorter duration, say five years. If the lessee of the head lease surrenders the tenancy of the head lease while the subtenancy subsists, it would appear that the lessor of the head lease takes subject to the subtenancy. He takes subject to such interests as the head lessee validly created before surrendering the head lease back to the original lessor.

XI. Formation of a Licence Contract

A licence that is created in a contract between a patentee and a licensee is, of course, subject to the same principles as to offer, acceptance and consideration [171] that relate to the formation of contracts in general. An offer to enter into a licence must be clear and unequivocal. It must not be merely a statement intended to initiate negotiations. It must not be merely an attempt to seek out information from the other party. [172] If the offer is

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[170] [1963] R. Pat. Cas. 163 (C.A.).

[171] Consideration is a requisite element of a contract not under seal. In Fleming v. Bank of New Zealand, [1900] A.C. 577, at 586 (P.C.), it was defined as "some right, interest, profit or benefit accruing to the one party or some forbearance, detriment, loss or responsibility given, suffered or undertaken by the other." Most patent licence agreements are written and signed under seal. Those that are not under seal involve the payment of royalties in exchange for the right to use the invention claimed in the patent. Accordingly, problems as to consideration do not ordinarily arise in patent licence contracts.

[172] Harvey v. Facey, [1893] A.C. 552 (P.C.); Farina v. Fickus, [1900] 1 Ch. 331 (1899); Licenses Ins. Corp. v. Lawson, 12 T.L.R. 501 (Ch. 1896); Loftus v. Roberts, 18 T.L.R. 532 (Ch. 1902); British Homophone Ltd. v. Kunz, 152 L.T.R. 589 (K.B. 1935).

expressed in terms of time, it will lapse upon the expiry of that time unless there is an intervening acceptance.[173] To be valid, an acceptance must be absolute and must correspond to the terms of the offer.[174] If the acceptance is conditional, or any fresh terms are introduced by the person to whom the offer is made, his expression of assent is really a counteroffer that requires acceptance by the person who made the original offer.[175]

Even where the parties have reduced to writing the understanding reached between them, a legally binding licence agreement may not have been formed. In the event that an essential term or condition of the agreement is omitted, the document does not constitute a binding agreement. On the other hand, where the parties have reached agreement on the essential terms and the parties appear to be satisfied that they have reached a binding agreement, the court will give effect to that agreement. This is the case especially where the parties have performed one or more of the obligations of the agreement.[176] Accordingly, when the parties have agreed on the essential elements of the contract and all the terms are certain and there has been no mutual mistake, there has been a consensus *ad idem* and a binding agreement. In *May v. The King*,[177] Lord Dunedin said:

> To be a good contract there must be a concluded bargain, and a concluded contract is one which settles everything that is necessary to be settled and leaves nothing to be settled by agreement between the parties. Of course it may leave something which still has to be determined, but then that determination must be a determination which does not depend upon the agreement between the parties.[178]

Lord Buckmaster stated in the same case: "[B]ut the principle that you cannot agree to agree remains entirely unchanged."[179]

It often happens that one or other of the parties to a patent licence negotiation will seek to find an agreement on the basis of letters of memoranda of meetings between the parties. In such a case, the whole of that which has passed between the parties must be taken into consideration.[180] In the recent case of *Libbey-Owens-Ford Glass Co. v. Ford Motor Co. of Canada*,[181] the defendant in a patent infringement action sought to rely on

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[173] 8 HALSBURY, LAWS OF ENGLAND 71 (3d ed. 1954).

[174] Holland v. Eyre, 2 Sim. & St. 194, 57 Eng. Rep. 319 (Ch. 1825); Quenerduaine v. Cole, 32 W.R. 185 (Q.B. 1883); Booth v. Sokulsky, 18 Can. Pat. R. 86, 13 Fox Pat. Cas. 145 (Exch. Ct. 1953).

[175] Jones v. Daniel, [1894] 2 Ch. 332; Stevenson, Jaques & Co. v. McLean, 5 Q.B.D. 346 (1886); Roberts v. Security Co., [1897] 1 Q.B. 111 (C.A. 1896).

[176] Kelly v. Watson, 61 Sup. Ct. 482 (1921).

[177] [1934] 2 K.B. 17 (H.L. 1929).

[178] *Id.* at 21.

[179] *Id.* at 20. *See also* Note, 48 L.Q.R. 310. Where the contract is silent as to price the court will not imply a term that a reasonable price shall be paid or that the price be determined by arbitration but where the parties have, acted on an oral licence agreement that was silent as to royalty, the court implied a term that a reasonable royalty shall be paid. *See* Chadwick v. Bridges, [1960] R. Pat. Cas. 85 (Ch.).

[180] Hussey v. Horne-payne, 4 App. Cas. 311 (1879); Booth v. Sokulsky, 18 Can. Pat. R. 86, 13 Fox Pat. Cas. 145 (Exch. Ct. 1953).

[181] 58 Can. Pat. R. 193 (1968).

a licence arising from a series of letters and discussions at meetings between the parties as a defence to the action. The Exchequer Court considered all of the documents, discussions and memoranda relating thereto and found that there was no concluded agreement between the parties.

Difficult questions arise where the parties contemplate that their discussions will be reduced to a formal written document. If it is contemplated that the formal document is merely a reduction to writing of an agreement already reached, a licence agreement will exist even in the absence of the formal document. But if the parties contemplate that they will be bound only on the signing of a formal licence agreement, a contract does not exist until the formal agreement is signed by both parties. [182]

XII. The Statute of Frauds

An interesting question arises where a defendant to a patent infringement proceedings sets up by way of defence the existence of an oral agreement as establishing a licence under the patent in suit. The patentee in such a situation will plead by way of reply (in a cause of action arising in Ontario) section 4 of the Statute of Frauds. [183] The section provides that in certain situations an agreement is unenforceable in the absence of a memorandum in writing signed by the person sought to be bound by the agreement. One such situation is where the agreement is not to be performed within the space of one year from the time of its making. Where the statute applies, any such agreement which exists is unenforceable. In *Libby-Owens-Ford Glass Co. v. Ford Motor Co. of Canada*,[184] the defendant attempted to infer a licence from the course of dealing between the parties and the letters exchanged between them. The plaintiff in reply set up the Statute of Frauds. Mr. Justice Thurlow found that there was no agreement and it became unnecessary to decide whether the Statute of Frauds applied. However, the two sides of the question having been presented to the court, a short statement of the issues raised might be of interest. [185]

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[182] Bristol, Cardiff, & Swansea Aërated Bread Co. v. Maggs, 44 Ch. D. 616, at 625 (1890); Crossley v. Maycock, L.R. 18 Eq. 180 (M.R. 1874); Cushing v. Knight, 46 Sup. Ct. 555, at 560 (1912); Ridgway v. Wharton, 6 H.L. 237 (1857).

[183] Ont. Rev. Stat. c. 381, § 4(1960).

> No action shall be brought whereby to charge any executor or administrator upon any special promise to answer damages out of his own estate, or whereby to charge any person upon any special promise to answer for the debt, default or miscarriage of any other person, or to charge any person upon any agreement made upon considerations of marriage, or upon any contract or sale of lands, tenements or hereditaments, or any interest in or concerning them, or upon any agreement that is not to be performed within the space of one year from the making thereof, unless the agreement upon which the action is brought, or some memorandum or note thereof is in writing and signed by the party to be charged therewith or some person thereunto by him lawfully authorised.

[184] *Supra* note 181.

[185] See Williams, *Availability by Way of Defence of Contracts Not Complying With Statute of Frauds*, 50 L.Q.R. 532 (1934), and Miles v. New Zealand Alford Estate Co., 32 Ch. D. 266 (C.A. 1886).

On the one side, it is argued that the Statute of Frauds is a shield and not a sword. On this argument, it prevents a plaintiff who asserts the contract from obtaining relief under it if there is no memorandum in writing that meets its requirement. [186] But, the defendant would not be prevented from asserting an oral licence as a defence to an infringement action. The basis for the argument is found in the opening words of section 4 of the statute that "no action shall be brought." Since a defendant does not bring the action, it is argued the statute has no application when the contract is raised as a defence. In *Frith v. Alliance Investment Co.*, [187] it was held by the Supreme Court of Canada that an oral contract, although not available to support an action, was available by way of defence and that the statute would provide no obstacle to that contract. The anomaly that one faces if that principle is strictly and universally applied is that a defendant may escape liability by raising an oral agreement but the plaintiff cannot enforce the benefit to which he would be entitled under the same agreement.

In *Sidebotham v. Holland*, [188] a tenant set up by way of defence to an action of ejectment an oral agreement that the tenant would not be turned out of the premises before a fixed date. The landlord pleaded the Statute of Frauds by way of reply. The court took the position that the Statute of Frauds was equally applicable against a defendant who endeavours to set up an oral agreement by way of a shield. Since there was no memoranda, the defence failed. Lord Justice Lindley said: "Lastly, it was urged that the notice was bad because the lessor had promised for valuable consideration not to turn the tenant out before November 1895. This is the defendant's real defence to this action. Unfortunately, however, the promise was a verbal one; it was not to be performed within a year, and the Statute of Frauds precludes the defendant from enforcing it." [189]

A court of equity will not allow the Statute of Frauds to be used as an instrument of fraud. In a situation where a party has conducted himself in a manner unequivocally referable to a pre-existing contract, the court may give effect to the oral agreement even in the absence of a memorandum in writing as required by the statute. For instance, where a contract has been partly performed by one party, a court of equity may sometimes enforce the contract at the instance of that party even if a memorandum has not been signed by him. [190]

XIII. Remedies

A. *Generally*

The usual remedy sought by a licensor under the contract is the remedy

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[186] Coady v. Lewis & Sons, [1951] 3 D.L.R. 845, at 847 (N.S.S.C.).
[187] 49 Sup. Ct. 384, at 392 (1914).
[188] [1895] 1 Q.B. 378 (C.A. 1854).
[189] *Id.* at 385.
[190] Caton v. Caton, L.R. 1 Ch. App. 137 (1866); Maddison v. Alderson, 8 App. Cas. 467, at 475 (1883).

of royalties. Incidental to the claim for the payment of the royalties defined in the agreement, the licensor may require an accounting. Although the licensee may assert the licence as a defence to an action for infringement, the fact that a patent licence agreement is a contract between the parties affords to the plaintiff the opportunity to recover through the usual remedies for breach of contract. These remedies include a claim for damages and in a proper case, the equitable reliefs of injunction, specific performance and rescission.

B. *Damages*

A defendant who has been found liable for a breach of contract must pay damages. Such damages are assessed on the basis of damage for the ordinary consequences flowing from the breach and which may reasonably be supposed to have been in contemplation of the parties at the time the contract was made. [191] The plaintiff may recover the loss that arises in the usual course of things from the breach. He may also recover additional damages where exceptional circumstances exist, or were known to exist, or were, in contemplation of the parties as reasonable men, such that it was foreseeable that such additional loss would arise in the event of breach.

In *The Heron II*, [192] Lord Reid stated:

> The crucial question is whether, on the information available to the defendant when the contract was made, he should or the reasonable man in his position would, have realised that such loss was sufficiently likely to result from the breach of contract to make it proper to hold that the loss flowed naturally from the breach or that loss of that kind should have been within his contemplation.[193]

C. *Injunction*

A court of equity will restrain a defendant from committing a breach of contract. [194] This form of relief is ordinarily sought in a patent licence agreement where one of the parties acts in breach of a negative covenant.

D. *Specific performance*

In *Kleinwort, Sons & Co. v. Ungarische Baumwolle Industrie Aktiengesellschaft* Lord Justice du Parcq said: "An elementary principle of English law is that people should keep their contracts and carry them out." [195] Specific performance is generally granted as a relief where damages would

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[191] This is the rule in Hadley v. Baxendale, 9 Ex. 341, at 355, 156 Eng. Rep. 145, at 151 (Exch. 1854) as explained in Victoria Laundry Ltd. v. Newman Ltd., [1949] 2 K.B. 528, at 537 (C.A.).

[192] [1967] 3 All E.R. 686 (H.L.).

[193] *Id.* at 691.

[194] London & Leicester Hosiery Co. v. Griswold, 3 R. Pat. Cas. 251 (Ch. 1886), is an illustration of an interlocutory injunction sought to restrain an alleged breach of contract.

[195] [1939] 2 K.B. 687, at 696 (C.A.).

not be adequate to place the claimant in the position he would have been in had the breach not occurred. In *British Nylon Spinners Ltd. v. Imperial Chemical Industries Ltd.* [196] one of the parties to a patent licence agreement was ordered to carry out his obligation under the agreement. In ordering specific performance of a patent licence agreement, Master of the Rolls Evershed stated:

> [T]he subject-matter of the contract of December, 1946, is a number of English and Commonwealth patents. An English patent is a species of English property of the nature of a chose in action and peculiar in character. By English law it confers on its proprietor certain monopoly rights, exercisable in England. A person who has an enforceable right to a licence under an English patent appears, therefore, to me to have, at least, some kind of proprietary interest which it is the duty of our Courts to protect. [197]

E. *Rescission*

The equitable relief or rescission rests on the absence of any true binding agreement between the parties—an absence occasioned by fraud, misrepresentation or mistake. Where a party fails to obtain substantially what he bargains for, he may be able to rescind the contract. A non-performance or breach of a condition going to the root and substance of the contract may fall into this class of breach.

The situation in the case of fraud, is best summed up in the leading case of *Derry v. Peek.* [198] Lord Herschell put it this way: "First, in order to sustain an action of deceit, there must be proof of fraud, and nothing short of that will suffice. Secondly, fraud is proved when it is shewn that a false representation has been made (1) knowingly, or (2) without belief in its truth, or (3) recklessly, careless whether it be true or false." [199] A fraudulent misrepresentation will enable the person deceived to rescind the licence agreement [200] and obtain damages. An innocent misrepresentation will entitle the person to whom it is made to obtain the equitable remedy of rescission. However, he is not also entitled to damages. [201] In *Janders Arc Lamp & Electric Co. v. Johnson* [202] the plaintiff initiated an action for royalties under a patent licence agreement. The defendant counterclaimed for rescission of the licence on the ground of misrepresentation by the plaintiff. Mr. Justice Farwell held, on the evidence, that the defendant had not

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[196] 17 Can. Pat. R. 65 (C.A. 1952) (U.K.).

[197] *Id.* at 68-69. See notes 11 and 12, and contrast this case with that as to a property interest in the patent. A sufficient "proprietary right" was held to have been conferred on a licensee that entitled him to have the terms of the contract specifically performed.

[198] 14 App. Cas. 337 (1889).

[199] *Id.* at 374.

[200] Spence v. Crawford, [1939] 3 All E.R. 271 (H.L.); Erlanger v. New Sombrero Phosphate Co., 3 App. Cas. 1218 (1878); Kupchak v. Dayson Holdings Co., 53 D.L.R.2d 482 (B.C. 1965).

[201] Harrison v. Knowles, [1918] 1 K.B. 608, at 610; Gilchester Properties, Ltd. v. Gomm, [1948] 1 All E.R. 493 (Ch.).

[202] 17 R. Pat. Cas. 361 (Ch. 1900).

been deceived into acting on an undertaking which was misrepresented. From his intimate knowledge of the subject matter of the patents, the defendant was in no way misdirected so as to rely on the misrepresentation to relieve him of his obligations under the agreement. At the time of making the agreement the defendant was willing and anxious to make it. The knowledge of the defendant was such that he could not claim that he relied upon a misrepresentation.

In the case of mistake, rescission of contract may under certain circumstances be allowed. The mistake must be mutual, and must be of such a nature that the substance of the agreement differed from that contemplated by the parties in concluding their negotiations. The mistake must go to the very root and substance of the contract. [203]

F. *Discharge*

A party has the right to be discharged from liability under a contract by reason of the default of the other party. The default must be one in respect of a condition, and not a mere warranty, where damages would be the appropriate remedy. The breach must be such as to go to the root and substance of the contract to enable the party aggrieved to use it as a basis for discharge. [204]

The imprecision of the English language can lead to misunderstanding and consequent litigation. Negotiation and draftsmanship must coincide. In any event, the parties must express their intent with clear unambiguous language or the agreement will be destined to become an exhibit in a lengthy trial.

[203] Regina v. Ontario Flue-Cured Tobacco Growers' Mkt. Bd., 51 D.L.R.2d 7 (Ont. 1965); Bell v. Lever Bros., [1932] A.C. 161 (1931); Solle v. Butcher, [1950] 1 K.B. 671, at 691 (C.A. 1949).

[204] Bettini v. Gye, 1 Q.B.D. 183 (1876); Pigott Constr. Co. v. W. J. Crowe Ltd., [1961] Ont. 305.