

HIS MAJESTY THE KING.....

APPELLANT;

1948

\*Nov. 26, 29

AND

IRVING AIR CHUTE INC .....

RESPONDENT.

1949

\*April 26

## ON APPEAL FROM THE EXCHEQUER COURT OF CANADA

*Patents—Reasonable compensation for use of an invention by the Crown—Principles to be applied by Commissioner of Patents in conducting inquiry to determine amount of payment for such use—The Patent Act, 1935, S. of C., 1935, c. 32, s. 19—Order in Council P.C. 6982, dated December 4, 1940.*

Where the Government of Canada has made use of any patented invention and the Commissioner of Patents is required, as provided by s. 19 of *The Patent Act, 1935*, to report such sum as he considers reasonable compensation for the use thereof—

*Held:* that, in conducting the necessary inquiry the Commissioner, in the absence of regulations to the contrary, must determine the scope thereof and the extent of disclosure required.

*Held:* also, that the compensation to be paid should be determined by what, under normal conditions in the market, would be paid to a willing licensor by a willing licensee bargaining on equal terms. This will involve an examination of the prior art to determine the value of the advance made by the patent in question.

*Held:* further, that the Commissioner in determining compensation based his award on a wrong principle, therefore the case should be returned to him to continue his inquiry applying thereto the principles set out in the judgment of this Court.

APPEAL by the Crown from the judgment of Thorson J., President of the Exchequer Court of Canada, (1), allowing an appeal to that Court from a report of the Commissioner of Patents.

The facts of the case and the questions in issue are stated in the judgment now reported.

*E. G. Gowling* K.C. and *Gordon F. Henderson* for the appellant.

*Christopher Robinson* and *Eric L. Medcalf* for the respondent.

THE CHIEF JUSTICE.—The respondent was the owner of five Canadian patents. It petitioned the Commissioner of Patents to report a reasonable compensation payable

(1) 1947 Ex. C.R. 278.

\*PRESENT:—Rinfret C.J., and Taschereau, Rand, Estey and Locke JJ.

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to it pursuant to the provisions of Order in Council P.C. 6982 of the 4th of December, 1940, by reason of the use by His Majesty and Switlik Canadian Parachute, Limited, of inventions covered by the five patents. The latter company had received a letter of idemnity from His Majesty under such Order in Council whereby His Majesty became responsible to pay to the patentee reasonable compensation for the use of the inventions.

The Order in Council provided that His Majesty shall pay to the owner of any patent, used in the manner above mentioned, such compensation as the Commissioner of Patents reports to be reasonable for the use aforesaid of the invention or design covered by such patent or registered industrial design, and that any decision hereunder of the Commissioner of Patents shall be subject to appeal to the Exchequer Court.

The Order in Council refers to Section 19 of the *Patent Act*, 1935. It will be convenient to reproduce that section now.

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

The Commissioner of Patents reported that a reasonable royalty for the use of the inventions would be \$2 per parachute pack, comprising the body harness and container, and a royalty of 25 cents for container replacements and \$1.75 for harness replacements.

The royalty per unit was fixed on the finding of the Commissioner that a royalty rate of five per cent on the first five thousand parachutes and 3.75 per cent on those in excess of five thousand was a reasonable royalty in the circumstances, and that the base upon which rate should be calculated to achieve a reasonable royalty per unit was \$52, representing the cost of the harness and the container. He excluded from the base the cost of certain items shown by the prior art.

The learned President of the Exchequer Court allowed the appeal and fixed a royalty per unit of \$8 (1). In fixing such amount, the learned President affirmed the report of the Commissioner that a royalty rate of 5 per cent on the

first five thousand parachutes and 3.75 per cent on those produced in excess of five thousand was a reasonable royalty rate in the circumstances. He held, however, that the royalty rate should be based upon the selling price of the parachute, including the canopy and other items rejected by the Commissioner, namely \$200. The President declined to consider the prior art in determining the scope of the claims.

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The evidence adduced by the respondent before the Commissioner of Patents consisted of an affidavit of the president of the respondent company and seven exhibits thereto. The affidavit and exhibits sought to establish a royalty rate of 10 per cent with a reduction to 7½ per cent for parachutes in excess of ten thousand based on the selling price of parachutes. Exhibit 1 to the affidavit related to the countries in which the respondent had corresponding patents. Exhibits 2 to 6 were royalty agreements made by the respondent under peace-time conditions with proposed manufacturers of parachutes in various countries.

The appellant submitted in evidence a binder of prior art applicable to each of the five patents relied upon by the respondent. Evidence was given by an employee of the Department of Finance on the cost of producing parachutes.

The number of parachutes ordered by the appellant up to the commencement of the proceedings was 55,682. Compensation is payable up to the date of the institution of these proceedings for the use of 47,720 parachutes.

The parties agreed as to certain facts and admissions introduced at the hearing before the Commissioner.

It will be observed that P.C. 6982 does not prescribe any fixed procedure before the Commissioner.

The appellant asked leave to introduce further evidence before the Exchequer Court. The motion was rejected except that two further prior art patents were admitted. The President held that the Exchequer Court, being a Court of Appeal, should not consider the matter *de novo*.

In its answer to the petition the appellant admitted the validity of the patents and use by His Majesty for the purpose of the hearing.

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The grounds for appeal to this Court are based on the following alleged errors in the judgment of the learned President of the Exchequer Court:—

1. The learned President refused to consider the prior art in ascertaining the inventions for which reasonable compensation is payable with the result that compensation was fixed with respect to the art as a whole rather than on the contribution to the art made by the inventors.
2. Compensation was fixed on the value of parachutes rather than the inventions.
3. The learned President held that the breadth or narrowness of the claims in the patents in issue could not be relevant.
4. The learned President failed to appreciate that a claim in a patent is an instrument of limitation.
5. The learned President failed to distinguish the authorities applicable to the determination of the validity of claims from cases relating to the fixing of compensation.
6. The learned President gave undue weight to authorities relating to the payment of damages for infringement in determining compensation for a statutory right to use an invention.
7. The learned President failed to appreciate the significance of s. 33 of *The Patent Act*, 1935.
8. The learned President based compensation on the selling price of the parachute rather than on cost price as based by the Commissioner.

In its petition the respondent relied on five patents covering inventions used by the Crown.

Patent No. 255,164 was issued to the respondent for a period of eighteen years from the 3rd of November, 1925, on an invention entitled "Body Harness for Aviators". The basis of the invention is a relationship of straps constituting a body harness, the straps consisting of a U-shaped main supporting strap. This patent expired on the 3rd of November, 1943.

Patent No. 273,872 also issued to the respondent for a period of eighteen years from the 13th of September, 1927, was on an invention entitled "Parachute Pack", and expired on the 13th of September, 1945.

Patent No. 304,445 was issued to the respondent on an invention for a period of eighteen years from the 30th of September, 1930. The invention relates particularly to a parachute apparatus having a coupling means in the pack enabling ready attachment between pack and harness. The coupling means constitutes an improvement in detachable packs. The patent expired on the 30th September, 1948.

Patent No. 355,200 issued to the respondent for a period of eighteen years from the 7th of January, 1936, was on an invention which relates particularly to an adapter and

adjusting means and to an improvement in the strap means to which a connector may be attached. A second feature is the provision of a strap means to fit into the quick release. This patent is still in force and will not expire until the 7th of January, 1954.

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Patent No. 355,647 was issued to the respondent on an invention for a period of eighteen years from the 28th of January, 1936. The invention consists of a keeper or coupling device. The coupling means consists of a metallic portion holding the snap fastener in position. The keeper means consists of a metallic spring-like gripping socket and holds the snap fasteners of the harness in a fixed position. This patent is still in force and will not expire until the 28th of January, 1954.

I do not find it necessary to go into the details of the several claims in these five patents. There is no doubt that the true nature of the claim is that it should be considered as an instrument of limitation. In *Electric and Musical Industries, Ltd. et al v. Lissen, Ltd.* (1), Lord Russell of Killowen at p. 39 stated:—

The function of the claim is to define clearly and with precision the monopoly claimed, so that others may know the exact boundaries of the area within which they will be trespassers. Their primary object is to limit and not to extend the monopoly. What is not claimed is disclaimed.

and at p. 41:

The office of a claim is to define and limit with precision what it is which is claimed to have been invented and therefore patented.

Unquestionably in considering the report which he must make to the Government of Canada and in order to arrive at a reasonable compensation for the use of the patented invention, the Commissioner must give due regard to the real invention—the contribution or step in advance which the patentee has made—and the due effect of this consideration should not be obscured by the language in which the claim is clothed. (*Herman v. Youngstown Car Mfg. Co.* 216 Fed., 604).

Moreover, the ambit of the invention must be circumscribed by the claims at the end of the specification. It is to these claims that the public are entitled to look in order to ascertain the limits of the monopoly granted.

(1) (1939) 58 R.P.C. 23.

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*Smith Incubator Co. v. Seiling* (1), per Duff, C.J. See also the quotations from authorities in *The B.V.D. Co. Ltd. v. Canadian Celanese, Ltd.* (2).

In this case it is unnecessary to examine the patents from the point of view of their validity, because the latter has been admitted by the appellant and the respondent accepted that admission and acted upon it in the case.

Now, it should be said that in combination patents the novelty, or the advance, for which the patent is granted, is the combination itself, quite independent of the elements which compose it. (See *Harrison et al v. The Anderston Foundry Co.*) (3).

It follows that the Commissioner, in basing his award upon rates representing only the cost of the harness and the container, and excluding from the basis the cost of certain items shown by the prior art, established the amount of the compensation to be paid to the respondent on a wrong principle. The patents were issued for the complete article represented by the combination and not solely for the harness and the container. This would follow the principle set forth in *Meters, Ltd. v. Metropolitan Gas Meters, Ltd.* (4) and in this Court in *Colonial Fastener Co. Ltd. et al v. Lightning Fastener Co. Ltd.* (5).

The respondent was entitled to compensation on the basis of the complete parachute equipment, as such was the article for which the patents were granted and not solely the harness and the container.

I would think, therefore, that by calculating the royalty per unit limited to the harness and the container and not calculated on the complete parachute, the Commissioner acted upon a wrong principle. This gave the respondent the necessary justification for appealing to the Exchequer Court by force of Section 19 of the *Patent Act*. If, therefore, the learned President in his judgment had proceeded on the ground that the Commissioner's report was based on such wrong principle, I would think that his judgment should be upheld; but, in allowing the appeal, the learned President himself proceeded on what I think, with respect, were other wrong principles. After all, all that he did in his judgment was to apply the rates already adopted by

(1) [1937] S.C.R. 251 at 255.

(2) [1937] S.C.R. 221 at 234.

(3) (1875-76) 1 App. Cas. 574 at 590.

(4) (1911) 28 R.P.C. 157.

(5) [1937] S.C.R. 36 at 41.

the Commissioner to the whole article instead of only to some component parts of it and, as a result, to fix a royalty per unit of \$8, stating that such an amount per parachute equipment unit would, having regard to the circumstances, including wartime conditions, be reasonable compensation to the respondent for the use by Switlik of the inventions covered by the patents.

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But, not only did the learned President increase the royalty per unit and fix the rate at \$8—he applied it to the amount of the selling price of the parachute equipment instead of to the cost price, which was the basis adopted by the Commissioner. In doing so, the President had absolutely no other evidence than Mr. Waite's affidavit already referred to, and which also was the only evidence of value placed before the Commissioner. Indeed, a motion was made on behalf of the appellant for leave to introduce, on the hearing of the appeal before the learned President, evidence that the devices disclosed in certain patents are practical and useful devices, and also for leave to introduce, on the said hearing, certain patents as part of the prior art relating to other patents. This application for leave was made under Rule 30 of the General Rules and Orders of the Exchequer Court which provides that the Court in any appeal shall have full discretionary power to receive and hear further evidence.

From the affidavit of Gordon Fripp Henderson filed by him in support of the application on behalf of the appellant, it appears that leave was sought to bring expert opinion before the Court in order to meet certain statements made by counsel for the petitioner (respondent) in the course of his argument before the Commissioner of Patents.

In a written judgment dated the 9th of February, 1944, the learned President stated that, as he understood the matter, the statements made by counsel for the petitioner merely drew counsel's own inferences from the material that was before the Commissioner. The President saw no good reason why the respondent (the appellant in the Supreme Court of Canada) should have the right, on an appeal, to meet such inferences by expert evidence which could have been called before the Commissioner. He was of the opinion that there was not sufficient ground shown

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by the Crown to support that part of the application and it was accordingly refused. In my opinion the learned President acted properly in that respect.

The learned President went on to say that the Court reserved its right to require further evidence if on the hearing of the appeal it should deem such further evidence necessary.

As to the second part of the application requesting leave to introduce, on the hearing of the appeal, certain patents, which were not before the Commissioner, Mr. Henderson's affidavit showed that these patents had been brought to his attention since the date of the hearing before the Commissioner. As no objection was raised by counsel for the appellant in the Exchequer Court (respondent in the Supreme Court of Canada) to the introduction of these patents, the learned President, in the circumstances, granted that part of the application.

Therefore, the only other evidence placed before the Exchequer Court consisted of these additional patents, introduced to show the status of the prior art. But when the learned President came to consider the judgment he should render he arrived at the conclusion that the Commissioner had erred and had applied the wrong principle by referring at all to the prior art and also upon that ground he allowed the appeal. With respect, I am unable to agree. Evidently, in the circumstances, the prior art was not to be looked at for the purpose of discovering whether the patents had been anticipated and were therefore invalid. This became unnecessary from the moment the Crown admitted the validity of the patents. But, to my mind, the Commissioner very properly referred to the prior art in order to ascertain the importance of the advances made by the patents owned by the respondent company. That was an element in fixing the value of the patents and the compensation to which the respondent was entitled. In that respect my opinion is, therefore, that the judgment *a quo* is wrong when it said that in considering the prior art for the limited purpose above mentioned the Commissioner acted upon a wrong principle.

It would follow, therefore, that the Commissioner erred when, in estimating the compensation to be paid to the respondent, he applied the rate to be adopted by him

only to the harness and the container. He should have applied it to the value of the whole parachute equipment.

On the other hand the learned President erred in deciding that the Commissioner should not have referred to the prior art, which, of course, the Commissioner considered not for the purpose of reaching a conclusion that the patents were invalid, but for the purpose of ascertaining the importance of the advance made by the patents of the respondent. The result is that the judgment of the learned President cannot be upheld on this latter ground.

But, with due respect, the learned President made another fundamental error. Having come to the conclusion that the report of the Commissioner was based on a wrong principle, he himself proceeded to fix what he considered a reasonable compensation for the use of the respondent's patents. This, in my view, he could not do, both on the factual material before him and on legal grounds. By Section 19 of the *Patent Act* the Commissioner of Patents is the *persona designata* to report to the Government of Canada the reasonable compensation for the use of any patented invention used by the Government. That section ascribes the power and duty to fix a reasonable compensation to the Commissioner alone. True, it adds that the decision of the Commissioner "shall be subject to the appeal to the Exchequer Court"; but these words are not in any way different from the right of appeal from an arbitrator's award in, let us say, railway matters. There is a right of appeal in those matters, but it has always been considered that such right is limited to the question whether the arbitrator proceeded on a wrong principle, or whether there had been irregularities or illegalities in the course of the arbitrator's proceedings. I do not see any distinction that can be made in the material sense between the report of the Commissioner of Patents and the award of a railway arbitrator.

In *Canadian National Railway Co. v. Harricana Gold Mine, Inc.* (1) Kerwin J., delivering the judgment of the majority of the Court, at p. 393 said:—

There is no doubt that this Court will not interfere on a mere question of quantum unless it is satisfied that the amount allowed is clearly excessive or just as clearly too small. *The King v. Trudel* (2) (from which decision leave to appeal to the Privy Council was refused). In my opinion the allowance in the present case is clearly excessive. What is

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(1) [1943] S.C.R. 382.

(2) (1914) 49 Can. S.C.R. 501.

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more important, however, is that in fixing the value of the lands expropriated as if they had been subdivided into lots, the trial judge proceeded upon a wrong principle and that is always a ground upon which this Court will set aside an award.

In many cases the matter would be remitted to the Exchequer Court of Canada but in order to save the parties that expense, I have examined the record and, by piecing together certain bits of evidence, I have concluded that sufficient appears to warrant an allowance of \$250 per acre.

In *The King v. Northumberland Ferries, Ltd.* (1), the procedure outlined by Kerwin J. as being the one usually followed, was adopted by the full Court. It having been found that the trial judge had erred in applying a wrong principle in reaching his award, the case was returned to the Exchequer Court for the purpose of ascertaining the value on the proper basis. It is true that one of the grounds for so acting was that the evidence in the record was insufficient to enable the Court to ascertain the value; but I think it can be stated that in expropriation cases such as the *Northumberland* case and such as the present case, the rule is that once the appellate court comes to the conclusion that the arbitrator has based his award on a wrong principle, the court will not, of itself, proceed to determine the true amount upon the principles which should have been adopted, but will return the case to the arbitrator (in the present instance, the Commissioner of Patents) so that he may ascertain the value on the proper basis as directed by the appellate court. *Cedars Rapids Manufacturing and Power Co. v Lacoste et al* (2).

In addition to the question of law there is the further point against the procedure adopted by the learned President that he had not before him sufficient evidence to enable him to modify the amount of compensation fixed by the Commissioner.

For these reasons the appeal should be allowed and the case returned to the Commissioner of Patents in order to enable him to report to the Government the proper compensation which it should pay for the use of the respondent's patents in accordance with the present judgment. The appellant should have no costs throughout.

TASCHEREAU, J.—I would allow the appeal without costs, and refer the case back to the Commissioner of Patents.

(1) [1945] S.C.R. 458.

(2) [1914] A.C. 569.

RAND, J.—Section 19 of the *Patent Act*, 1935 provides:—

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

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The function of the Commissioner, in such a case, is administrative with judicial features: he is to report: he does not sit as an umpire between litigants: he is to conduct an inquiry in the course of which he may resort to any source of information relevant to his purpose. There is no question then of onus on any party interested, whether Crown or patentees; but obviously they will have the right to present to the Commissioner whatever may be pertinent to the object in view. The extent of the matter on which the report is based is primarily for the Commissioner; the report is his and so in general must be the strength of its justification; but the provision of appeal necessarily implies a superintendence in the courts to ensure the observance of fundamental requirements in the determination of the property rights of the subject against the State.

The principle applied in the course of administering a similar provision of the *Patents Act* of Great Britain is that reasonable compensation means such price or consideration "as would be arrived at between a willing licensor and a willing licensee bargaining on equal terms": First Report of Commission printed in *Awards to Inventors*, Graham, p. 114. It is one that has long been applied in certain cases of expropriation and ultimately rests on the judgment of the tribunal drawn from all of the surrounding circumstances.

Where, as here, the patents are held independently of any governmental relation and are for a safety means in public transportation where danger risks are high, there has been presumably a commercial judgment of the money value of the improvements covered by the patents which would be of cardinal importance to the adjudication. The Crown, in answer to the details of contracts between the respondent and various third persons containing terms including royalties payable by licensees for manufacture and sale with exclusive privileges, brought before the Commissioner the specifications of over sixty-five patents

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dealing with parachutes and issued between 1912 and 1934; and it was on the footing of such material that the award of the Commissioner was made.

Mr. Gowling contends that the compensation is to represent the fair value of the real inventions in the combinations presented here, and that unless the advance in the art which they have made is ascertained that value cannot be estimated. I think this contention sound, but I cannot agree that the mode of establishing it adopted before the Commissioner is sufficient. There is no evidence beyond the specifications that any one of these inventions ever saw actual use; and from that paper foundation to ask a tribunal not only to deduce the new benefits conferred by them but also to determine their value is in the absence of evidence that no other source of assistance is available, to place upon it a task which the statute does not contemplate.

Where, as here, there is commercial competition in patented instrumentalities, the whole field of commercial result is open. The competitive prices, their relation to the function of the particular devices and to the efficiency of competing devices, their market demand, and in short the entire commercial data of the business, would be direct and realistic evidence of relative values and consequently of related royalties. Such a survey would furnish authoritative information of the value of ideas which have survived the tests of use and practicality. After all, demonstrated utility remains the arbiter of commercial value; neither technical skill nor subtle solution can of itself furnish that measure.

There is another aspect to be taken into account. The parties are to deal with each other on equal terms. Considering that, in the absence of a statutory provision, the granted monopoly would not apply against the Crown, the compensation is a recognition that the inventor should receive fair compensation for his own creation even when the Crown is making use of it for public purposes. But it would be incompatible with that conception to allow him to exploit the emergencies of that public. On the other hand, the same principle will not exact from an inventor a greater relative contribution to the country's necessities than from any other citizen. The terms, there-

fore, should disregard national exigencies and be ascertained as if in normal conditions and as if the State like an individual were at liberty to bargain or not as it might see fit.

There is also the consideration that the inventions with which we are concerned are related primarily to human safety, to the elimination of all possible risks to which persons using airplanes may be exposed. The commercial judgment of preference for one contrivance as against another may be based upon a relatively small difference in dependability or in risks met; but because of the objective sought, that difference may take on marked significance and importance and become associated with the entire means employed. Such a judgment will reflect also those practical insights which emerge in experience as well as the relation of the necessities of safety to those of cost. Such a working and balanced understanding would seem to me to be a most reliable source from which to draw the conclusion which the statute requires.

I am unable to follow either the Commissioner or the President of the Exchequer Court in the preliminary ascertainment of a rate or percentage as something in some degree absolute which will thereafter be applied to a subsequently ascertained base money value. What the inventor is to receive is a sum of money related to the invention used; and the base value, whether cost or selling price of either the whole or part of the apparatus embodying the invention, is obviously bound up with the rate or percentage to be used. Base values as in practice adopted are limited in number and can be accurately ascertained; and being fixed upon, the important question, to which the evidential matters are relevant, becomes that of the highly variable percentage.

The foregoing conception of the function of the Commissioner and of the considerations which should guide him in estimating the compensation was not, I think, fully applied in what was an inquiry of some difficulty. I think, therefore, it should be referred back to the Commissioner to take such further evidence of the nature indicated as he may consider necessary. There will be no costs in this Court or in the Exchequer Court.

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ESTEY, J.—The Government of Canada in September 1940 under sec. 19 of the *Patent Act*, S. of C. 1935, c. 32, and Order in Council P.C. 6982/40, authorized the Switlik Canadian Parachute Limited in manufacturing parachutes for war purposes to use five inventions patented in Canada and owned by the respondent. These inventions were in relation to the body harness, the pack or container of parachutes.

Neither the Government's authority nor the validity of the patents is questioned in these proceedings. The only issue is the amount of compensation the Government must pay for having authorized the use of these inventions under Order in Council P.C. 6982, which in part provides:

\* \* \* but His Majesty shall pay to the owner of any such patent  
 \* \* \* such compensation as the Commissioner of Patents reports to be reasonable for the use aforesaid of the invention or design \* \* \*

The report of the Commissioner of Patents under the foregoing was varied upon an appeal to the Exchequer Court.

The Switlik Canadian Parachute Limited used these inventions in the manufacture of 55,682 parachutes but as 7,962 were purchased at an agreed price including the royalty, only the balance of 47,720 are concerned in this litigation.

The learned President of the Exchequer Court confirmed the finding of the Commissioner of Patents that the appellant should pay a rate of 5 per cent on the first 5,000 parachutes produced and 3.75 per cent on those in excess of 5,000. While, however, the Commissioner held these rates should be computed on the cost of the harness and container, which he found to be \$52, the learned President held that they should be computed on the selling price of the entire parachute, which he stated to be approximately \$200. In the result the Commissioner of Patents fixed a flat rate of \$2 per parachute while the learned President fixed the rate at \$8 per parachute.

I am in agreement with the learned President that the Commissioner erred in applying the provisions of sec. 33 of the *Patent Act*. This section provides that one who obtains an improvement patent acquires thereby no

right to make, sell or use the original invention. No such question is raised in these proceedings and this section has no relevancy.

The patentee himself may grant to another a license to make, sell or use his patented inventions. In the circumstances of this case the Crown in exercising its authority under sec. 19 and Order in Council P.C. 6982 may with propriety be described as a statutory licensee. The position of the Crown as such was commented upon by the Royal Commission in Great Britain charged with fixing terms for the use by the Government of inventions under sec. 29 of the *Patent & Designs Act, 1907* (7 Edw. VII, c. 29 as amended): Graham, *Awards to Inventors*, p. 114. The positions of the compulsory licensee and the Government exercising its authority under sec. 29 while not identical are sufficiently alike in regard to the ascertainment of the compensation as to make the decisions under the former helpful. *Consolidated Wafer Co. Ltd. v. International Cone Co. Ltd.*, (1); *Celotex Corp. et al v. Donnacona Paper Co.* (2); *In the Matter of Applications by Brownie Wireless Co. Ltd.*, (3); *National Electric Signalling Co. et al v. U.S.* (4).

These authorities, and others that might be cited, make it clear that the royalty may be upon the cost price or the selling price. It may be so much per unit or, indeed, a fixed amount. These are but methods of assessing or expressing the compensation as determined. Mr. Justice Luxmoore in the *Brownie Case*, *supra*, would fix the compensation by determining "how much are manufacturers who are anxious to make and deal with the patented article on commercial lines ready and willing to pay." The Royal Commission on Awards to Inventors at p. 114 stated:

But, when and so far as the Crown had admittedly decided to avail itself of this statutory license, and the only remaining question is as to the terms of user, the proper interpretation of the section would seem to be that such a fair and reasonable price or consideration should be fixed for the user as would be arrived at between a willing licensor and willing licensee bargaining on equal terms.

The Royal Commission fixes the terms of user upon the basis of a fair and reasonable price or consideration. It will be observed in Canada that under Order in Council P.C. 6982 the Commissioner of Patents is asked to fix

(1) [1927] S.C.R. 300.

(2) (1929) 2 C.P.R. 36.

(3) (1929) 46 R.P.C. 457.

(4) 58 USPQ 417.

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“such compensation.” It may well be that when some specific item is in question the precise construction of the word “compensation” must as here used be determined, but such is not here raised nor does it detract from the fact that in general the same items would be included under both statutes.

The foregoing tests indicate both what the amount should be and, where a competitive market exists, the method by which it might be determined. Under the circumstances of war there was no such market but the Government in effect asks the Commissioner to reconstruct a market by selecting and giving consideration to all the items that the willing licensee and willing licensor bargaining in that market would take into account. The amount so computed is at least contemplated by the foregoing Order in Council.

The Commissioner of Patents in fixing the royalty of 5 per cent and 3.75 per cent considered the terms of the many agreements the respondent had made with foreign governments and companies. These agreements were exhibited to the affidavit of the president of the respondent company, the last paragraph of which stated:

THAT from my experience in negotiating the above mentioned royalty contracts and other negotiations with manufacturers in the United States I am able to say that in the industry of manufacturing parachutes a royalty of 10 per cent of the selling price is regarded as a reasonable royalty, subject to a reduction to 7½ per cent on any parachutes in excess of 10,000 per year.

These agreements were made prior to the war when production was relatively small and at least some of which were negotiated under such commercial relationships as to largely eliminate the competitive factor. The Commissioner of Patents concluded that the patentees were satisfied with the annual revenue derived from parachutes prior to the war and accepted that annual revenue as a fair index in computing the new royalty. He then took into consideration the increased number of parachutes under the circumstances of war and determined the royalty of 5 per cent on the first 5,000 parachutes and 3.75 per cent on the cost price of the harness and container. This would not appear to be a determination of the royalty upon a basis of the foregoing tests suggested in either the *Brownie*

Case or the Royal Commission on Awards to Inventors. The terms of these contracts might well be considered but only as one item along with the others.

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That which is regarded as the most important factor in determining the compensation under the circumstances that here obtain is the value of the inventions as used in the parachutes. This must depend upon what advantage the incorporation of these inventions in a parachute gives over those parachutes in which they are not embodied. The value of that advantage would be determined under normal conditions in the market "between a willing licensor and willing licensee bargaining on equal terms." It here cannot be determined by a mere perusal of the specifications of earlier patents. Such a perusal may be useful in determining the extent and nature of the difference between that which existed prior to and that which existed after the inventions in question, but the commercial usefulness and the value of the one over the other is a matter of evidence directed to the use and utility of the inventions in question over those which existed prior thereto. This involves an examination of the prior art not to determine what advance had been made in the art but the value of the utility of that advance made by the patents in question.

The Commissioner, proceeding as he did without regard to the tests above-mentioned, proceeded upon a wrong principle. The learned President, while recognizing the importance of use and utility, sought to determine compensation by adopting the royalty as fixed by the Commissioner and then computing the compensation on the basis of the selling price; in doing so he did not subject the relevant facts to the tests above suggested. Indeed, as I view the principle that underlies the determination of the compensation, the main consideration is the value of the inventions as essential parts of the completed parachute as compared with parachutes without them. This, as already intimated, involves a question of evidence that was not before either the Commissioner or the learned President.

It is essential that the inventions be accurately defined. This definition is found in the claim. The Commissioner treated all as improvement patents. The learned President held at least three to be combination patents. These three were Nos. 255,164, 273,872 and 304,455. On this issue I am in agreement with the learned President.

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I am also in agreement with the view that the whole matter should be remitted to the Commissioner for the purpose of determining the compensation.

The appeal should be allowed without costs.

Estey, J.

LOCKE J.—The record of the proceedings held before the Commissioner of Patents does not disclose the nature of the arrangements under which Switlick Canadian Parachute Limited manufactured the body harness, parachute packs and other parachute apparatus which gives rise to the claim. Under sec. 19 of the *Patent Act*, 1935, the Government of Canada may at any time use any patented invention and is required to pay to the patentee such sum as the Commissioner reports to be a reasonable compensation for the use thereof. In the award of the Commissioner he refers to Order-in-Council P.C. 6982 made on December 4, 1940, as amended by P.C. 11081 on December 8, 1942, whereby it was provided, *inter alia*, that if the Minister of Munitions and Supply on behalf of His Majesty should agree to indemnify any person, firm or corporation against any claims or proceedings for the infringement of any patent, no claim should be instituted by the patentee for infringement, but His Majesty is required to pay to the owner of the patent such compensation as the Commissioner of Patents reports to be reasonable for the use of the invention. This Order-in-Council was passed under the powers granted by the *War Measures Act* and provided in like manner as does s. 19 that the decision of the Commissioner should be subject to appeal to the Exchequer Court. In the absence of any evidence in the record, I assume it to be the case that the Switlick Company as the nominee of the Crown manufactured the equipment and that the matter is to be treated as an inquiry under s. 19.

By s. 4 of the *Patent Act*, 1935, the Commissioner of Patents in the discharge of his duties under the Act is vested with all the powers that may be given by the *Inquiries Act* to a commissioner appointed under Part 2 thereof. There were apparently at the time this inquiry was made in 1943 no rules prescribing the procedure to be followed. In the absence of any such regulations, the Irving Air Chute Company Inc. filed a petition in which, after asserting that it was the owner of the five Canadian

patents hereafter more particularly referred to, it was alleged that His Majesty had purchased large numbers of articles covered by the said patents from the Switlick Company and had agreed to indemnify that company against any claim for infringement and had thus become liable to the petitioner under the Order-in-Council to pay such compensation as the Commissioner might report to be reasonable for the use of the inventions. The petition alleged further that His Majesty had also purchased large numbers of articles covered by the patents from the petitioner and had by contract agreed to pay for such articles an amount specified and, in addition, such amount by way of royalty as should be determined to be payable in respect of the articles manufactured by Switlick. This document was not in the nature of a pleading and in the absence of any applicable rules no answer was required on behalf of His Majesty, though the situation would now be otherwise under the *Patent Rules*, 1948. However, a document in the nature of an answer was filed admitting the validity of the patents and that the inventions claimed had been used by His Majesty and stating certain other matters relevant to a consideration of the value of the inventions covered by the patents in question. S. 19 of the *Patent Act*, 1935, in my opinion, contemplates an inquiry by the Commissioner of the nature of those usually conducted by commissioners appointed under the *Inquiries Act*. In such an inquiry, in the absence of regulations to the contrary, its scope and the extent of the disclosure required should be determined by the Commissioner. The present proceeding appears to have been conducted as if it was in the nature of an ordinary action where the petitioner assumed the position of a plaintiff and the Crown that of a defendant and, in the result, the inquiry has been far from complete and did not, in my opinion, provide the Commissioner with the information requisite to enable him to properly discharge his duties.

The petitioning company is incorporated in the United States and has its principal office at Buffalo, N.Y. In support of its claim an affidavit of George Waite was filed which disclosed, *inter alia*, that free type parachutes and harness embodying what were designated as basic inventions covered by two of the patents in question are standard

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equipment in the Air Forces and commercial air services in at least thirty-six countries and for many years were the only free type parachutes used or issued there and that in all of the said countries, except the United States, the improvements covered by what were called the subsequent patents are embodied in the standard free type parachutes so used. The affidavit further stated that the company had "effective contracts" made with concerns in Austria, Canada, Sweden and Finland, France, Spain, Yugoslavia and Great Britain calling for royalties computed as a percentage of the selling price of the parachute equipment varying from  $7\frac{1}{2}$  per cent to  $12\frac{1}{2}$  per cent in the case of all of these countries other than Spain, where the existing contract provided for a royalty of \$30 per unit. All of the contracts referred to were made prior to the outbreak of the war in 1939. In the case of the Canadian and British contracts, the former was made by the petitioner with Irving Air Chute Ltd., a Canadian corporation having its principal office at Fort Erie, Ont., which, it is perhaps fair to assume, was a subsidiary of the petitioner; and in the case of the latter with a subsidiary, by name Irving Air Chute Company of Great Britain, which company in turn contracted with the British Government. In the case of the French contract which was said to have been executed in 1935, the identity of the licensee is not disclosed by the affidavit. Whether the licensees in France, Austria, Sweden or Finland, Spain or Yugoslavia, or any of them, were subsidiaries of the petitioning company is not stated. Evidence of existing royalty agreements, assuming that the patents which the licensees were permitted to utilize were for the inventions covered by the five Canadian patents in question or some of them, was relevant but, in the absence of more information than was given by the affidavit of Mr. Waite and by the documents produced, its weight was very slight. Where the arrangements were made with wholly owned or controlled subsidiaries of the petitioning company, the disclosure of the stipulated royalties might not afford any accurate indication of what could be realized for the use of the inventions in the market. The British contract made by the petitioner was admittedly with its subsidiary and while the nature of the arrangement between the British subsidiary and the British

Government for the supply of this equipment, in anticipation of the outbreak of the war and during its progress, would have been of material assistance this information was not given. These are matters which, in my opinion, should have been fully inquired into to enable the Commissioner to properly discharge his duties. In addition to producing these contracts, Mr. Waite stated in his affidavit that in the industry of manufacturing parachutes a royalty of ten per cent of the selling price was regarded as a reasonable royalty, subject to a reduction of  $7\frac{1}{2}$  per cent on parachutes produced in excess of 10,000 a year.

In addition to this material, written admissions made by the parties were filed with the Commissioner which included a statement that the price of a parachute before the war was about \$325, and that in the contract of September 18, 1940, made between the petitioner and the Crown the price was \$175 plus sales tax and royalty. In addition, the petitioner admitted that prior to the date of any of the patents in question harnesses of various kinds for parachute packs were known, that various forms of packs for parachutes were known and canopies of various forms and that none of the claims of the patents in question contained claims to the canopy itself, but asserted that they did contain claims to the canopy in certain designated combinations. It was also shown, as might be expected, that there had been a tremendous increase in production of parachutes for the Air Force after 1939. Between 1935 and 1939, 1,138 parachutes of all types had been purchased while between October 1939 and September 1943, 55,682 had been ordered.

On behalf of the Crown the material submitted to the Commissioner consisted of the admissions above referred to, the evidence of an accountant as to the manufacturing costs of both the Switlick Company and the Fort Erie Company and the production and filing of copies of a large number of patents issued in Canada and elsewhere to other patentees of parachutes and parachute equipment. As to these, no inquiry was made as to their practical utility or whether any of the equipment was being or had been manufactured under the patents, or as to the price at which the equipment could be produced, or the terms upon which licenses could be obtained to use any of the patents produced.

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In my opinion, the inquiry made in this matter was quite inadequate. I think the rule adopted by the Royal Commission appointed in England to determine the nature of the awards to be made to inventors of whose inventions the Crown had made use during the period of hostilities is the proper one to be followed by the Commissioner in discharging his duties under sec. 19. According to the first report of that Commission which is contained in Mr. J. P. Graham's work *Awards to Inventors*, the principle upon which the Commissioners proceeded was that a fair and reasonable consideration for such user should be such an amount of money as would be arrived at between a willing licensor and a willing licensee bargaining on equal terms. The burden of obtaining the information necessary to enable the Commissioner to come to a sound conclusion lay upon him, in the absence of regulations to the contrary, and not upon the parties to the dispute.

The proceedings before the Commissioner are not in the nature of claims for infringement. The five Canadian patents in question were all issued and have remained subject to the right of user reserved to the Crown on terms that reasonable compensation for any such use should be paid. The petitioner, judging from the material filed, considered that such compensation should be computed as a percentage of the selling price of the complete parachute for the reason that it is said that in commercial practice royalties computed in this manner are paid. Other than the statement of Mr. Waite, information as to this is entirely lacking. Since the Commissioner is charged with the duty of seeing that the petitioner receives fair treatment, full information as to this should be obtained. I find difficulty in appreciating why the compensation payable by the Crown under circumstances such as these should be determined in this manner. The petitioner claims no patent right in the main parachute, the pilot parachute or the kit bag and these, in so far as the petitioner was concerned, might have been manufactured for the Crown by some other contractor with impunity. An examination of the cost figures submitted shows that a large proportion of the cost of manufacturing the complete parachute lies in these three items and presumably a like proportion of the selling price would be

attributable to them. If the quantum of the compensation is to be fixed as a percentage of the selling price, it is presumably that portion of the selling price attributable to that portion of the equipment, the manufacture of which would in the case of a commercial manufacturer amount to an infringement of the patent, and if it is computed upon this basis substantially the same result is produced as the award of the Commissioner.

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I think, however, without expressing any opinion as to quantum, that to restrict the compensation to the percentage awarded by the Commissioner on either the cost or the selling price of the body harness, accessories and container only, may well result in an inadequate award. There is no principle of law which required the Commissioner to determine the amount of the compensation as a percentage of either the cost or the selling price of the entire parachute apparatus or of any part of it. The cost of producing an improvement to a patented article or producing a part of a machine, the use of which may amount in combination with other known equipment to a patentable invention, is not necessarily a factor in determining its worth. In the Royal Commission's first report to the British Government, mention is made of a claim dealt with before it for the use of an attachment to the Vicker's gun which in practice enable the rate of firing to be at least doubled, and so was of the utmost value in the short bursts of fire between fighting aeroplanes and which was adopted as standard equipment. The cost of the attachment averaged about 10 s. 6 d. and any ordinary percentage of the rate allowed in commercial practice would have been grossly inadequate. The award made was the sum of £10,000. As to such of the patents in question here as were admittedly for improvements only, the result of their use, for all the evidence indicates, may have been to convert a dangerous and cumbrous piece of equipment into one of the very highest value and, if that were so, I do not consider that the cost of manufacturing such improvement or the price at which it was purchased by the Crown should be used as a yardstick to determine what was fair compensation for its use.

The Commissioner was, in my opinion, entitled to examine the other patents filed with him but the inquiry

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should have extended to ascertaining whether the parachutes and parachute equipment referred to had proven practical in use, whether they were available or might have been made available at the outset of the war and, if so, upon what terms. Assuming there was other available satisfactory equipment, a comparison of it with the parachute equipment using the inventions of the petitioner would be of assistance in estimating the value of the petitioner's patent in use. While under s. 29 of *The Patents and Designs Acts, 1907-1939*, which provides in part that a patent shall have to all intents the like effect as against His Majesty the King as it has against a subject, it might be arguable that a claim for loss of profits or other damages might lie in England, there can be nothing of that kind here, in my opinion, under s. 19 of the *Patent Act, 1935*. The claim of the petitioner in the present matter is not for damages for infringement but to settle the amount of the reasonable compensation for the user of the inventions by the Crown in the exercise of the right reserved. In determining the compensation the Commissioner of Patents is at liberty, in my opinion, to make either a lump sum award, as was done in the case of the invention for the improvement of the Vicker's machine gun, or a fixed sum per unit of the parachute equipment in question, or a percentage of either the cost or the selling price of either the entire equipment or of the body harness, accessories and container only, provided the Commissioner is of the opinion that this method would result in the payment of reasonable compensation for the use of the patents upon the basis above indicated. In the award of the Commissioner the following passage appears:

The annual revenue derived from parachutes prior to the war was apparently acceptable to the patentees and that annual revenue may be taken as a fair index in computing the new royalty.

and this view appears to have affected the quantum of the award. The amount of the annual revenue realized (presumably by the appellant before the war) was irrelevant to the inquiry, in my opinion.

I would allow this appeal and set aside the judgment of the Exchequer Court and refer the matter back to the Commissioner of Patents to continue his inquiry for the purpose of obtaining whatever information he considers

necessary to determine the difficult question which has been referred to him, upon the principle above indicated. Under the circumstances there should be no costs either of this appeal or in the Exchequer Court.

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*Appeal allowed without costs and case referred back to Commissioner of Patents in accordance with the reasons of the members of the Court.*

Solicitors for the appellant: *Gowling, MacTavish, Watt, Osborne & Henderson.*

Solicitors for the respondent: *Smart & Biggar.*

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