

1964
 *Oct. 22, 23
 Dec. 21
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MICRO CHEMICALS LIMITED, GRYPHON LABORATORIES LIMITED AND PAUL MANEY LABORATORIES C A N A D A LIMITED (<i>Defendants</i>)	}	APPELLANTS;
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AND

RHONE-POULENC, S.A. (*Plaintiff*) RESPONDENT.

ON APPEAL FROM THE EXCHEQUER COURT OF CANADA

Patents—Compulsory licence—Restricted to sale “to be used in Canada”—Infringement—Sale by licensee to related Canadian company—Sale by purchaser to third related Canadian company with resale to customer outside Canada—Whether infringement—Patent Act, R.S.C. 1952, c. 203, ss. 41(3), 46.

The plaintiff, a French corporation, was the owner of a Canadian patent relating, *inter alia*, to a process for producing chlorpromazine, a medical substance. The defendant company Micro was the non-exclusive licensee in Canada under a compulsory licence issued by the Commissioner of Patents pursuant to s. 41(3) of the *Patent Act*, R.S.C. 1952, c. 203. The licence allowed Micro to use the invention to prepare medicine in its own establishment and then to sell the medicine so prepared “to be used in Canada”. Micro manufactured chlorpromazine in bulk, sold it to the defendant company Gryphon which used it to make chlorpromazine hydrochloride tablets which it then sold to the defendant company Maney, which in turn sold the tablets to the New Zealand government. The three defendant companies had the same offices and had officers and personnel in common, and all three had clear notice of the scope and limitations of the licence. The trial judge found that the sale of the tablets to the New Zealand government infringed the terms of the licence and maintained the action for infringement.

Held: The appeal should be dismissed.

The rights of the defendants to manufacture, use and sell were contained in the compulsory licence. Their justification for making, using or selling in Canada rested squarely on the compulsory licence and that licence restricted the licensee to use the patented invention in Canada and to sell the medicine so prepared or produced “to be used in Canada”. The trial judge was right in his finding that the evidence clearly established that the three defendants with full knowledge of the restrictions in the compulsory licence did not operate within its ambit and that they thereby infringed the patentee’s rights.

*PRESENT: Cartwright, Martland, Judson, Hall and Spence JJ.

Brevets—Licence forcée, limitée à la vente au Canada—Contrefaçon—Vente par le porteur de licence à une compagnie canadienne apparentée—Vente par l'acheteur à une autre compagnie canadienne apparentée avec revente à un client en dehors du Canada—Y a-t-il eu violation—Loi sur les brevets, S.R.C. 1952, c. 203, arts. 41(3), 46.

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La compagnie demanderesse, une corporation française, était le titulaire d'un brevet canadien se rapportant, entre autres, à un procédé pour la production de «chlorpromazine», une substance médicale. La compagnie défenderesse Micro était le porteur d'une licence non exclusive au Canada sous le régime d'une licence forcée émise par le Commissaire des brevets en vertu de l'art. 41(3) de la *Loi sur les brevets*, S.R.C. 1952, c. 203. La licence permettait à Micro de se servir de l'invention pour préparer des médicaments dans son propre établissement et de les vendre tels que préparés pour servir au Canada. Micro a fabriqué de la «chlorpromazine» en gros, l'a vendue à la défenderesse Gryphon qui s'en est servie pour faire des comprimés chlorhydrate de «chlorpromazine» lesquels elle a vendus à la compagnie Maney, qui à son tour a vendu ces comprimés au gouvernement de la Nouvelle-Zélande. Les trois compagnies défenderesses avaient les mêmes bureaux et avaient des officiers et du personnel en commun, et toutes trois étaient clairement au courant de la portée et des limites de la licence. Le juge au procès trouva que la vente des tablettes au gouvernement de la Nouvelle-Zélande avait violé les termes de la licence et maintint l'action pour contrefaçon.

Arrêt: L'appel doit être rejeté.

Les droits des défendeurs de fabriquer, d'utiliser et de vendre étaient contenus dans la licence forcée. Leur justification pour fabriquer, utiliser ou vendre au Canada reposait carrément sur la licence forcée et cette licence limitait son porteur à l'usage de l'invention brevetée au Canada et à la vente des médicaments ainsi préparés ou produits pour servir au Canada. Le juge au procès a eu raison dans sa conclusion que la preuve établissait clairement que les trois défendeurs, avec pleine connaissance des restrictions dans la licence forcée, n'ont pas agi dans les bornes de cette licence et que par conséquent ils ont violé les droits du titulaire.

APPEL d'un jugement du Juge Noël de la Cour de l'Échiquier¹, maintenant une action pour contrefaçon d'une licence forcée obtenue de son titulaire. Appel rejeté.

APPEAL from a judgment of Noël J. of the Exchequer Court of Canada¹, maintaining an action for infringement of a compulsory licence obtained from a patentee. Appeal dismissed.

¹ [1964] Ex. C.R. 819.

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G. F. Henderson, Q.C., and C. W. Robinson, Q.C., for the defendants, appellants.

Christopher Robinson, Q.C., and Russell S. Smart, for the plaintiff, respondent.

The judgment of the Court was delivered by

HALL J.:—This is an appeal from a judgment of Noël J. of the Exchequer Court¹ dated January 6, 1964, in an action brought by the respondent against the appellants in which the respondent claimed that the appellants had infringed Patent No. 519,525 issued to it on December 12, 1955, as the assignee of Paul Charpentier, the inventor of the invention covered by the patent.

Patent No. 519,525, the patent in question, relates to new phenthiazine derivatives having valuable therapeutic properties and to processes for their preparation and is confined for the purpose of the present action to claim 5 which reads as follows:

5. A process according to claim 1, 2 or 3 wherein X is a chlorine atom in the 3-position, A is a —CH₂—CH₂—CH₂— group and R₁ and R₂ are methyl groups.

This is a process for producing a chemical product called chlorpromazine and relates to a medical substance.

The validity of the patent is not in question nor is there any dispute that what the appellants are charged with making, using or selling is chlorpromazine covered by the patent. The only matter which fell to be determined in the action was whether what the appellants did was or was not within the scope of a compulsory licence obtained from the patentee by Micro Chemicals Limited.

Micro Chemicals Limited had, under s. 41(3) of the *Patent Act*, R.S.C. 1952, c. 203, applied to the Commissioner of Patents for what is called a “compulsory licence”. The Commissioner granted a licence under said s. 41(3). The licence so granted was subsequently amended by Noël J. in

¹ [1964] Ex. C.R.: 819.

the Exchequer Court of Canada. The relevant portions of the licence as amended read as follows:

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NOW THEREFORE be it known that pursuant to the powers vested in me by the Patent Act and particularly by sections 4 and 41 of the said Act, I do order the grant to the applicant, MICRO CHEMICALS LIMITED of a non-exclusive licence under Canadian Patent Number 519,525, for the unexpired term thereof, to use the patented invention in Canada in its own establishment only for the purpose of the preparation or production of medicine but not otherwise and to sell the medicine so prepared or produced by it to be used in Canada, with notice of such restriction, the whole under the following terms and conditions:

1. MICRO CHEMICALS LIMITED shall apply to every container of medicine prepared or produced by it and sold pursuant to this licence, a notice reading "Licensed under Canadian Patent No. 519,525 but not for export".

1A. MICRO CHEMICALS LIMITED shall pay to RHONE-POULENC a royalty of 15% (fifteen per cent) on its net selling price to others of the active product in its crude form prepared or produced pursuant to this licence and sold by it.

* * *

8. Nothing herein contained shall preclude purchasers of the medicine prepared or produced by Micro Chemicals Limited pursuant to this licence from using the medicine in any way they choose for their own personal consumption.

* * *

10. The word "medicine" when used herein shall include medicine in bulk form.

The grant clause above quoted indicates that the compulsory licence imposed on the patentee and given to Micro Chemicals Limited as licensee allows that company to use the invention to prepare medicine in its own establishment and then to sell the medicine so prepared to be used in Canada.

The infringement alleged against the three appellant companies consists in a sale of 450,000 tablets to the Government of New Zealand made possible by means of appellants' joint action which the respondent alleges infringes the non-exclusive licence which as stated allows the sale of the product to be used in Canada only.

The three appellants, hereinafter called "Micro", "Gryphon" and "Maney" have the same offices and they have

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officers and personnel in common. Mr. Miller and Mr. John M. Cook are common officers to all the appellants. A Mr. I. D. Heintzman is vice-president of both Micro and Gryphon and Micro's purchasing agent acts as such for all three appellant companies. As explained by Mr. Cook, who is president and general manager of Micro and secretary-treasurer of Gryphon and Maney and is active in the three companies, day to day co-operation between the latter would be a very close one. His position as secretary-treasurer of Gryphon and Maney is more of a financial type of administration and covers office routine, and in the case of Gryphon, he did sign some documents as manager of the company.

Micro is a company that makes chemicals used in many cases as the basis for pharmaceutical preparations. Gryphon is a company which makes up pharmaceutical preparations from chemicals it buys, sometimes from Micro and sometimes from elsewhere. In the present case, Gryphon made up into tablets the substance called chlorpromazine with other ingredients and only a small part of its weight is chlorpromazine.

Mr. Cook admits that in the case of a product marketed by Maney originally manufactured by Micro and made up into tablets by Gryphon, the information required by the Food and Drugs administrator for approval purposes would have come from all three companies.

When Gryphon sells its finished products it can be in the form of tablets such as we have here, or in liquids and suppositories packed in bottles or containers with sometimes the customer's label on, but normally its products are shipped in bulk containers in accordance with whatever packaging instructions the customer has given.

The third company, Paul Maney Laboratories Canada Limited, is a supplier. It markets pharmaceutical preparations which it gets either from Gryphon or elsewhere.

On or about December 4, 1962, Maney contracted to sell to the New Zealand Government 450,000 tablets of Chlorpromazine hydrochloride which bulk substance had been

manufactured by Micro and then sold to Gryphon and held in stock by Gryphon until the need to make the order arose. Mr. Cook admitted that these 450,000 tablets were manufactured by Gryphon and packaged to the specification of Maney after which they were delivered to Maney and by it to agents of the New Zealand Government. Maney not only sold to the New Zealand Government but acted as its agent in Canada in shipping the tablets to New Zealand.

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Section 46 of the *Patent Act* which reads as follows:

Every patent granted under this Act shall contain the title or name of the invention, with a reference to the specification, and shall, subject to the conditions in this Act prescribed, grant to the patentee and his legal representatives for the term therein mentioned, from the granting of the same, the exclusive right, privilege and liberty of making, constructing, using and vending to others to be used the said invention subject to adjudication in respect thereof before any court of competent jurisdiction.

spells out the exclusive rights and privileges of the holder of the patent.

The rights of the appellants to manufacture, use and sell are contained in the compulsory licence previously mentioned. If it were not for the compulsory licence and the terms thereof the appellants would have had no right at all to make, use or sell the substance covered by the patent. Their justification for making, using or selling in Canada rests squarely on the compulsory licence and that licence restricts the licensee to use the patented invention in Canada and to sell the medicine so prepared or produced "to be used in Canada".

The sale of the 450,000 tablets to the Government of New Zealand was clearly in breach of the terms of the compulsory licence. All three appellants had clear notice of the scope and limitations of the licence.

I agree fully with the learned trial judge in his finding that the evidence clearly establishes that the three appellants with full knowledge of the restrictions in the compulsory licence did not operate within the ambit of the licence and that they thereby infringed the patentee's rights.

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The appeal should accordingly be dismissed with costs and the judgment of Noël J. sustained including his directions as to the assessment of damages.

Appeal dismissed with costs.

Solicitors for the defendants, appellants: Gowling, Mac-Tavish, Osborne & Henderson, Ottawa.

Solicitors for the plaintiff, respondent: Smart & Biggar, Ottawa.

EDITOR'S NOTE: An appeal by Micro Chemicals Ltd. against the judgment of the Exchequer Court, reported at [1964] Ex. C.R. 834, and which was an appeal to that Court from a decision of the Commissioner of Patents, dated May 31, 1962, settling the terms of the compulsory licence granted to Micro on December 12, 1955, was heard by this Court at the same time as the above reported appeal. The following judgment was delivered:

“We are all of opinion that the Commissioner of Patents had jurisdiction to settle the terms of the licence as he did.

We are further of opinion that the terms of the licence as finally settled by the order of Noël J. are in accordance with the terms of the *Patent Act* and should not be disturbed.

The appeal is accordingly dismissed with costs.”