

# Abuse of Monopoly Revisited

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Commentary

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ABUSE OF MONOPOLY REVISITED—"Now, every person of common sense knows what is involved in patent actions and what the expense of them is, and everybody knows that to be threatened with a patent action is about as disagreeable a thing as can happen to a man in his business, even if he be innocent of any infringement of patent law."<sup>1</sup>

For many years it has been well recognized that threat of an action under a patent can be more damaging and ruinous even than the action itself. There is no way of compelling the patentee to bring his action; he is at liberty to wait until the end of the seventeen year term for which his patent is granted before filing his statement of claim, in the meanwhile dangling his patent, like the Sword of Damocles, over the heads of his trade rivals. There are, of course, other remedies<sup>2</sup> available to a person whose business is hindered by the existence of a patent but the real mischief, is not the existence of the patent but the threats posed by the owner of it to the trade at large. For this reason, the British Patent Act<sup>3</sup> provides a right of action for an injunction and damages to any person aggrieved by threats of a patent proceedings. There is no such provision in the Canadian Patent Act<sup>4</sup> and it remains to mention what other remedies are available to a party injured by such threats.

In 1945, Dr. Harold G. Fox reviewed<sup>5</sup> this situation, concluding that there were three possible grounds on which to proceed: first, under sec. 11(1) (a) and (c) of the Unfair Competition Act, 1932;<sup>6</sup>

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<sup>1</sup> *Skinner v. Shew & Co.*, [1893], Ch. 413 at p. 424 per Bowen L.J.

<sup>2</sup> An action for impeachment of patents, an action for a declaration of non-infringements, and an application to grant a compulsory license.

<sup>3</sup> Patent Act, 1949, 12, 13 and 14, Geo. VI, c. 87, s. 65.

<sup>4</sup> Patent Act R.S.C., 1935, c. 203, as amended by 1953-54, 2-3 Eliz. II, c. 19. and c. 40, s. 15.

<sup>5</sup> Fox, Abuse of Monopoly (1945), 23 Can. Bar Rev. 353.

<sup>6</sup> Unfair Competition Act, R.S.C., 1932, c. 38, s. 7(a).

secondly, at common law under the heading of slander of title, and, thirdly, under section 4 of the Statute of Monopolies, 1624.<sup>7</sup> The common law action, however, requires proof that the threat was false, proof of malice, and proof of special damage. In addition to this heavy burden of proof, no decision was possible by the Exchequer Court of Canada prior to 1928 because its special constitution denied to it any general jurisdiction at common law. Section 11 of the Unfair Competition Act was entirely new in 1932 and, although malice was not mentioned in the section, no-one seems to have attempted to invoke it in the face of a threat of patent proceedings. Indeed, the only reported case in which Section 11(1) (a) has ever been invoked is that of *Lebel v. Ontario Beauty Supply Co. Ltd.*<sup>8</sup> The only attempt made to apply section 4 of the Statute of Monopolies, which again does not require proof of malice, was in the English case of *Peck v. Hindes*<sup>9</sup> in 1898 in which Mathew J. merely held that the statute did not apply to an unsuccessful action for patent infringement. Perhaps because of these doubts and difficulties no-one seems to have had the courage to make a serious attempt to restrain threats of patent proceedings in Canada, at least since 1925;<sup>10</sup> and, even then, it was not decided whether such an action lay at all.

The case of *Reliable Plastics Ltd. v. Louis Marx and Co. of Canada Ltd.*<sup>11</sup> is, therefore, something of a landmark in Canadian jurisprudence, being precisely such a case. The facts were simple; the plaintiff and defendants both manufactured and competitively sold basically similar plastic toy games, including miniature bagatelle games. In 1953 a Canadian patent was issued to the first defendant under which the second defendant was the sole licensee, and both defendants were of the opinion that the plaintiff's games infringed this patent. They first wrote to the plaintiff; and then later circulated the trade (some 125 firms, including many of the plaintiff's customers to the effect that the plaintiffs' games infringed the patent and "to formally notify you of the patent in the thought that you would not want to knowingly become an infringer thereof". The plaintiff then instituted this action to restrain threats basing it on all three of Dr. Fox's suggested grounds, and seeking an injunction and damages. The defendants counterclaimed for infringement of the patent and thereafter the action proceeded as a normal patent action with the parties reversed.

The President of the Exchequer Court found that the patent was valid and had been infringed, but he held that the plaintiff was excused from liability for infringement by virtue of section 56 (now 58) of the Patent Act, which excludes infringing articles manufactured or acquired before the issue of the patent. It is interesting

<sup>7</sup> Statute of Monopolies, 1624 21 Jac. I c. 3, s. 4; R.S.O. 1897, c. 323, s. 4.

<sup>8</sup> *Lebel v. Ontario Beauty Supply Co. Ltd.* (1950), 12 Fox Pat. C. 175.

<sup>9</sup> *Peck v. Hinder* (1898), 15 R.P.C. 113.

<sup>10</sup> *Kilgour Davenport Co. Ltd. v. Heale* (1925), 280 O.W.N. 361—an unsatisfactory case in which no order was made as to the counterclaim.

<sup>11</sup> *Reliable Plastics Ltd. v. Louis Marx and Co. Inc.* (1958), 17 Fox Pat. C. 184.

to note in passing that the above section does not provide that such articles are not infringements but merely that no liability attaches to them. It thus affords a good example of a statute creating an inchoate tort. The President's finding of validity and of infringement is not of general interest for present purposes, though the finding is regrettable at least to the lawyer because it followed in his judgment that the threats were not made maliciously in the sense required by the common law. He dismissed the action under the Statute of Monopolies on the basis of lack of evidence, and thereby denied to the profession a discussion by one of our most eminent judges of whether an Imperial Act of the reign of James 1st is still in force *ex proprio vigore* in Canada.

The action under the Unfair Competition Act posed more of a problem in that the President previously had held that the plaintiff was not liable for the infringements because they had been manufactured before the issue of the patent. In his judgment, he said that "even if it could be argued that the statement in the letter was untrue—because of the freedom from liability afforded by Section 56, that does not make it a false statement".<sup>12</sup> Lawyers may be thankful that the distinction between "untrue" and "false" was not the *ratio decidendi* of the case since no indication was given as to what would be a false statement within the meaning of the section. However, this passage in itself does seem to give some indication that there must be an element of intention (*mala fides*) to render a statement false. Further weight was lent to this attitude when he said later that "the fact that the defendants failed to consider that the plaintiff might escape liability under Section 56 is not sufficient to saddle it with either falsity or malice".<sup>13</sup> It is clear from this passage that, although the words falsity and malice were used separately, both had a subjective content of intention on the part of the defendants.

It is submitted that to place such a construction on the word "false" would be a misuse of language, and that in any case it was an unnecessary inclusion in an otherwise closely reasoned judgment. It was unnecessary because the President had already held that the articles in question were infringements and that, therefore, the letter was, technically speaking, true. As a matter of language, the dictionaries seem to indicate that "false" means untrue and "untrue" means false; indeed it seems that to find "false" being used with a subjective content one must turn to the poets rather than to the statute book. But the writer's fundamental complaint is that to suggest that "false" means something more than untrue would be virtually to remove any teeth the section may ever have had. The common law failed to provide an adequate remedy for threats of patent proceedings because of its requirement of proof of malice and because the construction put upon this word excludes recklessness and carelessness in this context. To hold that an untrue statement would not automatically be a "false" statement within the section

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<sup>12</sup> *Ibid.*, at p. 203.

<sup>13</sup> *Ibid.*, at p. 204.

would be virtually to let in the doctrine of common law malice by the back door, with its well-known sterilizing effects.

As stated, this was not the substantial ground of the decision, and it is worth observing that it is in conflict with *Lebel v. Ontario Beauty Supply Ltd.* the only other case based on the section. In this case Tindal C.J. found himself "convinced" that there was no malice on the part of the maker of the statement complained of. On the other hand, he found that the statement was not "in accordance with the facts" and "therefore may be considered a false statement within the meaning of the Act".<sup>14</sup> It is submitted that this is the correct construction to place on the word "false" in this context, and it is to be hoped that Tindal C.J.'s opinion will be preferred in the future. It should be noted that the relevant sub-section of the Unfair Competition Act is now embodied in Section 7 of the Trade Marks Act 1952, and that the wording has been altered to "false or misleading statement".<sup>15</sup> The writer does not believe, however, that the addition of the word "misleading" in any way alters the meaning of the word "false". It is probable that the word "misleading" is intended to include statements which while not technically false have the effect of conveying a false impression or innuendo discrediting the wares of a competitor, for example, "X's goods are cheaper than ours", might suggest to many people that X's goods are inferior and if this is not the case X might well have a remedy under the section.

In making this criticism of what is after all only an *obiter dictum*, one must pursue to their conclusion the consequences of regarding any untrue statement as "false" within the Act. Thus a statement that an article infringes a patent can only be shown to be true or false (untrue) by a decision of the Supreme Court of Canada as to (a) infringement, and (b) validity of the patent. This is of course because these questions are questions of law and not of fact, and they are not capable of affirmative proof either way. This is obvious, but it is equally obvious that it is practically impossible to write an effective solicitor's "letter before action" in a patent case without stating that the patent is infringed (and therefore valid by implication). The patentee is in a dilemma. Should he boldly assert that his patent can withstand any attack made upon it, and that it is infringed, and run the risk that either of these assertions may later be held to be untrue? Or should he confine himself to the facts, merely stating that he is the owner of patent number X? This at best is a somewhat half-hearted letter to write to a trade competitor. The latter course has been adopted in Britain, where it is expressly provided that a letter in these terms shall not constitute a threat.<sup>16</sup> The former course has usually been adopted in Canada in the past. While perhaps the *Reliable Plastics* case may have a restraining effect on the senders of the majority of these threatening letters, it is to be hoped that at some time in the not too distant future

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<sup>14</sup> *Ibid.*, at p. 177.

<sup>15</sup> Trade Marks and Unfair Competition Act, R.S.C., 1952, c. 49, s. 7.

<sup>16</sup> Patents Act, *ante* footnote 3, s. 65(2).

a decision may be handed down giving real effect to Section 7(1) (a) of the Trade Marks Act, which will clearly establish the right to stop a patentee making wild threats of patent litigation. If a future decision construes the section in the manner indicated by the writer, it will then be appropriate to consider whether complete prohibition is desirable or whether threats are permissible if made only to the originator of the infringements, and not to the trade outlets, and whether some limitation period is to be set in which the patentee must bring his action, failing which the alleged infringer may force the issue into the courts by way of an action to restrain threats.

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