CURTISS-WRIGHT CORPORATION (*Suppliant*) ..... APPELLANT;

1969

*Feb. 7, 10
Mar. 10

AND

HER MAJESTY THE QUEEN ..... RESPONDENT.

ON APPEAL FROM THE EXCHEQUER COURT OF CANADA

Patents—Licensing agreement—Acknowledgement by licensee of validity of patent and undertaking not to contest—Whether licensee estopped from denying validity after expiration of agreement—Defence Production Act, R.S.C. 1952, c. 62, s. 20—Patent Act, R.S.C. 1952, c. 203.

The suppliant and company CAE entered into an agreement whereby CAE obtained the right to use certain patents of the suppliant. In the agreement, the licensee acknowledged the validity of the patents and agreed not to be an adverse party to any action disputing their validity. After the expiration of the agreement, the Minister of Defence Production, pursuant to s. 20(1) of the *Defence Production Act*, R.S.C. 1952, c. 62, agreed to indemnify CAE for its continued use of the patents. The Crown having refused to entertain its claim for compensation on the ground that the patents were invalid, the suppliant filed a petition of right in the Exchequer Court to determine whether it had a right to compensation. A preliminary question, set down for hearing before trial, was whether after the expiration of the agreement CAE and the Crown were precluded from denying the validity of the patents. The Exchequer Court ruled that neither CAE nor the Crown were estopped. The suppliant appealed to this Court.

Held: The appeal should be dismissed.

The words in the acknowledgement clause did not constitute a representation of fact. An acknowledgement of a fact is not a representation of a fact. There was no representation of fact intended to induce the suppliant to change its position to its detriment. It was simply a contractual obligation inserted to protect the patentee and binding upon the licensee for the life of the licensing agreement.

Brevets—Contrat concédant une licence—Reconnaissance de la validité du brevet par le porteur de licence et engagement de ne pas la contester —Le porteur de licence n'est pas empêché de nier la validité après l'expiration du contrat—Loi sur la production de défense, S.R.C. 1952, c. 62, art. 20—Loi sur les brevets, S.R.C. 1952, c. 203.

La demanderesse et la compagnie CAE ont convenu par contrat que la compagnie CAE aurait le droit d'utiliser certains brevets appartenant à la demanderesse. Dans le contrat, le porteur de licence a reconnu la validité des brevets et a convenu qu'il ne serait pas une partie adverse dans toute action mettant en doute leur validité. Après l'expiration du contrat, le Ministre de la Production de défense a convenu, en vertu de l'art. 20(1) de la *Loi sur la production de défense*, S.R.C.

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* PRESENT: Cartwright C.J. and Fauteux, Judson, Hall and Pigeon JJ.

1969

CURTISS-WRIGHT CORPORATION v. THE QUEEN

1952, c. 62, d'indemniser la compagnie CAE pour tout usage subséquent des brevets. Lorsque la Couronne a refusé d'accueillir une réclamation pour indemnité pour le motif que les brevets étaient invalides, la demanderesse a produit une pétition de droit devant la Cour de l'Échiquier pour faire déterminer la question de savoir si elle avait droit à une indemnité. Avant l'enquête, la Cour a entendu la question préliminaire de savoir si après l'expiration du contrat la compagnie CAE et la Couronne étaient empêchées de nier la validité des brevets. La Cour de l'Échiquier a statué que ni CAE ni la Couronne étaient empêchées. La demanderesse en appela à cette Cour.

Arrêt: L'appel doit être rejeté.

Le texte de la clause de reconnaissance ne constitue pas une représentation d'un fait. Une reconnaissance d'un fait n'est pas une représentation d'un fait. Il n'y a eu aucune représentation d'un fait destinée à induire la demanderesse à changer sa situation à son préjudice. Il s'agit simplement d'une obligation contractuelle insérée pour protéger le titulaire du brevet et ne liant le porteur de la licence que pour la vie du contrat de licence.

APPEL d'un jugement du Président Jackett de la Cour de l'Échiquier du Canada[1], concernant l'audition avant l'enquête de certaines questions de droits. Appel rejeté.

APPEAL from a judgment of Jackett P. of the Exchequer Court of Canada[1], concerning the hearing before trial of certain questions of law. Appeal dismissed.

I. Goldsmith, for the suppliant, appellant.

K. E. Eaton and *G. A. Macklin,* for the respondent.

The judgment of the Court was delivered by

JUDSON J.:—Curtiss-Wright Corporation is the owner of a number of Canadian patents relating to the manufacture of flight training apparatus. On December 3, 1952, with the knowledge and approval of the Crown, it entered into a licensing agreement with Canadian Aviation Electronics (referred to as CAE) under which this company obtained the right to use these patented inventions in the manufacture of flight training apparatus in Canada for defence purposes. CAE agreed to pay to Curtiss-Wright royalties of $7\frac{1}{2}$ per cent of the selling price on the apparatus made under the agreement and, in addition, the cost of certain

[1] [1968] 1 Ex. C.R. 519, 53 C.P.R. 144, 37 Fox Pat. C. 153.

technical assistance. Curtiss-Wright also made an agreement with the Crown under which it agreed to provide engineering and technical assistance to CAE for a stated sum.

Both agreements expired in December 1957, except that the licensing agreement was extended in a limited respect which does not affect the issue which has to be decided in this appeal. CAE continued to manufacture flight training apparatus under contract from the Department of Defence Production. By a letter dated July 8, 1958, and pursuant to s. 20(1) of the *Defence Production Act*, R.S.C. 1952, c. 62, the Minister of Defence Production directed CAE not to pay any royalties to Curtiss-Wright and agreed to indemnify the company against any claims for royalties arising out of the manufacture, sale, maintenance, repair and overhaul of any flight training apparatus.

Curtiss-Wright then sought compensation from the Crown under s. 20(3) of the *Defence Production Act*. The Crown refused to entertain the claim on the ground that the appellant's patents were invalid.

Curtiss-Wright then filed a petition of right in the Exchequer Court to determine whether it had a right to compensation. This was done as a preliminary to proceeding before the Commissioner of Patents to have the amount of compensation ascertained. Before embarking on the trial, the Exchequer Court decided to dispose of two preliminary questions of law. The first of these was:

> 1. Whether on the true construction of the licensing agreement, CAE could be precluded in any proceedings by the suppliant for patent infringement after the expiration of the agreement from denying the validity of any patents to which it applies.

The answer of the Exchequer Court[1] was that CAE was not estopped from contesting the validity of the patents after the expiration of the licensing agreement and that consequently, the Crown was not estopped from contesting their validity in proceedings for compensation under s. 20, subs. (3) of the *Defence Production Act*. With this opinion I agree.

Counsel for the appellant founded his argument on clause XVI of the agreement. This reads:

> Licensee hereby acknowledges the validity of the patents made the subject of this Agreement, and under which Licensee is now or hereafter

[1] [1968] 1 Ex. C.R. 519, 53 C.P.R. 144, 37 Fox Pat. C. 153.

1969

CURTISS-WRIGHT CORPORATION v. THE QUEEN

Judson J.

licensed and agrees not voluntarily to become an adverse party, directly or indirectly, to any suit or action disputing the validity of said patents or any of them.

His contention was that the principle of common law estoppel applied as the words "licensee hereby acknowledges the validity of the patents" were a representation not that the patents were valid but that the licensee accepted the fact that they were valid. To me this argument is without substance. The words do not constitute a representation of fact. Counsel for the appellant is claiming far too much for the word "acknowledges". As the President of the Exchequer Court pointed out, an acknowledgment of a fact is not a representation of a fact.

To me, the meaning and effect of clause XVI are both clear. The licensee "acknowledged", "admitted" or "agreed" (and it does not matter which word is used) that the patents were valid. The licensee also agreed not to become an adverse party "directly or indirectly, to any suit or action disputing the validity of the said patents or any of them". Clause XVI contains no representation of fact which was intended to induce Curtiss-Wright to change its position to its detriment. It was simply a contractual obligation inserted to protect the patentee and binding upon the licensee for the life of the licensing agreement.

The President of the Exchequer Court came to this conclusion on a consideration of clause XVI in the context of the agreement, and particularly clause XI dealing with the rights of the parties upon the expiration, termination or cancellation of the agreement. It is unnecessary for me to go into the matter in further detail. On this branch of the case I am in complete agreement with the Exchequer Court.

The Exchequer Court also went on to consider a further question, which was:

> 2. Assuming an affirmative answer to the first question, whether on a true construction of s. 20 of the *Defence Production Act* the respondent (the Crown) is precluded from raising an issue as to the validity of any of the patents by way of defence to the suppliant's claim for compensation under that section for the alleged use by CAE of such patents regardless of whether such alleged use constitutes a breach of the licensing agreement.

Although the President recognized that the question did not require an answer in view of the answer given to question 1, nevertheless he did express the opinion that the Crown was not precluded from contesting the validity of

the patents. It is not necessary in this Court to express an opinion on this question.

I would dismiss the appeal with costs.

Appeal dismissed with costs.

Solicitors for the suppliant, appellant: Goldsmith & Caswell, Toronto.

Solicitors for the respondent: Gowling, MacTavish, Osborne & Henderson, Ottawa.