

PHILCO PRODUCTS, LIMITED, AND }
 CUTTEN-FOSTER & SONS, LIM- } APPELLANTS; * ¹⁹³⁹Nov. 21, 22
 ITED (DEFENDANTS) }

1940
 * June 20.

AND

THERMIONICS, LIMITED, AND }
 OTHERS (PLAINTIFFS) } RESPONDENTS.

ON APPEAL FROM THE EXCHEQUER COURT OF CANADA

Patents—Pleadings—In action for alleged infringement of patents, defendants seeking to plead an illegal conspiracy or combine—Question raised whether such defence could constitute a good defence in such an action—Insufficiency of the pleading in question—Application of the principle ex dolo malo non oritur actio.

In an action for alleged infringement of patents of invention, defendants sought by amendment to plead “that the plaintiffs, or some of them, together or with others, have entered into an illegal conspiracy or combine contrary to the common and statute law of the Dominion of Canada, and, in particular, contrary to The Combines Investigation Act (R.S.C., 1927, c. 26) and The Criminal Code (R.S.C., 1927, c. 36) and are disentitled to any relief in this action because: (a) The assignments, transmissions, agreements or other means whatsoever, by which rights in the patents in suit are claimed, were made in pursuance, or as a result, of the said conspiracy or combine and were ineffective to convey such rights; or (b) in the alternative, if any rights in the patents in suit were acquired, such rights have been used, in this action and otherwise, in pursuance of the said conspiracy or combine in such a way as to disentitle the plaintiffs to any relief.” The question whether, in an action for infringement of a patent, such a defence could constitute a good defence was argued as a question of law before trial, and was determined in the negative by Maclean J. in the Exchequer Court of Canada. On appeal:

Held: The proposed amendment, in the form in which it was put, was improper and was rightly rejected; but it should be open to defendants to apply to amend by proper and properly framed amendments.

The principle *ex dolo malo non oritur actio* (stated in *Gordon v. Chief Commissioner of Metropolitan Police*, [1910] 2 K.B. 1080, at 1098) is applicable to a case in which a plaintiff must necessarily, in order to establish his cause of action, prove that he is a party to an illegal conspiracy upon which his cause of action rests; and applies to an action for infringement of a patent; if the plaintiff's title is founded upon an agreement which amounts to a criminal conspiracy to which he is a party, and which he must establish in order to prove his

* PRESENT:—Duff C.J. and Crocket, Davis, Kerwin and Hudson JJ.

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title, then he cannot succeed. And it cannot be said that in no circumstances can the existence of an illegal combine be an answer to such an action.

If at the trial it appeared that the plaintiff's case was founded upon an illegal transaction to which he was a party, in the sense above indicated, it would be the duty of the trial judge to take notice of it and dismiss the action. But here defendants are proposing to set up their objection in their pleading and in doing so they must observe the rules of pleading and allege the facts which constitute the illegality complained of and the connection of the plaintiff's cause of action with that illegality.

APPEAL by the defendants from the judgment of Maclean J., President of the Exchequer Court of Canada, refusing certain proposed amendments to the statement of defence.

The action was brought against the defendants for alleged infringement of two patents of invention. The defendants moved for an order permitting them to amend their statement of defence by inserting therein the following:

4. The defendants deny the allegations in paragraph 4 of the plaintiffs' amended statement of claim and put the plaintiffs to the strict proof thereof, and the defendants allege that the plaintiffs, or some of them, together or with others, have entered into an illegal conspiracy or combine contrary to the common and statute law of the Dominion of Canada, and, in particular, contrary to The Combines Investigation Act (R.S.C., 1927, c. 26) and The Criminal Code (R.S.C., 1927, c. 36) and are disentitled to any relief in this action because:

(a) The assignments, transmissions, agreements or other means whatsoever, by which rights in the patents in suit are claimed, were made in pursuance, or as a result, of the said conspiracy or combine and were ineffective to convey such rights; or

(b) In the alternative, if any rights in the patents in suit were acquired, such rights have been used, in this action and otherwise, in pursuance of the said conspiracy or combine in such a way as to disentitle the plaintiffs to any relief.

On consent of counsel for plaintiffs and defendants given on the hearing of the motion, it was ordered that the question whether in an action for the infringement of a patent a defence such as that above set out could constitute a good defence should be treated as having been directed to be set down for argument as a question of law for decision by the Court in advance of the trial under the provisions of Rule 151 of the General Rules and Orders of the Exchequer Court of Canada.

Macleane J. determined said question of law in the negative, holding that the proposed amendments could not be raised as defences in an infringement action. The defendants appealed.

W. D. Herridge K.C. and *E. G. Gowling* for the appellants.

O. M. Biggar K.C. and *R. S. Smart K.C.* for the respondents.

The judgment of the Court was delivered by

THE CHIEF JUSTICE—There is one principle upon which it is conceivable that the defence discussed on the argument, if properly pleaded and proved, might be available: *ex dolo malo non oritur actio*. This principle is stated in the judgment of Buckley L.J. in *Gordon v. Chief Commissioner of Metropolitan Police* (1) in these words:

It is certainly the law that the Court will refuse to enforce an illegal contract or obligations arising out of an illegal contract, and I agree that the doctrine is not confined to the case of contract. A plaintiff who cannot establish his cause of action without relying upon an illegal transaction must fail; and none the less is this true if the defendant does not rely upon the illegality. If the Court learns of the illegality, it will refuse to lend its aid. The rule is founded not upon any ground that either party can take advantage of the illegality, as, for instance, the defendant by setting it up as a defence. It is founded on public policy. Lord Mansfield in *Holman v. Johnson* (2) said "Ex dolo malo non oritur actio. No Court will lend its aid to a man who founds his cause of action upon an immoral or an illegal act."

The passage was quoted with approval by Lord Wright, M.R., in *Berg v. Sadler* (3).

I do not see any reason why this principle is not applicable to a case in which a plaintiff must necessarily, in order to establish his cause of action, prove that he is a party to an illegal conspiracy upon which his cause of action rests; nor can I understand why the principle does not apply to an action for infringement of a patent. If the plaintiff's title is founded upon an agreement which amounts to a criminal conspiracy to which he is a party, and which he must establish in order to prove his title, then he cannot succeed. There is nothing, in my opinion,

(1) [1910] 2 K.B. 1080, at 1098. (2) (1775) 1 Cowp. 341, at 343.

(3) [1937] 2 K.B. 158, at 166-167.

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in the provisions of the *Patent Act* referred to on the argument that affects the application of this fundamental principle.

I am not satisfied that in no circumstances can the existence of an illegal combine be an answer to such an action. A reference to a recent decision in the Supreme Court of the United States will illustrate my point. The first two paragraphs in the head-note to *Ethyl Gasoline Corp. v. United States* (1) are as follows:—

1. The regulation of prices and the suppression of competition among purchasers of the patented article are not within the scope of the monopoly conferred upon a patentee by the patent laws.

2. A system of licences employed by the owner of patents for an improved motor fuel, whereby jobbers who do not conform to the market policies and posted gasoline prices adopted by the major oil companies may be cut off from the list of those to whom refineries licensed to manufacture such fuel may sell it, and which has been used to coerce adherence to those prices and policies, is not within the monopoly conferred by the patents and operates as an unreasonable restraint of interstate commerce in such fuel, in violation of the Federal Anti-trust Act.

Now, if the plaintiff in an action for infringement must, in order to make out his title, prove such a combine, and that he is a party to it, and if his alleged rights are founded upon it or “directly result from it,” I think he would find himself in great difficulties.

I do not pursue the subject further. The doctrine laid down by the learned President in his judgment is too sweeping if it is inconsistent with this.

I do not, however, think that the proposed amendment states that the respondents’ cause of action is connected with the alleged illegal conspiracy in such a manner as to bring this fundamental, and indeed rudimentary, principle into play.

If B commits an indictable offence and the direct consequence of that indictable offence is that A suffers some special harm different from that of the rest of His Majesty’s subjects, then, speaking generally, A has a right of action against B. As at present advised, I think it is not obvious that this well settled doctrine does not apply to indictable offences under section 498 of the *Criminal Code*; and it is not necessary to decide whether there are no circumstances in which the principle would not operate to prevent the owners of patents and the

licensees under patents enforcing their *prima facie* rights against persons who are the objects and the intended victims of their criminal activities. There is nothing, however, in the proposed amendment to suggest the application of any such principle.

It ought to be remembered that the office of pleadings is to state the facts which are the constitutive elements of the cause of action or the defence. The proposed amendment does not profess to state the nature of the illegal conspiracy alleged beyond the vague allegation that it is contrary to the common and statute law of the Dominion. On this ground the application to put this amendment on the record ought to have been dismissed *in limine*. The learned President by consent treated this vague allegation as raising a question of law within rule 151. If at the trial it appeared that the plaintiff's case was founded upon an illegal transaction to which he was a party, in the sense above indicated, it would be the duty of the trial judge to take notice of it and dismiss the action; but the appellants are proposing to set up their objection in their pleading and in doing so they must observe the rules of pleading and allege the facts which constitute the illegality complained of and the connection of the plaintiff's cause of action with that illegality.

I do not think myself that the proposed pleading raises any question of law which could usefully be considered. The function of rule 151 is to enable questions of law to be decided which arise upon facts alleged or admitted. Here, there are no such facts alleged in the pleading sense. There is a bald allegation, I repeat, of an illegal conspiracy in restraint of trade which is set up, an illegality because it is contrary to the law of the Dominion of Canada. The facts constituting the illegality are not set up. We are not told whether it is a conspiracy to enhance prices or to restrict competition, or what the particular nature of it is, or what the relation of it is to the respondents' cause of action. And the question seems to have been treated as the question whether in any circumstances the existence of an illegal conspiracy in restraint of trade, to enhance prices for example, could be an answer to an action for the infringement of a patent. That proposition includes the proposition that in such an action a

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plaintiff may succeed even though his title to sue is directly founded upon a crime to which he is a party, and is, therefore, too broad; but, for the reasons just given, the amendment was properly rejected.

I think the proper course is to say that we do not think fit to pronounce upon any question of law except to say that the amendment is not a proper amendment and ought not to be allowed. It will be open, of course, to the appellants to apply to amend their defence by proper and properly framed amendments.

The costs of the appeal will be costs in the cause.

*Appeal dismissed without prejudice to
right of appellants to apply to amend their
defence by properly framed amendments.
Costs of appeal to be costs in the cause.*

Solicitors for the appellants: *Herridge, Gowling, Mac-
Tavish & Watt.*

Solicitors for the respondents: *Smart & Biggar.*
