

## TO DO OR NOT TO DO: THAT IS THE QUESTION

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"If one does nothing, there cannot be any inducement and there cannot be, either, breach of a negative injunction. Valmet was enjoined from doing certain things; it could not breach that injunction by simply remaining inactive."

This is the opinion of Mr. Justice Pratte of the Federal Court of Appeal of Canada as expressed in a unanimous judgment, dated February 1, 1988, between *Valmet Oy, Valmet-Dominion Inc. v. Beloit Canada Ltd. and Beloit Corporation*, Court No. A-602-86. This judgment reversed an order for contempt previously issued by Mr. Justice Teitelbaum of the Federal Court, first instance.

The facts of the case can be summarized loosely as follows. Valmet Oy a manufacturer of paper-making machines, was enjoined on February 10, 1986 by the Federal Court of Appeal from manufacturing, using, selling, or inducing others to use press sections which are within certain claims of a patent. That patent has been held invalid by the Federal Court, first instance.

Valmet Oy owns 65 percent of the shares of Valmet Dominion Inc. (VDI), and Canadian General Electric Company Limited (CGE) owns the other 35 percent. A shareholders' agreement existed between the two shareholders. It provided, inter alia, that certain matters had to be approved by both, including "any change in the scope and purpose (of the business) as described in section 2 of the Foundation Agreement between Valmet, CGE and the company ...", and also "any other matters out of the ordinary course of the company's business".

The evidence showed that the Montreal directors of VDI knew almost nothing of the litigation between Beloit and Valmet. Upon learning of the injunction, they immediately consulted VDI's lawyers on the possible effect of that judgment on their company. They had been told that since the injunction had been pronounced against Valmet alone, VDI was not bound by it. In fact, on May 9, 1986, at a special Board of Directors meeting of VDI, it was decided to

retain the services of a law firm as special patent counsel to assist in connection with the impeachment proceedings proposed to be taken by VDI against Beloit.

As a consequence of that meeting, VDI continued to manufacture and offer for sale Tri-Nip press sections. Valmet, for its part, delivered to VDI certain parts that VID had ordered before February 10, 1986 (when the patent was held invalid), to be used in the manufacture of Tri-Nip press sections. There was some evidence that Valmet had sent engineers to assist in the "start-up" of a Tri-Nip press section sold by VDI.

Based, in part, on these facts, the trial judge decided that Valmet and VDI were in contempt. But Mr. Justice Pratte of the Court of Appeal did not agree. He stressed that the injunction was pronounced against Valmet only; VDI was not bound by it and could be found in contempt only for having aided or abetted Valmet in breaching it.

According to Mr. Justice Pratte, the first question to be determined on these appeals was whether Valmet, by its conduct after February 10, 1986, breached the injunction. If it did not, its appeal must be allowed and so must VDI's, since VDI could not be the guilty accomplice of an innocent person.

Valmet could have breached the injunction in one of two ways: either because it did something that it had been ordered not to do; or because it must, by reason of circumstances, answer for the acts of VDI.

There were only two things that Valmet allegedly had done after February 10, 1986, that would possibly be considered as breaches of the injunction: first, it sent employees from Finland to help in the "start-up" of a paper-making machine sold by VDI, and second, it delivered to VDI certain parts that were to be used in the manufacture of Tri-Nip press sections.

After considering the evidence, Mr. Justice Pratte found that the participation of Valmet in the "start-up" of the paper-making machine was not proven beyond a reasonable doubt, and that the breach of the injunction was not established.

With respect to the delivery by Valmet to VDI, after the injunction, of parts that were to be used in the manufacture of Tri-Nip press sections, he stated that the injunction enjoined Valmet "from manufacturing, using or selling or inducing others to use" Tri-Nip press sections. More simply, he said, it forbade Valmet to infringe Beloit's patent. That patent was a combination patent, a patent for a new arrangement or disposition of the elements comprising a press section.

It is well established that there is no infringement of a patent in selling an article which does not in itself infringe the patent, even when the vendor knows that the purchaser buys the article for the purpose of using it in the infringement of the patent. Valmet could have been found guilty if there was proof that it induced or procured VDI to infringe that patent. If it did not, it did not infringe Beloit's patent in supplying components to VDI, and therefore did not breach the injunction.

The Court of first instance found that Valmet's failure to use its control over VDI was equivalent to an inducement to infringe. After having analysed the facts and the law, Mr. Justice Pratte concluded that Valmet's mere passivity did not amount to an inducement to VDI to infringe Beloit's patent.

The Court of Appeal then considered whether the relationship between Valmet and VDI was such that Valmet should answer for the conduct of its subsidiary. VDI's separate corporate personality could not be ignored. In the opinion of Mr. Justice Pratte, the evidence did not disclose that a relationship between Valmet and its subsidiary was such that Valmet could be held in breach of the injunction by reason only of what its subsidiary had done.

Based, *inter alia*, on the above findings, Mr. Justice Pratte allowed the appeal of the appellants.

Mr. Justice Marceau, who fully agreed with Mr. Justice Pratte, gave further reasons for his decision. He wrote:

"As I understand it, the *strictissimi juris* character of a citation for contempt, in a case like this one where a party to proceedings is being accused of having disobeyed a prohibitory injunction, and a third party stranger of having aided and abetted the disobedience, has important consequences as to the identification of what has to be proved, as well as to the quality of the proof required, to establish the offense. On both aspects, I see defects in the reasoning of the trial judge.

Regarding the first aspect, he said that a party enjoined is not required to use all its powers and influence to prevent others from doing the act for their own purposes and advantage. Regarding the second aspect concerning the quality of the proof which must satisfy beyond any reasonable doubt, not merely on a balance of probability, he stated that the trial judge did not go "beyond his own impression, belief or conviction, with a view to asking himself if a different impression, belief or conviction could not be equally acceptable."  
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He then concluded that he would dispose of these appeals as suggested by Mr. Justice Pratte. (At the time of writing this article, leave to appeal to the Supreme Court of Canada is still possible.)

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