

Judgment of the Lords of the Judicial Committee of the Privy Council on the Appeal of The United Shoe Machinery Company of Canada v. Brunet and others, from the Court of King's Bench for the Province of Quebec (Appeal Side); delivered the 23rd March 1909.

Present at the Hearing :

LORD MACNAGHTEN.

LORD ATKINSON.

LORD COLLINS.

LORD GORELL.

[*Delivered by Lord Atkinson.*]

In this case the Plaintiffs appeal from the final Judgment, dated the 26th June, 1907, of the Court of King's Bench for the Province of Quebec (Appeal Side), affirming a judgment, dated the 30th March, 1906, of the Superior Court of that Province, whereby certain contracts, entered into between the Appellants and the Respondents, were declared to be null and void, and the action of the Appellants for an injunction to restrain the Respondents from continuing to violate some of the most material provisions of these contracts, and to recover damages for past breaches of the same, was dismissed.

The Appellants are a New Jersey Corporation licensed to do business in the Province of Quebec. They are, moreover, a Company subsidiary to

the United Shoe Machinery Company of Boston, and are manufacturers in Canada of certain machines, and importers into Canada of other machines, made and used for certain processes in the manufacture of shoes.

The Respondents are a firm engaged in the manufacture, in the City of Quebec, of boots and shoes, and are supported in the litigation out of which this Appeal arises by one Ernest Caron, who is a manufacturer in Canada of shoe-making machinery, which competes, more or less successfully, with that of the Appellants.

By various leases dated on various dates between the 22nd October, 1903, and the 22nd June, 1904, the Appellants leased to the Respondents for a term, in each case, of 20 years the following machines amongst others: 1 Stanbon McKay Channelling Machine, 1 Stanbon Lip Turning Machine, 3 Power Eyeletting Machines, and 4 Consolidated Hand Method Lasting Machines. These leases were in the litigation referred to as the "leases sued on."

Each of the leases contained a prohibitive clause, referred to in argument as the "tying clause," of which that in the leases of the Stanbon Machines may be taken as a specimen. It runs as follows:

The leased machinery shall not nor shall any part thereof be used in the manufacture of any boots, shoes, or other footwear which are or shall be welted or the soles stitched on welt sewing or sole stitching machines not leased to the lessee by the lessor or its assignor, or in the manufacture of any turn boots, shoes, or other footwear the soles of which are or shall be attached to their uppers by turn sewing machines not leased to the lessee by the lessor or its assignor, or in the manufacture of any boots, shoes, or other footwear which have been or shall be lasted, pegged, slugged, heel seat nailed, or otherwise partly made by the aid of any lasting or pegging or metallic machinery not leased to the lessee by the lessor or its assignor.

In addition to the "leases sued on" the Appellants granted to the Respondents leases of other, and additional, machines, referred to in the case as "the allied machines," whose function was to perform certain processes in the manufacture of shoes, ancillary to those performed by the machines first mentioned. These different machines, the jury found, did not "necessarily form one complete system," but the leases stipulated that they should be "used as a complete system."

It is clear from the evidence of Michel Brunet, the only member of the Respondents' firm examined at the trial, that his firm had been dealing with the Appellants for shoe-making machinery of this kind for a number of years; that in or about the year 1903 the Respondents' firm obtained from Ernest Caron machines somewhat similar to those of the Appellants, and used them in conjunction with machines obtained from the Appellants; and that the Appellants' agent then induced the Respondents to put Caron's machines aside, and to obtain from his principals the machines demised by the "leases sued on." The Respondents alleged that the Appellants' agent effected this by pointing out to Brunet that by using Caron's machines they were exposing themselves to an action at the suit of the Appellants, not only for damages for breach of their contract, but also for infringement of the Appellants' patents.

On the 15th May, 1905, the Respondents wrote to the Appellants informing them that they (the Respondents) had discontinued the use of the five "allied machines" therein mentioned, and requesting the Appellants to remove them from the Respondents' factory. The Appellants not having complied with this request, it was repeated by the Respondents in a more peremptory

form in their letters of the 5th and 19th June following.

On the 3rd July, 1905, the Appellants applied to the Superior Court of Quebec for, and on the 21st July, 1905, obtained from that Court, an interlocutory injunction restraining the Respondents from using, in the manufacture of shoes, the machines demised by the "leases sued on" in conjunction with machines not leased to them by the Appellants. On the same day, the 21st July, 1905, the Appellants filed their declaration in the action, complaining that the Respondents, in breach of the covenants contained in the "leases sued on," had used, and were continuing to use, in the manufacture of shoes the machines thereby demised in conjunction with the other machines therein named, not leased or supplied to them by the Appellants, and that they threatened to continue so to do, and praying that the interlocutory injunction already obtained might be declared to be perpetual, and that the Respondents might be condemned to pay to them damages to the amount of \$10,000 and costs.

The Respondents, on the 30th September, 1905, filed their plea to this declaration. It is very voluminous and somewhat involved. In effect it amounts to this :

(1) that the Appellants, by falsely representing to the Respondents that they, the Appellants, were the patentees of the machines mentioned in the "leases sued on," induced them to take the said leases and enter into the covenants contained in them, and (2) that, by reason of the practical monopoly which the Appellants had acquired in Canada in the manufacture and supply of shoe-making machinery, the covenants contained in the "leases sued on" were in

restraint of trade, and, therefore, illegal and void, as against public policy. On these pleadings issues, 22 in number, were ultimately framed by the Court, with the assistance of Counsel representing the parties; and on the application of the Respondents the case was ordered to be tried before a judge and jury.

It will, in the first instance, be convenient to consider these two defences separately.

To maintain the first, the burden rested on the Respondents of establishing, either by the admission of the Appellants, or by the findings of the jury, the following conclusions of fact: (1) that the representations complained of were made by the Appellants to the Respondents; (2) that these representations were false in fact; (3) that the Appellants, when they made them, either knew they were false, or made them recklessly without knowing whether they were false or true; (4) that the Respondents were thereby induced to enter into the covenants contained in the leases; and (5) that immediately on, or at least within a reasonable time after, their discovery of the fraud which had been practised upon them, they elected to avoid the leases and accordingly repudiated them.

Of these the last is the most vital, in the sense that it is the condition precedent which must be fulfilled before the Respondents can escape from the obligations of the contracts they have entered into, however fraudulent those contracts may be.

A contract into which a person may have been induced to enter by false and fraudulent representation is not void, but merely voidable at the election of the person defrauded, after he has had notice of the fraud. Unless and until he makes his election, and by word or act repudiates the contract, or expresses his determination not

to be bound by it (which is but a form of repudiation), the contract remains as valid and binding as if it had not been tainted with fraud at all. *Clough v. London & N.W. Railway Co.*, L.R. 7 Ex. 26, approved by Lord Blackburn in *Erlanger v. The New Sombrero Phosphate Co.*, 3 A.C. 1218, at pp. 1277-1278, and by Lords Watson and Davey in *Aaron's Reefs v. Twiss*, 1896 A.C., at pp. 290 and 294. At page 34 of the first-mentioned case Mellor, J., says:—

The principle is precisely the same as that on which it is held that the landlord may elect to avoid a lease and bring ejectment, when his tenant has committed a forfeiture. If with knowledge of the forfeiture he, by the receipt of rent or other unequivocal act, shows his intention to treat the lease as subsisting, he has determined his election for ever, and can no longer avoid the lease.

In the present case, it was proved in evidence, and not disputed, that, though the Respondents had on the 15th May, 1905, if not before, so satisfied themselves that they had been defrauded that they called upon the Appellants to remove the "allied machines," yet they retained in their hands, and continued to work, the machines demised by the "leases sued on," up to the 21st July, 1905, the date of the interlocutory injunction, and paid in respect of this period the royalties reserved by these leases. In no more emphatic, or unequivocal, way could the Respondents have shown their intention to treat the leases as subsisting. In the face of this evidence it is natural that the plea does not contain an averment that the Respondents repudiated the "leases sued on." That matter is, however, obviously disposed of by the findings of the jury in answer to questions Nos. 7 and 8 left to them.

These answers run as follows:—

Answer to Question 7: Between the 15th of May and the 15th of July, 1905, the Defendants did use

the machines named [*i.e.*, demised by the leases sued on] in connection with other machinery not leased from the Plaintiffs.—Unanimous.

Answer to Question 8: The Defendants proved by their acts that they did not intend to be bound by this clause [*i.e.*, the tying clause].

These answers taken together amount, at the least, to a finding that the Respondents did not, before action brought, avoid the contract, if not to a finding that they affirmed it. For the party defrauded cannot avoid one part of a contract and affirm another part, unless indeed the parts are so severable from each other as to form two independent contracts. Nothing of the kind exists in the present case, for the covenant in the lease which is objected to merely prescribes the mode in which the thing demised is to be used.

For these reasons their Lordships are clearly of opinion that the Respondents have failed to sustain their first defence, and they, therefore, think it is unnecessary to consider the question of the alleged misdirection by the learned Judge at the trial as to the party on whom rested the burden of proving that the machines demised by the leases sued on were not patented.

It remains to consider the second defence. It is very lengthy, and extremely novel in character, but in substance and effect it amounts to this.

The Appellants, the Respondents allege, are manufacturers, on an extensive scale, in Montreal of shoe-making machinery of the most modern and improved type, which they refuse to sell, and will only consent to lease, or hire out, on terms similar to those contained in the "leases sued on." They further say that the Appellants have acquired a practical monopoly of the manufacture of shoe-making machinery by the combined operation of the three causes following :—(1) the superior

excellence of their manufacture; (2) the belief entertained in Canada by manufacturers of shoes who require machinery of this kind for the successful conduct of their trade, as well as by the general public, that the Appellants hold patents for all the machines produced by them, and that machines similar to those of the Appellants could not be obtained from others, or used in Canada, without incurring the risk of being sued for infringement of the Appellants' patents; and (3) the operation of the clauses contained in the latter's leases, especially the so-called "tying clauses." The Respondents further alleged that the above-mentioned belief is engendered in those who entertain it by the false and fraudulent representations, made by the Appellants to their customers and to those members of the public with whom they come in contact, that they, the Appellants, hold patents for all the machines they produce; that the terms of the Appellants' leases are unjust and oppressive, hamper shoe - manufacturers in their business, are injurious to the public, and operate in restraint of trade, but that the manufacturers nevertheless take them, because they are, for the reasons above mentioned, under the impression that they have no alternative, and must either hire the machines on the Appellants' terms, or do without them altogether; and, further, that if the Appellants were, as they alleged, the holders of patents for their machines, the Canadian Patent Act (55 and 56 Vict., c. 24) applied, and that, in the events which had happened, either the patents were forfeited, or, if not, the patentees were bound to sell or hire these machines on reasonable terms.

The question whether or not a contract is in restraint of trade, and therefore void in law, is a question of law for the determination of the Court. And it is to be assumed that several of

the questions left to the jury in this case were so left in order that they might find certain issues of fact necessary to be ascertained to enable the Judge at the trial to decide, whether or not, the covenants by the lessees contained in the "leases sued on" were void for this reason; while four of them—namely, Nos. 18, 19, 20, and 21—were apparently framed in reference to the provisions of the above-mentioned Act. But the answers of the jury to the questions so left to them are, in some instances, irreconcilable, and in one, at least, the answer is ambiguous. For instance, in reply to question 12 they find that the alleged declarations and representations made by the Appellants to the effect that each of the machines referred to in the agreements mentioned in the declaration was patented, and that they, the Appellants, controlled these patents, and had the sole right to manufacture these machines in Canada, were "false and fraudulent"; while, in answer to questions 19 and 20, they find that no proof was given that the Appellants were patentees of, or owned patents covering, the very same machines. But the basis of the first finding necessarily must have been that these machines were, in fact, not patented, and that the Appellants did not, in fact, control the patents. Otherwise the statement to the contrary could not be false. Thus the failure to prove the affirmative proposition that a certain thing existed, or has taken place, is treated as proof of the negative proposition that it did not exist or had not taken place.

Again, the jury, having found that the existence of the patents was not proved, most naturally abstained from finding, in reply to question 20, that the Appellants carried on in Canada the construction or manufacture of the

machines referred to in such a manner that any person desiring to use them could obtain, or cause to be made for him, what he required, at a reasonable price, at some manufactory in Canada, since these issues had become immaterial. And lastly, the jury abstained from finding, in reply to question 21, that the monopoly which the Appellants' leases had, in effect, created hampered, or unjustly oppressed, the manufacturers of shoes in Canada, or imposed a great burden on the public. Their answer to the question is, "That it is a monopoly. We do not say how far it is a burden on the public," which may mean that it is no burden at all, or is not an appreciable burden, or is a real burden, but that they cannot measure the extent or weight of it. The findings of the jury, therefore, dispose completely of all questions arising on the Patent Act, as, indeed, they also dispose of all the charges of fraud and coercion, since they remove the foundation on which the first charge rests, and their answer to question 19 limits the latter to the presentation to the shoe manufacturers of Canada of the alternative of either doing without these machines altogether, or of hiring them on terms identical with, or similar to, those contained in the "leases sued on." This alternative, however, does not subject the would-be customers of the Appellants to any coercion beyond what their desire to promote their own trade interests imposes upon them. By virtue of the privilege which the law secures to all traders—namely, that they shall be left free to conduct their own trade in the manner which they deem best for their own interests, so long as that manner is not in itself illegal—the Respondents are at liberty to hire, or not to hire, the Appellants' machines, as they choose, irrespective

altogether of the injury their refusal to deal may inflict on others. The same privilege entitles the Appellants to dispose of the products they manufacture on any terms not in themselves illegal, or not to dispose of their products at all, as they may deem best in their own interest, irrespective of the like consequences. This privilege is, indeed, the very essence of that freedom of trade in the name and in the interest of which the Respondents claim to escape from the obligations of their contracts: *Hilton v. Eckersley*, 6 E. and B. 47, at p. 74, approved of in the *Mogul Steamship Co. v. McGregor, Gow and Co.* (1892 A.C. 25, at p. 36). The latter case, indeed, affords a striking example of the lengths to which traders, in the *bonâ fide* defence, or promotion, of their own trade interests, may lawfully push this privilege, regardless of the injury, clearly foreseen by them, which they may thereby, incidentally, inflict on the trade of their rivals. It is not disputed that the machinery manufactured by the Appellants is of a superior description, but it is contended that, if machinery superior to theirs should be put upon the market during the currency of these leases, the Respondents, and others in the like position, would, to the vast injury of their trade, be, by such leases, prohibited from using those improved or superior machines. This, however, is a very remote contingency, since the Appellants, having, as is alleged, captured the entire trade, are unlikely not to keep abreast of invention, or to allow the field they have won to be occupied by others. Of course it will always be open to any individual trader who may be defrauded by the alleged false representation of the Appellants, to repudiate his contract, and, whether he repudiates or not, sue for damages in an action for deceit,

but, putting aside fraud and coercion in this case, as the findings of the jury necessitate that they should be put aside, and also putting aside the possibility of the shoe manufacturers of Canada being obliged to use the inferior machines of the Appellants while superior machines are on the market and available for use, the Respondents' defence, in effect, resolves itself into a claim that the Appellants are to be held to be under a legal obligation to produce and dispose of their manufacture on terms similar to those imposed by the Canadian Patent Act on patentees.

It may be quite reasonable and right that the State, in consideration of the valuable rights and privileges it confers by its patents, should, in the interest of the public, impose these terms and conditions on their patentees, but they cannot, in the alleged interest of the freedom of trade, of which they are, in truth, to a large extent the negation, be imposed upon persons who are not patentees, nor can contracts containing terms and conditions different from, and more onerous on traders who are parties to them than, those the State prescribes, be held, solely because of that circumstance, to be in restraint of trade and void as against public policy. The validity of these contracts must therefore be judged apart altogether from the provisions of this Statute.

With all respect to the learned Judges from whose decision this appeal has been taken, their Lordships do not think that the case of *Nordenfelt v. Maxim Nordenfelt etc., Company*, L.R. (1894) A.C. 535, or authorities of that class, can have any application to this case. In each of them the person restrained from trading had granted, presumably for adequate consideration, some property, privilege, or right to the person who desired to impose the restraint upon him, and, in order that

the latter might receive, without injury to the public, that for which he had paid, the contract imposing the restraint was held to be valid only where the restraint was in itself reasonable in reference to the interests both of the contracting parties and of the public. If the monopoly established by the Appellants, and their mode of carrying on their business, be as oppressive as is alleged (upon which their Lordships express no opinion), then the evil, if it exists, may be capable of cure by legislation or by competition, but in their view not by litigation. It is not for them to suggest what form the legislation should take, or by what methods the necessary competition should be established. These matters may, they think, be safely left to the ingenuity and enterprise of the Canadian people. On the whole, therefore, their Lordships are of opinion that the Respondents' defences cannot be sustained, and that the Appellants are entitled to have the injunction they obtained made perpetual.

As the Respondents have broken their contract, the Appellants must, despite the finding of the jury that they sustained no damage, be entitled to nominal damages, but to nothing more.

Their Lordships will therefore humbly advise His Majesty that this Appeal should be allowed, that the Judgments of the Court of King's Bench and the Superior Court should be reversed, that the interlocutory injunction obtained by the Appellants on the 21st July, 1905, should be declared perpetual, and that judgment should be entered in favour of the Appellants for nominal damages, say \$1, and costs in both Courts.

The Respondents will pay the costs of this Appeal.

