REPORTS OF CASES IN HOUSE OF LORDS AND PRIVY COUNCIL DEALING WITH QUESTIONS OF INTEREST IN SCOTS LAW.

(Continued from page 739 ante.)

HOUSE OF LORDS.

Monday, February 13, 1911.

(Before the Lord Chancellor (Loreburn), the Earl of Halsbury, Lords Atkinson and Shaw.)

GRAMOPHONE COMPANY LIMITED *v.* MAGAZINE HOLDER COMPANY.

(ON APPEAL FROM THE COURT OF APPEAL IN ENGLAND.)

Registered Design—New or Original—Infringement—Patents and Designs Act 1907 (7 *Edw. VII, c.* 29), *sec.* 49 (1)—*Admission of Novelty and Originality—Effect of Admission.*

In an action for infringement of a registered design the defendants admitted the originality and novelty of the plaintiffs' design, but denied infringement.

Held that the Court was not bound by the admission, and that the design founded on had not the novelty or originality required to bring it within the statutory protection.

Opinion, on the question of infringement, *per* Earl of Halsbury, that the principles of patent law were inapplicable to designs, and that only exact reproduction of a design would amount to infringement.

The appellants were proprietors of a registered design and raised an action against the respondents to obtain injunction against an alleged infringement of the design. The respondents admitted the design to be new and original, but denied infringement, and judgment pronounced in the respondents' favour was affirmed by the Court of Appeal (COZENS-HARDY, M.R., and BUCKLEY, L.J., *diss.* FLETCHER MOULTON, L.J.), on the ground that there was no infringement. Without calling on counsel for the respondents their Lordships gave considered judgment as follows:—

LORD CHANCELLOR (LOREBURN)—The question in this case is whether the defendants have infringed a registered design of the plaintiffs. There is a "cabinet," as it is called. It is in fact an oblong box, a little higher than square, standing upon four short legs. A few inches from the top the outline departs from the rectangular and curves a little inward, for ornamentation, I suppose. The top opens like a lid. The front opens by two sets of folding doors. Inside the space is divided by a horizontal shelf into two compartments, and in each of these compartments there are upright pieces dividing the compartments into three parts, just like pigeonholes in a desk. The plaintiffs have registered this box or cabinet for its shape and configuration, and bring this action because the defendants have made another cabinet, also oblong, also on wooden legs, also with the top opening like a lid, and with the front opening by doors, and disclosing inside a shelf and pigeon-hole arrangement somewhat similar. Now if a Court is not precluded from applying a little common sense, the first question which occurs to me is this—How can it be said that the shape or configuration of this cabinet is new and original so as to come within the Act? To this the plaintiffs' counsel answers, firmly but politely, that it is really no concern of ours, because the defendants (who, by the way, have also registered their cabinet) admit the novelty and originality; so that as between the parties the matter is concluded, though no one else is bound, except apparently the Court which has the duty of adjudicating. I am afraid that I cannot accept the position prescribed for me. It is the duty of a Court to decide cases according to the truth and fact, not according to any assumed or artificial state of facts which the parties may find it convenient to present. No doubt courts of law allow, and indeed encourage, parties to simplify litigation by making admissions, and to a certain extent by waiving their rights, because when there is a real controversy, depending upon real facts, everyone ought to facilitate its authoritative settlement. But that is a very different thing from allowing people to obtain an adjudication upon the footing that something exists or has happened which in truth does not exist and has never happened; and the objection to such a course is most striking when the parties agree to admit as true something which lies at the root of the jurisdiction, and any judgment which is obtained upon the footing of its truth may be used as a weapon *in terrorem* against persons not parties to the admission. A court of justice can never be bound to accept as true any fact merely

because it is admitted between the parties. Accordingly counsel was pressed to explain what was the novelty and originality of the registered design in this case. His only answer was that it consisted of the particular combination in the cabinet of oblongness (if I may coin such a word), of the top opening as a lid, the front opening with two sets of doors, one above the other, and the interior being fitted in two compartments with pigeon-holes, the whole structure resting on four legs. In other words, his novelty and originality consisted of a description of the article itself as a particular arrangement of old and well-known kinds of work. No suggestion was or could be made that any one of the features described was in the least degree new. I have also examined the evidence. There is no suggestion in it that any part of the cabinet, or that the shape or configuration of it, is new. Indeed it is apparent that the trial was embarrassed by the admission, the learned Judge conceiving himself to be bound by the agreement that the design was new and original, without requiring the plaintiffs to prove wherein the novelty and originality lay. Now as his task was to say whether the defendants had imitated something which was new and original, he could not decide without knowing what that something was, which no one could or did tell him with any precision. And in the result all that he and the Court of Appeal could do was to accept the unexplained admission, and say whether the one cabinet was an imitation of the other. He thought not, and I agree with him. But I decline to act upon the admission, because I do not believe it to be in accordance with the truth, and there is no evidence to prove that it is so, and other persons may be indirectly affected. I should also find, judging by the eye, that the defendants' design is not an imitation of the plaintiffs'. It is a different combination of familiar contrivances. Upon this part of the case I agree with Warrington, J., and Buckley, L.J. If the suggested novelty lies in the detailed arrangements of the parts, quite a small change makes a great difference.

EARL OF HALSBURY—I entirely concur with the Lord Chancellor, and in dealing with the somewhat grotesque problem which is propounded to us it is, I think, only right to point out that the principles which guide us in deciding patent cases are wholly inapplicable here. There is no question here of being substantially the same thing; there is no question of any invention, for there is no invention; and what strikes me about it is that some person who contrived this Act of Parliament has rather rashly come to the conclusion that all the principles which guide us in deciding patent cases are applicable here. The truth is that none of them are applicable. It is a somewhat grotesque piece of legislation to say that anybody may register a design, which sounds very innocent in the first instance, but it is to be remembered that you not only register the design but you prevent anybody else from doing the same thing, and in order to do that there must be some consideration, as there is in the case of a patent—some invention, or something or other which you have contributed to the general knowledge or convenience of mankind. You might just as well here register a three-legged stool, and if you have a three-legged stool, of course you may say, "Oh, but it must be new, and there must be in that sense some invention in it." That may be; but it may be that the novelty of it, or whatever it may be, is something or other absolutely immaterial and even ridiculous. To my mind the real defect is not in drawing a distinction between those things which are really works of art and designs which may be properly protected, and something, either a three-legged stool or anything else of that sort which anybody may describe as new and nobody else has ever made of the exact design before. The only refuge which I can find from being constrained to restrain other people from taking the most ordinary thing in the world and making it peculiar to themselves is that you must recognise the fact that the principles which guide us in patent cases are not applicable here. Therefore in order to bring it within the Act of Parliament.—and I think that you may of course bring it within the Act of Parliament in the case of the most common and ordinary things—the one thing must be an exact reproduction of the other; and the old view which we had in dealing with patents—that such and such a thing is simply a colourable departure—is no longer applicable. In order to bring it within the statute it must be the exact thing, and any difference, however trifling it may be or however unsubstantial, would nevertheless protect it from being made the monopoly of the particular designer who thought proper to make it. To my mind the difficulty is in giving a commonsense interpretation to a statute which makes everything capable of being made a peculiar and monopolised design. In this particular case I think that no difficulty arises, because I entirely agree with the Lord Chancellor that the question is what we consider to be new under the circumstances and upon the evidence, not what the parties may for very obvious reasons agree between themselves should be considered as a new invention, and we do not consider it to be so here. Therefore I entirely agree with the Lord Chancellor, the Master of the Rolls, and Buckley, L.J. I think that this appeal ought to be dismissed, with costs.

LORD ATKINSON—I concur.

LORD SHAW—With regard to the Act of Parliament, it does not appear to me to involve those difficulties which have been referred to by the Earl of Halsbury. It appears to me that if a design is novel and original in fact the Act of Parliament is plain that protection can be claimed for it. I start in this case from the simple proposition that this design for which protection is claimed is not novel and original.

I agree most entirely with every word which has fallen from the Lord Chancellor, that it will not do to allow that novelty and originality must necessarily be imported for the purpose of a single case because of an admission that has been made in respect thereof. I well recollect that the late Lord Watson in this House, in a case not unlike the present, commented severely upon admissions of that kind, or injunctions obtained *in absentia*, which he said were used for the purpose of bludgeoning honest rivals in business who may be innocently conducting a trade one of the natural requirements of which is that execution and skill should be exhibited in making and adapting their goods for the demands of the public. With regard to the novelty and orginality of any design, I think that the duty of a court of law is to protect an honest tradesman who has in the expertness and cleverness of his trade—such expertness and cleverness as distinguish a good tradesman from a bad tradesman—made an article of commerce; and it is only if it goes beyond that into the region of novelty and originality, and not until it goes into that region, that protection can be awarded. Accordingly, notwithstanding the admission (and it must be remembered that abuses may enter into admissions), I end as I began with the conviction that there is no novelty and originality, and that the protection of the statute granting the monopoly cannot be claimed.

Appeal dismissed.

Counsel for Appellants—A. J. Walter, K.C.—J. H. Gray. Agents—Broad & Company, Solicitors.

Counsel for Respondents—T. Terrell, K.C.—Sebastian. Agents—Miles, Hair, & Company, Solicitors.

HOUSE OF LORDS.

Tuesday, February 14, 1911.

(Before the Lord Chancellor (Loreburn), the Earl of Halsbury, Lords Atkinson and Shaw.)

SMITH (SURVEYOR OF TAXES) *v.* LION BREWERY COMPANY.

(ON APPEAL FROM THE COURT OF APPEAL IN ENGLAND.)

Inland Revenue—Income Tax—Profits of Trade—Deductions—"Tied Houses"—Compensation Levy—"Money Wholly and Exclusively Expended for the Purpose of Such Trade"—Income Tax Act 1842 (5 *and* 6 *Vict. cap.* 35), *sec.* 100, *Sched. D, Cases* 1 *and* 2—*Licensing Act* 1904 (4 *Edw. VII, cap.* 23), *sec.* 3.

A brewery company were, as part of their business, and as a necessary incident of the profitable exploitation of such business, the owners of certain licensed premises. These premises, which were let by the company to tenants as tied houses for the retail sale of the company's beer, "had been acquired by the company and were held by them solely for the purposes of their said business." Under section 3 of the Licensing Act 1904 the company became compelled to pay a portion of the annual compensation levy, amounting, in respect of the various licensed premises, to £3600. The Income Tax Commissioners allowed a deduction of £1200 from the company's assessments, and stated the facts above-mentioned in a special case.

Held (on an equal division of the House of Lords *affirming* the Court of Appeal) that on the facts as stated the compensation levy falling upon the company under the Licensing Act was "money wholly and exclusively laid out or expended for the purposes of" the company's brewery business, and was therefore a proper deduction in terms of the Income Tax Act 1842, sec. 100, Sched. D, case 2, rule 1.

A Special Case was stated by the Income Tax Commissioners embodying the facts stated *supra* in rubric and in their Lordships' opinions. A deduction allowed upon the respondent company's assessment was confirmed by the Court of Appeal (COZENS-HARDY, M.R., and FARWELL, L.J., *diss.* KENNEDY, L.J.).

The Surveyor of Taxes appealed.

Their Lordships gave considered judgment as follows—

LORD CHANCELLOR (LOREBURN)—I consider that this order ought to be reversed. The point raised for decision is short. The Lion Brewery Company have for income tax purposes to ascertain the balance of the gains and profits of their trade. In so doing they claim a right to deduct the amount which they are obliged to pay as owners of tied houses in respect of the compensation levy authorised by the Licensing Act of 1904. May they make this deduction or not? That is the sole point. Now the Income Tax Act 1842, sec. 100, tells us under what circumstances a deduction of this kind can be made. It can be made if the money was "wholly and exclusively laid out or expended for the purpose of such (that is, the brewery company's) trade, manufacture, adventure, or concern." The Lion Brewery Company's trade is that of manufacturing and selling beer wholesale. The brewery company owned a number of tied houses, and owning such houses is found to be a necessary incident of their trade and increases their profits, and this was the only reason for which they acquired or retained these tied houses. It must be taken that the motive of the brewery company in owning tied houses was simply and solely to obtain a steady market for their beer, and this is the utmost which can be conveyed by the somewhat redundant findings of the Special Case. The company owned the tied houses for that reason, and it was essential to their trade to own them. The Act of 1904