Licence and Assignment Arrangements of Patents: Effective or Ineffective in Blocking Parallel Imports of Patented Products—Thoughts of *Euro-Excellence v Kraft**

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Abstract

Parallel imports of products protected by intellectual property rights are always controversial. In *Euro-Excellence Inc v Kraft Canada Inc*, the Supreme Court of Canada prevented the exclusive licensee of the Canadian copyright from blocking parallel imports of copyrighted products, but suggested that the assignee of the copyright could have blocked parallel imports. Notably, even though the exclusive licensee was a subsidiary of the copyright owner, the parent–subsidiary relationship was not an issue for parallel imports. The same situations that were involved in *Euro-Excellence v Kraft* may arise in respect of other kinds of intellectual property rights. Because the Supreme Court has not dealt, in particular, with parallel imports of patented products, it is an open question whether such imports of patented products can be blocked. One question that arises regarding parallel imports of patented products is whether the importation of foreign-sold patented products infringes on the Canadian patent. To answer this question, purchasers' rights to patented products must be clarified. This article discusses purchasers' rights to patented products in Canada with reference to relevant Canadian and UK jurisprudence. Furthermore, taking into consideration purchasers' rights, this article discusses whether parallel

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imports of patented products can be blocked in various scenarios. Specifically, it discusses whether licence and assignment arrangements of Canadian or foreign patents are effective in blocking parallel imports of patented products. This article also discusses whether Canadian subsidiaries can block parallel imports into Canada and whether establishing foreign subsidiaries as licensees or assignees for the marketing of patented products in the foreign countries is an effective strategy in blocking parallel imports of patented products.

Résumé

Les importations parallèles de produits protégés par droit d’auteur sont toujours controversées. Dans l’affaire *Euro-Excellence Inc. c. Kraft Canada Inc.*, la Cour suprême du Canada a empêché le licencié exclusif du droit d’auteur canadien de bloquer des importations parallèles de produits protégés par droit d’auteur, tout en suggérant que le cessionnaire du droit d’auteur pourrait avoir bloqué les importations parallèles. Notamment, même si le licencié exclusif était une filiale du titulaire du droit d’auteur, la relation mère-filiale ne constituait pas un problème pour les importations parallèles. Les situations énoncées dans l’affaire *Euro-Excellence c. Kraft* pourraient se répéter à l’égard d’autres types de droits de propriété intellectuelle. Étant donné que la Cour suprême n’a pas abordé particulièrement la question des importations parallèles de produits brevetés, il reste à savoir si ces importations de produits brevetés peuvent être bloquées. Une question soulevée relativement aux importations parallèles de produits brevetés est de savoir si l’importation de produits brevetés vendus à l’étranger porte atteinte aux droits conférés à un brevet canadien. Pour répondre à cette question, il est primordial de clarifier les droits des acheteurs de ces produits brevetés. Cet article discute des droits des acheteurs de produits brevetés au Canada en ce qui concerne la jurisprudence canadienne et britannique pertinente. En outre, en tenant compte des droits des acheteurs, l'article discute de la question à savoir si des importations parallèles de produits brevetés peuvent être bloquées dans divers scénarios. Plus particulièrement, l'article discute de la question de l'efficacité des arrangements de licence et de cession des brevets canadiens ou étrangers pour bloquer des importations parallèles de produits brevetés. L'article aborde également la question à savoir si des filiales canadiennes peuvent bloquer des importations parallèles au Canada et si l'établissement de filiales étrangères en tant que licenciées ou cessionnaires aux fins de commercialisation de produits brevetés dans des pays étrangers est une stratégie efficace pour bloquer les importations parallèles de produits brevetés.

1.0 Introduction

In the current age of market globalization, products or goods having the same features and qualities are marketed in many countries, but the prices of these products often vary from country to country. If the price of products is low in a foreign country and high in Canada, parallel traders (or grey marketers) can earn high profits by purchasing those products from the foreign market and reselling them in Canada. Because "grey marketing" or "parallel imports" make low-priced products of the same quality available in the Canadian market, they are beneficial to Canadian consumers. However, parallel imports are against the intentions of global marketers. Global marketers, therefore, seek protection for their marketing activities through intellectual property rights and the blocking of parallel imports. It is not surprising that parallel imports of products protected by intellectual property rights ("IP-protected products") are controversial. The question that arises with regard to parallel imports, therefore, is whether the importation of products or goods legitimately sold abroad ("genuine goods") into Canada infringes on Canadian intellectual property rights. If importation constitutes an infringement, the owners of the intellectual property rights can block such importation by exercising those rights.

If, however, importation does not infringe on any intellectual property right, importation cannot be blocked by the exercise of intellectual property rights.

Although the Supreme Court of Canada has not yet addressed parallel imports of patented products, it has made a decision on parallel imports of other IP-protected products. In *Consumers Distributing Co v Seiko*,[1] the Canadian authorized distributor (Seiko Time Canada Ltd), which was owned and controlled by the wholly owned subsidiary (Seiko Time Corporation) of the trademark owner (Hattori), attempted but failed to block parallel imports of trademarked goods. And in *Euro-Excellence Inc v Kraft Canada Inc*,[2] an attempt to block parallel imports of copyrighted products by the exclusive licensee of the copyright also failed. While parallel imports of trademarked goods and copyrighted products could not be blocked in *Seiko* and *Euro-Excellence*, it cannot be generalized that parallel imports of IP-protected products are unblockable (that is, allowable) in all circumstances. The subject matters of different kinds of intellectual property rights differ from each other, and each intellectual property right is governed by different law. Thus, parallel imports should be discussed separately for each intellectual property right and on its particular merits.[3] In *Mattel, Inc v 3894207 Canada Inc*, Binnie J of the Supreme Court of Canada highlighted the uniqueness of a trademark: "Trade-marks are something of an anomaly in intellectual property law."[4] There are, however, similarities between copyright (for a work, an expression of an idea) and patents (for an

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1 *Consumers Distributing Co v Seiko*, [1984] 1 SCR 583 [*Seiko*].

2 *Euro-Excellence Inc v Kraft Canada Inc*, 2007 SCC 37, [2007] 3 SCR 20 [*Euro-Excellence*].

3 See William L Hayhurst, "Intellectual Property as a Non-Tariff Barrier in Canada, with Particular Reference to 'Grey Goods' and 'Parallel Import'" (1990) 31 CPR (3d) 289 at 294.

4 See *Mattel, Inc v 3894207 Canada Inc*, 2006 SCC 22, [2006] 1 SCR 772 at para 21 [*Mattel*].

invention, an idea), because copyright and patents exclude others from exploiting copyrighted works and patented inventions.[5] Therefore, *Euro-Excellence* is likely to be considered a persuasive precedent for addressing the questions that arise regarding parallel imports of patented products. Owing to different laws governing copyright and patents, however, the implications of *Euro-Excellence* for parallel imports of patented products may be limited.

This article addresses the question whether parallel imports of patented products are allowable (unblockable) or not allowable (blockable) in Canada. To do so, it first briefly discusses *Euro-Excellence* and raises questions with respect to parallel imports. Thereafter, it addresses the questions regarding parallel imports of patented products by taking into consideration laws and principles applicable to patents, including theories for recognizing purchasers' rights to patented products. Furthermore, it discusses effective and ineffective ways of blocking parallel imports of patented products in various hypothetical scenarios.

2.0 *Euro-Excellence* and Parallel Imports Questions

In *Euro-Excellence*, Euro-Excellence imported chocolate bars, with wrappers on which copyrighted work logos appeared. The copyrights of the logos were owned by Kraft Foods Belgium ("KFB") and Kraft Foods Schweiz ("KFS"). KFB and KFS granted exclusive licences

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[5] In *Mattel*, *ibid*, Binnie J explained the protection for patents and copyright as follows: "[T]he public through Parliament has decided it is worth encouraging such inventions and fostering new expression in exchange for a statutory monopoly (i.e. preventing anyone else from practising the invention or exploiting the copyrighted expression without permission)."

to their wholly owned subsidiary in Canada, Kraft Canada Inc ("KCI").[6] The logos were also registered trademarks, and each of them could receive concurrent protection under trademark and copyright law.[7] KCI owned the registered trademarks in Canada[8] and could, therefore, rely on getting trademark protection. KCI sued Euro-Excellence relying on the copyright protection, not the trademark protection.[9] Accordingly, in *Euro-Excellence*, one issue was related to parallel imports of copyrighted products.

KCI sued Euro-Excellence for a "secondary infringement" of copyright under section 27(2)(e) of the *Copyright Act*.[10] The lower courts sided with KCI;[11] however, the Supreme Court of Canada

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6 The licence granted by KFB (and KFS) to KCI is a "sole and exclusive licence": see *Kraft Canada Inc v Euro Excellence Inc*, 2004 FC 652 at paras 18–19 [*Kraft Canada* (FC)]; *Euro Excellence Inc v Kraft Canada Inc*, 2005 FCA 427 at para 38 [*Kraft Canada* (FCA)].

7 See *Euro-Excellence*, *supra* note 2 at para 13.

8 *Ibid* at para 61.

9 KFB and KFS might have been concerned with trademark protection. Actions relying on trademark rights may have serious consequences—for example, loss of distinctiveness of the trademark—and the registration may be invalidated under section 18(1)(b) of the *Trademarks Act*, RSC 1985, c T-13: see *Wilkinson Sword (Canada) Ltd v Juda*, [1968] 2 Ex CR 137; *Breck's Sporting Goods Co Ltd v Magder et al*, [1976] 1 SCR 527. Also, KFB and KFS might have been influenced by a similar Australian case—*RA & A Bailey & Co Ltd v Boccaccio Pty Ltd* (1986), 6 IPR 279 (SCNSW) [*Bailey*]: see *Kraft Canada* (FC), *supra* note 6 at para 58. In *Bailey*, the owner of the registered trademark and copyright sued the importer for infringement of the trademark right and copyright of the artistic work in the label on the imported products—genuine products. Young J held that there was no trademark infringement because the sale in the foreign country exhausted the trademark right; and there was copyright infringement because no licence had been implied from the foreign purchase: see Clive Turner, "Copyright and the Parallel Importation of Goods into Australia—Two Recent Decisions" (1988) 15(1) UQLJ 85 at 86–87. online: *Australasian Legal Information Institute* <http://classic.austlii.edu.au/cgi-bin/sinodisp/au/journals/UQLawJl/1988/6.html?stem=0&synonyms=0&query=clive%20turner>.

10 RSC 1985, c C-42.

11 See *Kraft Canada* (FC), *supra* note 6; *Kraft Canada* (FCA), *supra* note 6.

rejected KCI's claims. In the majority judgment, Rothstein J explained regarding a secondary infringement that

> three elements must be proven to establish secondary infringement: (1) a primary infringement; (2) the secondary infringer should have known that he or she was dealing with a product of infringement; and (3) the secondary infringer sold, distributed or exposed for sale the infringing goods.[12]

With regard to establishing the element of a primary infringement, "actual primary infringement" is not required; instead, only "hypothetical primary infringement" is required.[13] In this case, in order to establish hypothetical infringement, KCI had to prove that if the products in question were produced by KFB and KFS in Canada, their acts would have infringed on the Canadian copyrights. In fact, KFB and KFS owned the Canadian copyrights and had "the *sole right* to produce or reproduce the work or any substantial part thereof in any material form".[14] Although KFB and KFS make the copyrighted work (that is, the logos appeared on the wrappers of the chocolate bars) in Canada, after the exclusive licences were granted, they would not infringe the rights under the copyrights, which were owned by KFB and KFS.[15] Hence, KCI failed to establish hypothetical infringement.[16] To reach this conclusion, Rothstein J explained the differences between an exclusive licensee and an assignee as follows:

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12 *Euro-Excellence*, *supra* note 2 at para 19.

13 *Ibid* at para 20.

14 *Copyright Act*, s 3(1).

15 *Euro-Excellence*, *supra* note 2 at para 23.

16 *Ibid* at para 22.

> Under the common law, *a licensee does not enjoy property rights*: "A licence is merely a permission to do that which would otherwise amount to trespass" … . In contrast, *an assignee receives a property interest from the original owner* and steps into the shoes of the owner with respect to those rights assigned. As *the recipient of a property interest*, the assignee enjoys a right against the world, including the right to sue others (including the assignor) in trespass. The licensee's rights, on the other hand, are contractual, and the licensee is empowered only to sue the owner for breach of contract; it cannot sue in trespass. [17]
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> In my view, the exclusive licensee's property interest in the copyright is limited. An exclusive licence is not a complete assignment of copyright. The owner-licensor retains a residual ownership interest in the copyright. *The owner-licensor's residual ownership interest precludes it from being liable for copyright infringement*. An owner-licensor is liable to its exclusive licensee for breach of the licensing agreement but not for copyright infringement.[18]

Rothstein J further stated:

> [W]hen the definitional and liability provisions are read in context, the necessary conclusion is that an exclusive licensee may sue third parties for infringement, but not the owner of the copyright who is liable only for breach of contract.[19]

Rothstein J's interpretation of the *Copyright Act* is that while an exclusive licensee can sue third parties for infringement but not the copyright owner-licensor, an assignee can sue others *including* the assignor for infringement.[20] The exclusive licensee is, thus, differently treated from the assignee under copyright law. Hence, the exclusive licensee does not have standing to sue the copyright owner-licensor. For this reason, among others, the Supreme Court rejected KCI's claims based on a secondary infringement of copyright under section 27(2)(e) of the *Copyright*

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[17] *Ibid* at para 27 [emphasis added].

[18] *Ibid* at para 37 [emphasis added].

[19] *Ibid* at para 40.

[20] *Ibid* at paras 27–28.

Act. As a result, the Supreme Court prevented KCI, the exclusive licensee, from blocking parallel imports. Accordingly, KFB's and KFS's strategy of benefiting under the subsidiary's exclusive right did not work out.

It can be said from *Euro-Excellence* that the assignee has the right to sue others, including the assignor, for copyright infringement, and the assignee can block parallel imports. In a given situation, if the Canadian copyrights owned by KFB and KFS were assigned to KCI to differentiate the copyright ownership between Canada and the home countries of KFB and KFS, the assignee, KCI, could have blocked parallel imports; however, if the owner of both Canadian and foreign copyrights is the same party (KFB and KFS), then parallel imports cannot be blocked. After the decision by the Supreme Court in *Euro-Excellence*, KFB and KFS assigned their Canadian copyrights to KCI. Subsequently, KCI, as the copyright assignee, sued Euro-Excellence,[21] after which KCI went on to settle the dispute with Euro-Excellence. Thus, assigning copyright may be effective in blocking parallel imports of copyrighted products.

It is noted that KCI was a subsidiary of KFB and KFS, the copyright owners. The Supreme Court did not, however, express a decided opinion on whether the parent–subsidiary relationship would affect the subsidiary's ability to block parallel imports of copyrighted products. It is, therefore, an open question whether the subsidiary of the copyright owner as an exclusive licensee or assignee can block parallel imports.

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[21] See Pierre-Emmanuel Moyse, "Kraft Canada vs Euro-Excellence II," McGill University Faculty of Law Centre for Intellectual Property Policy, 9 December 2007: online <https://web.archive.org/web/20080423170701/http://www.cipp.mcgill.ca/blog/2007/12/09/kraft-canada-vs-euro-excellence-ii/>.

Concerning the question whether parallel imports of copyrighted products are blockable or unblockable, the takeaway points from *Euro-Excellence* are the following:

1. If the same party owns copyrights for the same work in both Canada and a foreign country, the copyright owner cannot block parallel imports of copyrighted products that were sold by the copyright owner in the foreign country.[22]
2. If there is an assignment of the Canadian copyright, the Canadian assignee can block parallel imports of copyrighted products that were sold by the assignor in the foreign country.[23]
3. Even if an exclusive licence is granted under the Canadian copyright, the exclusive licensee may not block parallel imports for secondary infringement.
4. It remains an open question whether, in the case where a Canadian copyright owner grants an exclusive licence or assigns the copyright to its subsidiary, the subsidiary exclusive licensee or assignee can block parallel imports of copyrighted products that were sold by the licensor or assignor in a foreign country.

It is foreseeable that the same situations as were present in *Euro-Excellence* can happen with respect to other kinds of intellectual property rights. The Supreme Court of Canada has not yet

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22 See David Vaver, "Chocolate, Copyright, Confusion: Intellectual Property and the Supreme Court of Canada" (2008) 1:1 Osgoode Hall Rev Law & Pol'y 3 at 21: online <https://digitalcommons.osgoode.yorku.ca/cgi/viewcontent.cgi?article=1009&context=ohrlp>.

23 *Ibid* at 24.

dealt with parallel imports of patented products. It is an open question whether parallel imports of patented products are blockable or unblockable.

From the takeaway points from *Euro-Excellence*, concerning patented products, the following questions can be formulated: Can parallel imports of patented products be blocked by

1. a Canadian patentee who also owns a corresponding patent for the same or equivalent invention in a foreign country (an "exporting country") where patented products are sold/purchased?
2. an assignee of the Canadian patent?
3. an exclusive licensee of the Canadian patent?
4. a subsidiary of the Canadian patentee as an exclusive licensee or assignee of the Canadian patent?

The following sections address the formulated questions and represent my view on parallel imports of patented products.

3.0 Principles Applicable to Parallel Imports of Patented Products

Regarding parallel imports of patented products, one question that arises is whether the importation of foreign-sold/purchased patented products into Canada contradicts Canadian patent law. To address this question, the exclusiveness of Canadian patents and purchasers' rights to patented products must be clarified, taking into consideration applicable principles under international and Canadian laws relating to parallel imports in both international trade and Canadian patent law.

3.1 Independence of Patents and Their Inherent Territorial Limitations

Usually, a corporation owns patents for the same or equivalent inventions in multiple countries. Where equivalent patents exist in multiple countries, an applicable principle is the "independence of patents" under an international agreement. Article 4bis(1) of the *Paris Convention*[24] clearly states that individual patents are independent of each other.[25] Ginsburg J of the US Supreme Court explained the territorial nature of US patents and the independence of patents as follows:

> Patent law is territorial. … [A] sale abroad operates independently of the U. S. patent system, … U. S. patent protection accompanies none of a U. S. patentee's sales abroad—a competitor could sell the same patented product abroad with no U. S.-patent-law consequence.[26]

The territorial nature of patents and their independence are equally applicable to Canadian patents. Canadian patents are separate from corresponding foreign patents[27] despite the fact that Canadian and foreign patents are granted for the same or equivalent inventions and are commonly owned by the same party. Each of the Canadian and foreign patents is characterized

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[24] *Paris Convention for the Protection of Industrial Property*, 20 March 1883, as revised at Brussels on 14 December 1900, at Washington, DC on 2 June 1911, at The Hague on 6 November 1925, at London on 2 June 1934, at Lisbon on 31 October 1958, and at Stockholm on 14 July 1967, and as amended on 28 September 1979 [*Paris Convention*]. In Canada, the *Paris Convention* came into effect on 12 June 1925.

[25] The independence of patents was adopted in the Brussels revision of 1900 to the *Paris Convention*: see Georg HG Bodenhausen, *Guide to the Application of the Paris Convention for the Protection of Industrial Property as Revised at Stockholm in 1967* (Geneva: United International Bureaux for the Protection of Intellectual Property [BIRPI], 1968) at 61. The Brussels revision is later than a leading case of parallel imports, *Betts v Willmott*, *infra* note 34.

[26] *Impression Products*, *infra* note 61, opinion, at 1–2.

[27] See Hayhurst, *supra* note 3 at 299.

by “country-based territorial limitation.” This means that Canadian patents are effective only in Canada, and the exploitation of an invention claimed in a Canadian patent in a foreign country does not contradict Canadian patent law;[28] patents granted under other national patent laws have effect only in those countries and have no effect in Canada unless Canada has agreements with those countries.

A typical situation of parallel imports of patented products occurs when a Canadian patentee also owns a patent for the same or equivalent invention in a foreign country—an “exporting country.” Under the principle of country-based territorial limitation combined with that of the independence of patents, the foreign patent guarantees the sale of patented products without any competition from others in that country, and the seller faces no consequences under Canadian law. Furthermore, the Canadian patent also guarantees the exclusive right to exclude others from selling patented products in Canada.

3.2 Patentees’ Exclusive Rights Under Canadian Patent Law: Written and Unwritten Exclusive Rights

Under section 42 of the *Patent Act*,[29] a patentee is granted “the exclusive right, privilege and liberty of making, constructing and using the invention and selling it to others to be used”—a “written exclusive right.”

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[28] See Harold G Fox, *The Canadian Law and Practice Relating to Letters Patent for Inventions*, 4th ed (Toronto: Carswell, 1969) at 9.

[29] RSC 1985, c P-4.

In principle, because patents are monopolies,[30] no other exclusive rights are granted to the patentee. However, the exclusive right to import the invention—an "unwritten exclusive right"—has been established by the judiciary. Owing to the territorial limitation of Canadian patents, acts performed in foreign countries do not infringe on the exclusive rights under Canadian patents. For example, if an invention for a process is patented in Canada, the use of the patented process abroad will not have any consequence under Canadian patent law. It is, however, well-settled law in Canada that the importation of those foreign products, which have been built under the process claim patented in Canada, is prohibited.[31] It is thus widely recognized that the importation of an infringing product constitutes an infringement of the Canadian patent.[32] This means that the patentee has the exclusive right to import patented products—the unwritten exclusive right. Accordingly, the monopoly granted under section 42 of the *Patent Act* is "the exclusive right, privilege and liberty of making, constructing, using, importing the invention and vending the invention to others to be used."[33] In the absence of consent of the patentee, each of these exploitations of the patented invention constitutes an infringement of the patent.

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[30] Under the *Statute of Monopolies* (*Act Concerning Monopolies and Dispensation of Penal Laws, and the Forfeitures Thereof*), 1624, 21 Jac 1, c 3), all monopolies are banned with limited exceptions.

[31] See *Eli Lilly and Company v Apotex Inc*, 2009 FC 991 at para 318; *Saccharin Corp v Anglo-Continental Chemical Works, Ld* (1900), 17 RPC 307 (HCJ), referred to by the Supreme Court of Canada in *Schmeiser*, *infra* note 47 at para 44.

[32] See Fox, *supra* note 28 at 391–392.

[33] See *Apotex Inc v Sanofi-Aventis*, 2011 FC 1486 at para 186 [*Apotex*].

3.3 Purchasers' Rights Under Canadian Patent Law

3.3.1 Purchasers' Rights: Implied and Explicit Licences

As noted above, a patentee is granted an exclusive right under section 42 of the *Patent Act* with respect to the patented invention, and thus the patentee can exclude others from exploiting the invention. The purchaser of a product expects to have the control of the product and, therefore, acquires a certain right—a "purchaser's right" to the purchased product that implements the patented invention. Therefore, two competing rights—the patentee's exclusive right and the purchaser's right—arise in the sold/purchased patented product. There is a need for a balance between the two competing rights. Purchasers' rights to patented products were traditionally described with reference to the implied licence theory that stems from UK jurisprudence, such as *Betts v Willmott*,[34] *Badische Anilin und Soda Fabrik v Isler*,[35] and *National Phonograph Co of Australia, Ltd v Menck*.[36] In accordance with the implied licence theory, an unconditional sale

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34 *Betts v Willmott*, [1871] LR 6 Ch App 239.

35 *Badische Anilin und Soda Fabrik v Isler* (1906), 23 RPC 173 (HCJ) [*Badische Anilin*].

36 *National Phonograph Co of Australia, Ltd v Menck* (1911), 28 RPC 229 (PC) [*National Phonograph*], appealed from *National Phonograph Co of Australia Ltd v Menck*, [1908] HCA 96. The decision in *National Phonograph* had been made by the Judicial Committee of the Privy Council in the United Kingdom before its jurisdiction over the Canadian courts' decisions ended in 1949: see Supreme Court of Canada, "Creation and Beginnings of the Court," online: <https://www.scc-csc.ca/court-cour/creation-eng.aspx>. As the highest court's decision, *National Phonograph* would be considered the most relevant case concerning purchasers' rights to patented products in Canada. While Canadian patent law is different from UK patent law, Canadian courts treat UK case law as persuasive on relevant issues: see David Vaver, "Consent or No Consent: The Burden of Proof in Intellectual Property Infringement Suits" (2011) 23 IPJ 147 at 151, online: <https://digitalcommons.osgoode.yorku.ca/cgi/viewcontent.cgi?article=1967&context=scholarly_works>. In *Eli Lilly*, *infra* note 38 at paras 69, 100, the Supreme Court of Canada referred to *National Phonograph*, *Betts v Willmott*, *supra* note 34, and *Badische Anilin*, *supra* note 35.

results in an implied licence and a conditional sale results in an explicit licence,[37] and thus a purchaser acquires an unlimited right and a limited right, respectively, to deal with a purchased patented product.

The Supreme Court of Canada addressed purchasers' rights to patented products in *Eli Lilly & Co v Novopharm Ltd*.[38] In this case, it was the compulsory licensee of a pharmaceutical patent who sold products. Concerning rationalization for purchasers' use and resale of the purchased product, Iacobucci J reasoned as follows:

> [B]y selling the patented article that he made, the patentee *impliedly renounces*, with respect to that article, to [*sic*] his exclusive right under the patent of using and selling the invention.[39]

It was the Supreme Court's view that the patentee impliedly renounces (or waives) the exclusive right under the patent with respect to the patented product sold by the patentee. Hence, the Supreme Court recognized the concept of an "implied renunciation" of the exclusive right under the patent when a patented product was sold.

Owing to the implied renunciation of the patentee's exclusive right, the patentee vendor would impliedly have consented to the purchaser's exploitation of the patented invention with respect to the sold/purchased patented product. The purchaser, therefore, acquires a certain right to exploit the invention with respect to the purchased product. In *Eli Lilly*, Iacobucci J described the purchaser's right, stating, "[T]he sale of a patented article is *presumed* to give the purchaser *the*

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37 See Fox, *supra* note 28 at 301–302; Gordon F Henderson, "Assignment of Patents: Problems Involved in the Assignment of Patents and Patent Rights" (1970) 60 CPR 237 at 261.

38 *Eli Lilly & Co v Novopharm Ltd*, [1998] 2 SCR 129 [*Eli Lilly*].

39 *Ibid* at para 99 [emphasis added] [Iacobucci J's underline omitted].

right 'to use or sell or deal with the goods' as the purchaser pleases."[40] The right to use, sell, and deal with a patented product, which is conferred on the purchaser on the basis of this presumption, is an implied licence, as explained by Buckley J in *Badische Anilin*, who stated, "[I]n the absence of condition, this implied licence is *a licence to use or sell or deal with the goods* as the purchaser pleases."[41] The purchaser's right could be subject to restrictive conditions imposed by the patentee; as Lord Shaw in *National Phonograph* observed, "[T]he owner's rights in a patented chattel will be limited, if there is *brought home to him the knowledge of conditions imposed, by the Patentee*."[42] With regard to the presumptive conferral of the purchaser's right, Iacobucci J clarified that "restrictive conditions imposed by a patentee on a purchaser … do not run with the goods *unless they are brought to the attention of the purchaser* at the time of their acquisition."[43] This means that if the purchaser is unaware of the restrictive conditions imposed at the time of purchase of the patented product (an "unconditional sale"), the purchaser will not be bound by the conditions and will acquire an unlimited right—an implied licence. If, however, the purchaser is aware of the conditions at the time of purchase (a "conditional sale"), the purchaser will be bound by the conditions and will acquire a limited right—an explicit licence. Accordingly, the patentee vendor can limit the right to be acquired by the purchaser, by imposing restrictions and clearly and unambiguously expressing the restrictions, so that the purchaser becomes aware of the restrictions at the time of acquisition of the patented product.[44] Hence, the

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[40] *Ibid* at para 100 [emphasis added].

[41] *Badische Anilin, supra* note 35 at 180 [emphasis added].

[42] *National Phonograph, supra* note 36 at 248 [emphasis added].

[43] *Eli Lilly*, *supra* note 38 at para 100 [emphasis added].

[44] *Ibid*.

purchaser's right to a patented product, as described by Iacobucci J in *Eli Lilly*, is an implied licence, and *Eli Lilly* did not change the law concerning the purchaser's right. After *Eli Lilly*, in *Apotex Inc v Merck & Co Inc*,[45] Malone JA of the Federal Court of Appeal stated:

> *Eli Lilly* … did not … change the law from that which had been enunciated by the earlier case law that was relied upon by Iacobucci J.: *Betts v Willmott* … ; *Badis[c]h[e] An[i]lin und Soda Fabrik v Isler* … ; *Gillette v Rae* … ; and *National Pho[n]ograph Co [of] Australia, Ltd v Menck*.[46]

Not long after *Eli Lilly*, the Supreme Court of Canada had an opportunity to deal with the acquirors' rights to patented products in *Monsanto Canada Inc v Schmeiser*.[47] In this case, the accused farmer, Schmeiser, did not purchase plant seeds containing patented genes from the patentee, Monsanto. The farmer found seeds in his land and cultivated crops from the seeds. The patented gene had the self-replication characteristic, and therefore the resultant seeds had the same genes that were patented. The farmer was accused of patent infringement. He, however, argued that he was an innocent bystander. The Supreme Court rejected his arguments. McLachlin CJ and Fish J stated:

> Invoking *the concepts of implied licence and waiver*, the appellants argue that this Court should grant an exemption from infringement to "innocent bystanders." The simple answer to this contention is that on the facts found by the trial judge, Mr. Schmeiser was not an innocent bystander.[48]

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[45] *Apotex Inc v Merck & Co Inc*, 2002 FCA 210 [*Merck*].

[46] *Ibid* at para 39.

[47] *Monsanto Canada Inc v Schmeiser*, 2004 SCC 34, [2004] 1 SCR 902 ("*Schmeiser*").

[48] *Ibid* at para 95 [emphasis added].

It is apparent from this statement that while the Supreme Court rejected the argument of an innocent bystander, it acknowledged "the concept of an implied licence." At the same time, the court acknowledged "the concept of an implied waiver." Under common law, there is no distinction in the transfer of the whole interest in a product between sale and gift. Accordingly, the concepts of the implied waiver and the implied licence are applicable to any lawful transfer—for example, sale-purchase—of the whole interest in products.

As for purchasers' or acquirors' rights to patented products, in *Eli Lilly* and *Schmeiser*, the Supreme Court of Canada recognized the concepts of an implied renunciation (or waiver) and an implied licence.[49] An implied licence, which is given on a contractual basis, is designed to protect the intentions and expectations of the contracting parties[50]—the patentee vendor and the purchaser. Thus, the freedom of a purchaser—an implied licensee—is guaranteed by the contract between the patentee vendor and the purchaser. Concerning an "infringement," McLachlin CJ and Fish J of the Supreme Court explained that "[i]nfringement, in short, is 'any act that interferes with the full enjoyment of the monopoly granted to the patentee,' if done *without the consent of the patentee*."[51] The reasoning for non-infringement stems from the patentee having consented, not from the end or dissolution of the exclusive right under the patent. Since the purchaser has impliedly received consent, the purchaser does not infringe on the vendor's patent

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49 The Supreme Court of Canada has established the "implied renunciation theory" based on an implied licence that rationalizes purchasers' use and resale of patented products: see Shuji Sumi, "Canadian Implied Renunciation Theory with an Implied Licence-Basis for Recognizing the Purchasers' Rights to Patented Products" (2020) 15 J Intell Prop L & Pract 800.

50 See Robert J Tomkowicz & Elizabeth F Judge, "The Right of Exclusive Access: Misusing Copyright to Expand the Patent Monopoly" (2006) 19 IPJ 351 at 376.

51 *Schmeiser*, *supra* note 47 at para 140 [emphasis added].

by dealing with the purchased product. It is an implied licence acquired by the purchaser that rationalizes the purchaser's dealings with the purchased patented product. In fact, before and after *Eli Lilly* and *Schmeiser*, lower courts recognized and acknowledged implied licences.[52] Thus, the implied licence theory is well-settled jurisprudence.

3.3.2 Purchasers' Rights Deriving from the Patentees' Vending Rights

This section discusses the source of purchasers' rights in accordance with the implied licence theory. A patentee has the exclusive right, privilege, and liberty of selling the invention to others to be used under section 42 of the *Patent Act*. Thus, the patentee has the inherent right to sell patented products, which is called the "vending right" and can be licensed to others. With regard to the vending right and the purchaser's right, Iacobucci J explained that "[u]nless otherwise stipulated in *the licence to sell a patented article*, the licensee is thus able to pass to purchasers the right to use or resell the article without fear of infringing the patent."[53] Also, Lord Hoffmann reasoned in favour of the purchaser's right being given by the vendor having the vending right, by quoting Lord Hatherley's passage in *Betts v Willmott* that "inasmuch as [the patentee] has *the right of vending* the goods … , he transfers with the goods necessarily the licence to use them *wherever the purchaser pleases*."[54]

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[52] See *Signalisation de Montréal Inc v Services de Béton Universels Ltée* (1992), 46 CPR (3d) 199 at 208 (FCA); *MacLennan v Produits Gilbert Inc*, 2006 FCA 204 at para 24; *Distrimedic Inc v Dispill Inc*, 2013 FC 1043 at para 226.

[53] *Eli Lilly*, *supra* note 38 at para 100 [emphasis added].

[54] *United Wire Ltd v Screen Repair Services (Scotland) Ltd*, [2001] RPC 24 at para 68 (HL) [*United Wire*] [emphasis added].

Only a vendor who has the vending right can pass the right or transfer the licence to use and resell the patented product to the purchaser.[55] If a vendor has no right to sell patented products, no right will be conferred on the purchaser. Hence, the purchaser's right derives from the vending right that is inherently owned by the patentee. While the patentee has the exclusive right to exploit the patented invention, the exclusive right is unenforceable to the extent of the right acquired by the purchaser. Within the scope of the right acquired by the purchaser—whether an implied licence (an unlimited right) upon an unconditional sale or an explicit licence (a limited right) upon a conditional sale—the purchaser's right prevails over the patentee's exclusive right. Accordingly, the purchaser's use and resale of a product claimed by the Canadian patent is justified by the right conferred on the purchaser by the vendor who has the vending right in Canada.

The transferred licence rationalizes the purchaser's use and resale of purchased product in the place (that is, the jurisdiction or country) where the use or resale infringes on the exclusive right of the patentee vendor without the vendor's consent. Owing to the country-based territorial limitation of patents, under a foreign patent, the vending right is not regarded as a valid right under the Canadian patent. Therefore, foreign patentees, who have no vending rights in Canada, cannot confer on the purchasers the right to deal with the patented products in Canada.

3.4 Another Theory for Justifying Purchasers' Rights in Other Jurisdictions

Another theory rationalizes purchasers' use and resale of patented products in other jurisdictions. For example, civil-law jurisdictions (such as Germany) and the European Community have the

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[55] See Shuji Sumi, "Purchasers' Rights to Patented Products Under the Common Law Doctrine of Exhaustion" (1998) 15 CIPR 81 at 85.

exhaustion theory—“national exhaustion” and “regional exhaustion.” Under the exhaustion theory, the sale of a patented product “exhausts” the patent rights over the sold/purchased patented product, and the exclusive right under the patent comes to an end with respect to the patented product.[56] This means that the exclusive right under the patent is “used up” with respect to the sold/purchased patented product; therefore, the purchaser and anyone else do not need the right to justify their dealing with the sold/purchased product. Despite the purchaser’s awareness of the restrictive conditions, imposed by the patentee at the time of acquisition of the patented product, these conditions do not affect the exhaustion of patent rights. Because exhaustion is not conditional, the extent of exhaustion is unambiguous. It should be noted that the extent of exhaustion is not intertwined with the imposed restrictive conditions and the intention of the patentee.[57] Once patent rights are exhausted, the purchaser is free to deal with the purchased product. The freedom is guaranteed by operation of law—*ipso jure*, not the contract between the patentee and the purchaser.[58] The rationale for the purchaser’s freedom under the exhaustion theory is different from that under the implied licence theory.

In the United Kingdom, after Brexit, the sale of a patented product in any member state of the European Economic Area (EEA) may exhaust the UK patent (the same result as before Brexit), but the sale in the United Kingdom may not exhaust the patent in the member states of the EEA.

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[56] For national exhaustion, see General Secretariat of the Council of the European Communities, “Records of the Luxembourg Conference on the Community Patent 1975” (Office for Official Publications of the European Communities, 1982) at 40–41. For regional exhaustion (or “community-wide exhaustion”), see *Centrafarm, BV v Sterling Drug, Inc*, [1974] ECR 1147; *Merck & Co Inc v Primecrown Ltd*, [1996] ECR I-6285.

[57] See Sumi, *supra* note 49 at 805.

[58] See Mineko Mohri, *Maintenance, Replacement and Recycling—Patentees’ Rights in the Aftermarkets: Germany, the US and Japan* (Munich: Herbert Utz Verlag GmbH, 2010) at 41.

Therefore, in the UK-EEA, exhaustion may be asymmetrical. However, the established implied licence theory is applicable to the importation of patented products that were sold/purchased anywhere outside the EEA.[59] This is how the exhaustion theory and the implied licence theory coexist in the United Kingdom.[60]

The United States has developed its own exhaustion theory, namely, the "first-sale doctrine." In *Impression Products, Inc v Lexmark International, Inc*,[61] Lexmark sold printers and toner cartridges (patented products) for use in printers. Purchasers of cartridges were given two options: full price without restrictions or a discount through the "return program." Under the return program, once the toner ran out, the purchaser was not permitted either to reuse or to transfer the used cartridge to anyone other than Lexmark. Thus, the sales under the return program were conditional with restrictions. Impression Products was aware of the restrictions and acquired used cartridges in the United States and abroad. The acquired cartridges were refilled with toner and were sold in the United States. Lexmark sued Impression Products for patent infringement. It was held that the products of Impression Products were not infringing products of Lexmark's US patents. The US Supreme Court confirmed that Lexmark's patents were exhausted regardless of whether the sale of the patented products was unconditional or conditional, and found that the sale of patented products by the patentee or a licensee anywhere in the world exhausted the exclusive rights under the US patent.[62] This means that exhaustion is

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59 See *Betts v Willmott*, *supra* note 34.

60 The United Kingdom may establish its own regime for exhaustion of patent rights. See the UK Government's "Consultation document on the UK's future regime for exhaustion of IP rights" published 7 June 2021.

61 *Impression Products, Inc v Lexmark International, Inc*, 581 US ____ (2017) [*Impression Products*].

62 *Ibid* at 13.

absolute (not conditional) and applicable internationally; therefore, exhaustion cannot be made subject to restrictive conditions, and the extent of exhaustion is not intertwined with restrictive conditions, even if imposed.

The exhaustion theory (including the US first-sale doctrine) is fundamentally different from the implied licence theory.[63] A distinct concept of the exhaustion theory is that the extent of exhaustion is not intertwined with the intention of the patentee. Under the implied licence theory, the extent of the right acquired by the purchaser is intertwined with the intention of the patentee when the sale is conditional.[64]

As noted earlier, *Eli Lilly* did not change the law regarding purchasers' rights,[65] and thus *Eli Lilly* did not introduce the exhaustion theory into Canadian patent law. Nor did *Schmeiser*. While the exhaustion theory "may be of assistance in analyzing Canadian laws, it cannot serve to displace the well-settled jurisprudence" in Canada.[66] Hence, the exhaustion theory does not form part of Canadian law in addressing questions regarding purchasers' rights and parallel imports of patented products. Indeed, neither Canadian statute nor case law uses the term "exhaustion."[67] Thus, the Canadian theory for justifying purchasers' use, sale, and importation of patented

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63 For discussions on the implied licence theory and the exhaustion theory, see Jessica C Lai, "The Exhaustion of Patent Rights v The Implied Licence Approach: Untangling the Web of Patent Rights" (2018) 8 Queen Mary J Intell Prop 209.

64 See Sumi, *supra* note 49 at 803.

65 See *Merck*, *supra* note 45 at para 39.

66 See *Eli Lilly and Company v Apotex Inc*, 2009 FC 991 at para 325.

67 See Olena Ivus, "Patent Exhaustion in the United States and Canada" (January 2018) CIGI Papers No 159 at 4, online: *Centre for International Governance Innovation* <https://www.cigionline.org/sites/default/files/documents/Paper%20159web.pdf>.

products is the implied licence theory. In the following discussion, questions of whether the importation of foreign-sold patented products into Canada infringes on the Canadian patent are addressed with reference to the well-settled jurisprudence—the implied licence theory.[68]

4.0 Blocking Parallel Imports of Patented Products

This section discusses whether parallel imports of patented products can or cannot be blocked, taking into consideration the principles of international and domestic laws discussed in the previous section.

4.1 Canadian and Foreign Patents Owned by the Same Party

Whether parallel imports of patented products are blockable depends on whether the importation constitutes a direct infringement of the unwritten exclusive right to "import" the patented invention under section 42 of the *Patent Act*, rather than an indirect infringement.[69] Since the

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[68] Purchasers' rights to patented products may be described by mixing or blending the concepts of an implied licence and patent exhaustion. Such a blended theory has been proposed as a "common law doctrine of exhaustion" based on an implied licence: see Shuji Sumi, "A Common Law Doctrine of Exhaustion Based on an Implied Licence: A Canadian Perspective" (July 2021) 16:7 J Intell Prop L & Pract 712–719. According to the common-law doctrine of exhaustion, patent rights are "effectively exhausted" to the extent of the right (an implied or explicit licence) acquired by the purchaser of a patented product. The effective exhaustion of patent rights is intertwined with the imposed conditions and the patentee's intention, and thus the effective exhaustion of patent rights is conditional. The common-law doctrine of exhaustion is, therefore, fundamentally different from the exhaustion theory.

[69] The *Patent Act, supra* note 29, does not define a direct or primary infringement and an indirect or secondary infringement. Case law provides the definition of infringement. Compare section 27 of the *Copyright Act*, *supra* note 10. For a direct infringement of patent, see *Schmeiser, supra* note 47 at para 140; for an indirect infringement, see *MacLennan v Produits Gilbert Inc*, 2006 FCA 204 at para 22. In the case of e-commerce, the platform operator may be liable for an indirect infringement, if the product sold by a foreign vendor and purchased by a Canadian consumer is an infringing product under Canadian patent law.

patentee has the exclusive right to import the patented invention,[70] the importation of a product that implements the patented invention, without the consent of the patentee, infringes on the exclusive right under the patent. However, by selling a patented product in a foreign country, a Canadian patentee, who also owns a foreign patent for the same or equivalent invention, impliedly renounces the exclusive right under the Canadian patent to use, sell, and import the invention with respect to the sold patented product.[71] In other words, the patentee has impliedly given the consent to the purchaser to use, sell, and import the sold/purchased patented product into Canada. In this case, the purchaser has acquired an implied licence or the right to use, sell, deal with, and import the purchased patented product that originates from the Canadian patentee.[72] By virtue of an implied licence, the purchaser may import the sold/purchased patented products,[73] and thus the importation will not infringe on the Canadian patent owned by the vendor. If, however, the purchaser is clearly and unambiguously notified of a "no-export-to-Canada" restriction at the time of acquisition of the patented product, the purchaser will acquire an explicit licence—a limited right[74]—and thus the purchaser will not be allowed to import the purchased patented product into Canada. It can therefore be asserted:

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[70] See *Apotex*, *supra* note 33 at para 186.

[71] See *Eli Lilly*, *supra* note 38 at para 99.

[72] *Ibid* at para 100.

[73] See *Betts v Willmott*, *supra* note 34.

[74] See *Eli Lilly*, *supra* note 38 at para 100.

> A Canadian patentee who owns an equivalent patent in a foreign country cannot block parallel imports, unless patented products are sold with no-export restrictions in the foreign country.

If, however, the imported product does not originate from the owner of the exclusive right under the Canadian patent, the importation of a foreign-sold patented product into Canada will be blockable. Hence, where a vendor in a foreign country (an exporting country) is different from the owner of the exclusive right under the Canadian patent, the importation of the patented product into Canada (an importing country) constitutes an infringement of the exclusive right under the patent to import the invention. In this case, the foreign vendor has no vending right in Canada, and therefore cannot confer on the purchaser the right to import the patented product into Canada. Thus, the different ownership of exclusive rights between the exporting country and Canada assists the Canadian owner of the exclusive right to block parallel imports.

A patentee may wish to use the exclusive right under the patent to maximize its profit and protect its interest in the business. It may be advantageous for the patentee to authorize other parties to exercise the exclusive right under the patent to block parallel imports of patented products. Possible authorizations are meant to grant exclusive licences and assign Canadian patents.

4.2 Granting Exclusive Licences Under Canadian Patents

4.2.1 Exclusive Licensee's Standing

A patentee has the inherent right to grant a licence in the patent to authorize a licensee to exercise the right granted to the patentee.[75] If a patentee grants an exclusive licence covering the entire scope of the patent right, the patentee will lose the exclusive right under the patent, including the vending right, and only the exclusive licensee can exercise the exclusive right. If a third party exploits the patented invention within the scope of the exclusive licence without the consent of the exclusive licensee, the third party's act will deprive the protection conferred by the exclusive licence. If the patentee-licensor exploits the invention, the patentee's interfering act will not be a literal infringement of the patent because the patentee-licensor is the owner of the patent. Therefore, a question arises as to whether the exclusive licensee can sue third parties and the patentee-licensor for infringement. The *Patent Act* has no provisions directed at exclusive licences. Other laws may be of assistance in answering this question.

Under section 2.7 of the *Copyright Act*, an exclusive licensee of a copyright is authorized to exclude the copyright owner as well as third parties. Thus, the copyright owner is precluded from exercising the sole right to produce or reproduce the work or any substantial part thereof under section 3(1) of the *Copyright Act*. Also, a grant of an exclusive licence in a copyright constitutes the grant of an interest in the copyright.[76] However, the copyright owner-licensor may retain a residual ownership interest in the licensed copyright that precludes the licensor from being liable

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75 See Barry Gamache, "Enforcement of Licence Agreements" (1993) at 7–8, online: *Robic LLP* <https://www.robic.ca/wp-content/uploads/2017/05/115-BGA.pdf>.

76 *Copyright Act*, s 13(7).

for copyright infringement, while the copyright owner is liable for breach of the licensing agreement.[77] It is thus that the *Copyright Act* may not assist the exclusive licensee to sue the patentee-licensor for infringement.

The UK *Patent Act* should also be considered. Under section 67(1) of the *Patents Act 1977* an exclusive licensee has the same right as the patentee to bring proceedings for patent infringement. If the exclusive licensee does not permit it, the exploitation by the patentee within the scope of the exclusive licence will infringe on the right of the exclusive licensee. Accordingly, the exclusive licensee has standing to sue the patentee-licensor as well as third parties for patent infringement. Lord Denning explained licences as follows:

> An ordinary "licence" is a permission to the licensee to do something which would otherwise be unlawful. It leaves the licensor at liberty to do it himself and to grant licences to other persons also. A "sole licence" is a permission to the licensee to do it, and no-one else, save that it leaves the licensor himself at liberty to do it. *An "exclusive licence" is a permission which is exclusive to the licensee, so that even the licensor himself is excluded as well as anyone else*.[78]

Hence, once an exclusive licence is granted, the patentee-licensor does not have the liberty of exploiting the licensed patented invention. It is thus that UK *Patent Act* assists the exclusive licensee to sue the patentee-licensor and third parties for infringement.

Accordingly, section 2.7 of the *Copyright Act* and section 67(1) of the UK *Patent Act* support the exclusive licensee's standing to sue others for infringement. Nonetheless, it is well-established in the jurisprudence that an exclusive licence does not confer any interest or property in the

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77 See *Euro-Excellence*, *supra* note 2 at para 37.

78 *Murray (HM Inspector of Taxes) v Imperial Chemical Industries Limited*, [1967] RPC 216 at 217 (CA) [emphasis added].

patent.[79] Thus, such a “plain exclusive licence” does not permit the exclusion of others, including the patentee-licensor. Since a plain exclusive licensee cannot prevent the patentee’s and third parties’ interference, the exclusive licensee cannot block the importation of patented products. Therefore, the protection conferred by the exclusive licence will be eroded. Rather than the arrangement of a plain exclusive licence, more effective licence arrangements are needed to ensure the protection conferred by an exclusive licence and to block parallel imports.[80]

If an exclusive licence covering the entire scope of the exclusive right under the patent is granted, without any interest in the patent reserved by the patentee, the patentee-licensor will be precluded from exercising the exclusive right.[81] The patentee will thus lose all substantial rights in the patent. Once such a “substantial exclusive licence” is granted, the patentee does not retain any ownership interest in the licensed patent. In this regard, the patentee-licensor retains no ownership interest to preclude the patentee from being liable for infringement. In this article, hereinafter, an exclusive licence means a substantial exclusive licence.

Since the patentee-licensor does not own the exclusive right in Canada, only the exclusive licensee can enjoy the exclusive right, privilege, and liberty of giving consent to others to make, construct, use, import, and sell patented products in Canada. Consequently, the exclusive licensee can sue the patentee-licensor as well as third parties for infringement. Accordingly, the

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[79] See *Merck & Co., Inc v Apotex Inc*, 2013 FC 751 at para 241.

[80] Under section 55(1) of the *Patent Act*, “persons claiming under the patentee” are entitled to claim sustained damages. Both exclusive and non-exclusive licensees are persons claiming under the patentee: see *Teva Canada Limited v Janssen Inc*, 2018 FCA 33 at para 117.

[81] See Fox, *supra* note 28 at 300–301.

protection granted by the exclusive licence is ensured. Because the exclusive licensee effectively owns the exclusive right under the Canadian patent, the exclusive rights in the foreign country and Canada are owned by different parties: the foreign patentee (the Canadian patentee-licensor) and the Canadian exclusive licensee, respectively. The foreign patentee has no vending right to sell patented products in Canada, and thus foreign purchasers acquire no right to deal with the patented products in Canada and import them. In this regard, the Canadian exclusive licensee can block the importation of the patented products into Canada.

4.2.2 Pre-Sale Granting of Exclusive Licences

Suppose that a Canadian patentee, who has a corresponding patent for the same or equivalent invention in a foreign country, grants an exclusive licence under the Canadian patent. Thereafter, the patentee-licensor sells a patented product without restrictions in the foreign country. In this case, the foreign-sold product originates from the foreign patentee—the Canadian patentee-licensor, not the owner of the Canadian exclusive right who is the exclusive licensee. The foreign vendor has no vending right in Canada, and thus the foreign purchaser does not acquire the right to deal with the patented product in Canada and import it. If the purchaser imports the patented product into Canada, the exclusive licensee's right will prevail over the purchaser's right and the purchaser-importer will infringe on the exclusive right under the Canadian patent. The exclusive licensee can, therefore, block the importation. In this regard, the country-based territorial limitation of the vending right of the foreign vendor runs together with the sold/purchased patented product, regardless of the purchaser-importer's knowledge of the limitation of the vendor's vending right and the exclusive licence in Canada. Accordingly, it is proposed that knowledge of the country-based territorial limitation of the vending right is irrelevant in determining the purchaser's right to import the patented product in question. In this regard, the country-based territorial limitation is not a restrictive condition that can voluntarily be imposed by the vendor to limit the purchaser's right.

This proposition may, however, be contrary to UK jurisprudence.[82] It has been held that an exclusive licensee with a territorial limitation cannot stop the use of a patented product within the limited territory by the purchaser, who purchased the product outside the limited territory from an authorized party. The following can be described as a hypothetical Canadian case. Suppose that a Canadian patentee grants an exclusive licence with a territorial limitation that is applicable to the national capital, Ottawa, which is a "domestic territorial limitation." If the patentee then sells a patented product outside Ottawa, and the purchaser is not aware of the territorial limitation of the patentee vendor's right or of the Ottawa exclusive licence at the time of acquisition of the patented product, the exclusive licensee cannot stop the purchaser's use or resale of the patented product in Ottawa. This result can be justified by the nature of a Canadian patent, which is inherently effective throughout Canada, guaranteeing the exclusive right to exclude others from selling patented products in Canada. By selling a patented product, the patentee presumably confers upon the purchaser the right to deal with the patented product throughout Canada unless the purchaser is clearly and unambiguously notified of applicable restrictions at the time of acquisition.[83] If the purchaser is not aware of the territorial limitation of the patentee's vending right at the time of acquisition of the patented product, the purchaser will acquire the right to deal with the patented product; the right acquired by the purchaser prevails

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[82] See *Heap v Hartley* (1889), 6 RPC 495 (CA); *Scottish Vacuum Cleaner Company Ld v Provincial Cinematograph Theatres Ld, and British Vacuum Cleaner Company Ld* (1915), 32 RPC 353 (Ct Sess—OH).

[83] See *Eli Lilly*, *supra* note 38 at para 100.

over the exclusive right of the Ottawa exclusive licensee. As a result, the exclusive licensee cannot stop the purchaser's dealing with the patented product in Ottawa.

The Canadian hypothetical case is, however, distinguishable from the case of an international trade and an exclusive licence with the country-based territorial limitation. A Canadian patent does not guarantee that the patentee will be able to sell patented products without the competition of others in foreign markets owing to the inherent territorial limitation of the Canadian patent. While the foreign vendor is the Canadian patentee, it has no vending right in Canada after the exclusive licence is granted and thus cannot give the right to deal with the patented product in Canada. The Canadian exclusive licensee can take action against the importer of a patented product that was sold abroad by the Canadian patentee. Thus, regarding parallel imports of patented products, the principle of the country-based territorial limitation of patents plays a fundamental role in determining purchasers' rights to import foreign-sold/purchased patented products into Canada.

Similarly, if a Canadian patentee-licensor sells a patented product in a foreign country where it has no corresponding patent, the sale is not made under the guarantee of exclusion by the Canadian patent. The vendor has no vending right in Canada, and it cannot confer upon the purchaser the right to deal with the patented product in Canada. Therefore, the purchaser does not acquire the right to import the purchased product into Canada, regardless of whether the purchaser is aware or unaware of the exclusive licensee's right in Canada.[84]

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[84] The question of parallel imports arises regardless of whether a corresponding patent exists in a foreign country—an exporting country. In *Betts v Willmott*, *supra* note 34, Betts had patents in England and in France, but the French patent later expired: see Christopher Stothers, *Parallel Trade in Europe: Intellectual Property,*

The Canadian exclusive licensee can block parallel imports of patented products, regardless of whether the purchaser-importer is aware of the country-based territorial limitation of the vendor's vending right at the time of acquisition of the patented products. No "no-export-to-Canada" restriction needs to be imposed on foreign purchasers to block parallel imports. It can therefore be asserted:

> Parallel imports can be blocked if patented products are sold abroad *after* an exclusive licence is granted in Canada.

4.2.3 Post-Sale Granting of Exclusive Licences

Suppose that a Canadian patentee sells patented products in the foreign country where it has a corresponding patent and thereafter grants an exclusive licence under the Canadian patent. In this case, the foreign vendor is the same party as the owner of the Canadian exclusive right (the patentee), who also has the vending right in Canada.

Competition and Regulatory Law (Oxford and Portland, OR: Hart Publishing, 2007) at 379. From the judgments in *Betts v Willmott*, the factual and legal situation is not entirely clear: see *Wellcome Foundation*, *infra* note 117 at para 3.5. It appears that the products sold by Betts were no longer patented products in France. Thus, the imported products were unpatented products in the exporting country, but patented products in the importing country. However, this may not be a case of copyrighted products, if the foreign country (the exporting country) is a contracting state of the *Berne Convention for the Protection of Literary and Artistic Works*, 9 September 1886, as revised at Paris on 24 July 1971 and amended in 1979, S Treaty Doc No 99-27 (1986) [*Berne Convention*]. Under article 5(2) of the *Berne Convention*, protection for copyright is not subject to formality including registration of a copyright, and copyright exists without being registered: see World Intellectual Property Organization, *Guide to the Berne Convention for the Protection of Literary and Artistic Works (Paris Act, 1971)* (Geneva: WIPO 1978) at 33, online: <https://www.wipo.int/edocs/pubdocs/en/copyright/615/wipo_pub_615.pdf>.

Where the sale is unconditional—that is, without a no-export restriction—the patentee impliedly renounces the exclusive right under the Canadian patent, and the purchaser acquires the right to deal with the purchased patented product.[85] The purchaser is thus allowed to import the patented product into Canada.[86] Where the patented product had been imported into Canada before an exclusive licence was granted, the patented product originated from the same party as the owner of the exclusive right under the Canadian patent (the patentee). In this case, the implied licence prevails over the patentee's exclusive right. Therefore, the importation of the patented product by the purchaser is not an infringement of the Canadian patent, and the patentee cannot block the importation.

Where the patented product is imported into Canada after an exclusive licence is granted, at the time of importation, the owner of the exclusive right under the Canadian patent is the exclusive licensee but is not the vendor of the patented product. The question then arises whether the implied licence, which has already arisen on the unconditional sale, prevents the exclusive licensee from taking action against the purchaser-importer (the implied licensee). In this case, the exclusive licensee was not a party to the sale-purchase contract between the patentee-licensor and the purchaser, and the purchaser was not a party to the contract between the Canadian patentee-licensor and the exclusive licensee. Considering the nature of an implied licence that protects the intentions and expectations of the vendor and the purchaser, the purchaser's right should be protected regardless of the change in the ownership of the exclusive right from the patentee to the exclusive licensee. Thus, an implied licence operates between the purchaser (the

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[85] See *Eli Lilly*, *supra* note 38 at paras 99–100.

[86] See *Betts v Willmott*, *supra* note 34 at 244.

implied licensee) and the exclusive licensee. In this regard, the implied licence runs together with the sold/purchased patented product. Thus, the purchaser's right to the patented product prevails over the exclusive right of the licensee in Canada. Therefore, the importation of the patented product by the purchaser is not an infringement of the exclusive right under the Canadian patent, and the exclusive licensee cannot block the importation.

Accordingly, once patented products are unconditionally sold abroad by the patentee, the importation of the patented products into Canada cannot be blocked, regardless of who owns the exclusive right under the Canadian patent at the time of importation.

However, conditional sales of patented products abroad have different legal consequences in Canada. If a Canadian patentee sells patented products in a foreign country conditionally—with a no-export restriction—and the purchaser is aware of the restriction at the time of acquisition, the purchaser will be bound by the restriction[87] and will acquire only a limited right that does not carry the right to import the purchased product into Canada. If the purchaser imports the product into Canada before an exclusive licence is granted, the patentee's exclusive right will prevail over the purchaser's right. The importation will infringe on the Canadian patent, and the patentee can block the importation, although the imported patented product originated from the Canadian patentee. Another question arises when a patented product is imported into Canada after the exclusive licence is granted. Even though the purchaser is not a party to the contract between the Canadian patentee-licensor and the exclusive licensee, the limited right with the no-export restriction already acquired by the purchaser is not expanded to an unlimited right or an implied

[87] See *Eli Lilly*, *supra* note 38 at para 100.

licence without the no-export restriction. Because an implied licence protects the intentions and expectations of the contracting parties, the vendor's right should be protected. Thus, the limited licence without the right to import operates between the exclusive licensee and the purchaser. In this case, the exclusive licensee's right prevails over the purchaser's right, and the importation infringes on the exclusive right. Consequently, the exclusive licensee can block the importation.

A foreign purchaser of a patented product may resell the patented product in the foreign country. If the initial purchaser, who acquired the patented product with knowledge of the no-export restriction, resells the product by clearly notifying a subsequent purchaser of the restriction, the subsequent purchaser will be aware of the restriction and will acquire a limited right that does not allow the subsequent purchaser to import the patented product. If the subsequent purchaser imports the patented product into Canada, the importation will infringe on the exclusive right under the Canadian patent and the importation can be blocked by the exclusive licensee. However, if the subsequent purchaser is unaware of the restriction at the time of acquisition, the right acquired by the subsequent purchaser will be an unlimited right—an implied licence[88]—that carries the right to import the patented product into Canada. Therefore, the importation by the subsequent purchaser does not infringe on the exclusive right under the Canadian patent[89] and the exclusive licensee cannot block the importation.

While the clear notice of the no-export restriction at the time of sale of a patented product assists the owner of the exclusive right under the Canadian patent to block parallel imports of patented

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88 *Ibid*.

89 See Henderson, *supra* note 37 at 262.

products, it is not practical to notify each purchaser and subsequent purchaser of the no-export restriction. It can therefore be asserted:

> Parallel imports will be unblockable or blockable if patented products are sold abroad without or with no-export restrictions *before* an exclusive licence is granted in Canada.

As previously discussed, granting an exclusive licence covering the entire scope of the patent without any interest reserved by the patentee is an effective way to block parallel imports. However, the "entire scope" of the exclusive right to the exclusive licensee, while granting "no reservation of interest in the patent," would be unclear. As a result, there is still uncertainty around exclusive licence arrangements concerning parallel imports. Since an exclusive licence is not a statutory right, but is rather a contract-based one, the public may not know of the existence of an exclusive licence and its scope.

4.3 Assignments of Canadian Patents

Every Canadian patent is assignable either as a whole interest or as any part thereof.[90] Where a Canadian patent in its entire scope is assigned to another party, no interest in the patent remains with the assignor. The assignee becomes the new patentee[91] and can enjoy the exclusive right, privilege, and liberty under section 42 of making, constructing, using, importing and selling the invention to others to be used in Canada. Therefore, the assignee has standing to sue the assignor as well as third parties for patent infringement.

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[90] Section 49(1) of the *Patent Act*, *supra* note 29.

[91] The transfer of a patent shall be recorded under section 49(3) of the *Patent Act*, *ibid*.

Where the owner of a Canadian patent, who also owns a foreign patent for the same or equivalent invention, assigns the Canadian patent in its entire scope to another party, the Canadian and foreign patents become owned by different parties. The Canadian assignor cannot enjoy the section 42 exclusive right under the assigned patent; however, the assignor still owns the foreign patent and can exercise the exclusive right to sell products covered by the foreign patent.

4.3.1 Pre-Sale Assignments

Suppose that after a Canadian patent is assigned, the assignor (the foreign patentee) sells, in the foreign country, products that are covered by the Canadian and foreign patents. In such a case, if the foreign purchaser imports the purchased patented products into Canada, the question of parallel imports will arise. In *Betts v Willmott*, Lord Hatherley discussed such a situation as a hypothetical case[92] in which the owner of English and French patents assigns the English patent and retains the French patent. If the French patentee sells patented products in France, because the patenee's vending right is limited to France, the patentee vendor cannot confer on the purchaser the right to deal with the patented products in England. Therefore, if the purchaser imports the French-sold/purchased products into England, the exclusive right under the assigned English patent will prevail over the purchaser's right acquired in France, and any importation to England will infringe on the English patent owned by the assignee.

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[92] See *Betts v Willmott*, *supra* note 34 at 244.

Prior to *Betts v Willmott*, in *Walton v Lavater*,[93] an inventor obtained a patent for his invention in England and had the privilege of manufacturing products in France. Then, the English patent was assigned to another party and the inventor assignor imported products manufactured in France to England. The English court held that the importation of the products by the inventor assignor was an infringement of the assigned English patent.[94] Thus, the exclusive right under the English patent prevailed over the purchaser's acquired right. In *Walton v Lavater*, the country-based territorial limitation was considered to be a valid factor in determining the purchaser's right and infringement of importation.

On the basis of *Betts v Willmott* and *Walton v Lavater*, the importation into Canada of patented products that were sold by a foreign patentee (that is, the assignor of the Canadian patent) infringes on the Canadian patent owned by the assignee. In this case, although the foreign vendor had been the owner of the Canadian patent, the assignor has no vending right under the Canadian patent after the Canadian patent was assigned, and thus the assignor-vendor cannot give the purchaser the right to deal with the patented product in Canada. This means that the purchaser's right to a foreign-sold/purchased patented product depends on the vending right of the foreign vendor, which is subject to the country-based territorial limitation of the foreign patent. This implies that the limitation runs with the patented product. Consequently, the purchaser does not acquire the right to import the patented product into Canada, regardless of whether the purchaser is aware of the territorial limitation of the vendor's vending right at the time of purchase. As a result, the assignee of the Canadian patent can block parallel imports of patented products. No

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[93] *Walton v Lavater* (1860), 8 CB (NS) 162 (Ct Com Pl).

[94] *Ibid* at 186.

no-export restriction needs to be imposed on foreign purchasers for the purpose of blocking parallel imports. It can therefore be asserted:

> Parallel imports can be blocked if patented products are sold abroad *after* the Canadian patent is assigned.

4.3.2 Post-Sale Assignments

Suppose that a patentee sells patented products unconditionally in a foreign country, and thereafter the Canadian patent is assigned to another party. In this case, the unconditional sale automatically grants to the purchaser an implied licence to use, sell, and deal with the purchased product[95] and import it into Canada.[96] Whether an implied licence is conferred on the purchaser or not is determined at the time of purchase, and a licence acquired by the purchaser is not affected by a late notice of restrictive conditions.[97]

Where foreign-sold products are imported into Canada before the Canadian patent is assigned, the owner of the exclusive right in Canada is the patentee. Since the imported patented products had been sold by the Canadian patentee, they originated from the patentee. Therefore, the purchaser's right—an implied licence—allows the purchaser to import the patented product into Canada, and the patentee cannot block the importation of the patented products.

If, however, the foreign-sold products are imported into Canada after the patent is assigned, the owner of the exclusive right in Canada is the assignee. Because an implied licence protects the

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[95] See *Eli Lilly*, *supra* note 38 at para 100.

[96] See *Betts v Willmott*, *supra* note 34 at 244.

[97] See *Eli Lilly*, *supra* note 38 at para 100.

intention and expectation of the purchaser, the right of the purchaser should be protected regardless of the owner of the Canadian exclusive right at the time of importation of the patented products. Even though the purchaser is not a party to the contract between the assignor (the previous patentee) and the assignee (the new patentee), the implied licence that had been conferred on the purchaser operates between the purchaser and the assignee. The assignment after the sale, therefore, does not affect the already-granted implied licence. Accordingly, the purchaser's right, an implied licence, prevails over the assignee's exclusive right. The importation of patented products into Canada does not infringe on the exclusive right under the assigned patent. Therefore, the importation cannot be blocked by the assignee. As a result, once patented products are unconditionally sold, it is too late to block parallel imports of patented products by the late assignment of the Canadian patent.

However, conditional sales of patented products have different consequences because an implied licence can be made subject to certain conditions.[98] If the no-export restriction imposed by the patentee-vendor is brought to the attention of the purchaser at the time of acquisition of the patented product, before the assignment of the Canadian patent, the purchaser will not acquire an implied licence to deal with the purchased patented product in Canada,[99] and the importation will infringe on the Canadian patent. Accordingly, the patentee can block the importation before the assignment. Conversely, the assignee can block the importation of the patented product after the Canadian patent is assigned.

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98 See *United Wire*, *supra* note 54 at para 69.

99 See *Eli Lilly*, *supra* note 38 at para 100.

Where the foreign purchaser has knowledge of the no-export restriction and resells the purchased product in the foreign country without notifying the subsequent purchaser of the restriction, the subsequent purchaser is not bound by the restriction. Hence, the subsequent purchaser acquires an unlimited right—an implied licence—to deal with the patented products in Canada.[100] The importation of the patented products into Canada by the subsequent purchaser does not infringe on the Canadian patent. Thus, the importation by the subsequent purchaser cannot be blocked by the patentee before the assignment or by the assignee after the assignment, even though the original sale of patented products was conditional. Therefore, the patentee and the assignee lose the privilege of consenting on importing and selling the patented invention with respect to the patented product in Canada.

Accordingly, a purchaser's and a subsequent purchaser's clear knowledge of the restriction at the time of acquisition is significant for determining the purchaser's and the subsequent purchaser's rights to import the foreign-sold patented products. However, it is not practical to clearly notify each purchaser and subsequent purchaser of the no-export restriction. It can therefore be asserted:

> Parallel imports will be unblockable or blockable if patented products are sold abroad without or with no-export restrictions *before* the Canadian patent is assigned.

5.0 Potential Practices to Block Parallel Imports by Related Parties

In the discussion above, it was assumed that exclusive licensees and assignees are not related to or associated with the patentees. As discussed earlier, an effective way to block parallel imports

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[100] *Ibid.*

is to grant an exclusive licence or assign the Canadian patent in the entire scope before patented products are sold abroad. While such licence and assignment arrangements of Canadian patents are advantageous from the point of view of blocking parallel imports of patented products, they can also have negative consequences. Once an exclusive licence is granted in the entire scope of the patent without any interest in the patent being reserved by the patentee, or once the patent in the entire scope is assigned to another party, the licensor (the patentee) or the assignor (the previous patentee) is precluded from exercising the exclusive right under the licensed or assigned patent. As a result, the patentee loses control over the exclusive right under the patent, and the licensor or assignor may not be able to make an effective marketing strategy concerning patented products. There are also other factors, such as tax implications, to be considered. Therefore, granting an exclusive licence or assigning a patent to another party may not protect the patentee's best interest in the business in relation to the licensed or assigned patent. One potential strategy to protect the patentee's best interest under such circumstances is to grant an exclusive licence or assign the patent to a related party—for example, a subsidiary of the patentee. However, this strategy raises the question whether a subsidiary exclusive licensee or assignee can block parallel imports of patented products as formulated earlier on the basis of the takeaway points from *Euro-Excellence*. The following subsections discuss whether granting an exclusive licence and assigning a Canadian patent to a subsidiary are effective in blocking parallel imports of patented products.

5.1 Establishing Subsidiaries

Suppose that a patentee owns a subsidiary and sells patented products in a foreign country after the granting of an exclusive licence (that is, pre-sale granting) or the assigning of the patent (that is, pre-sale assigning) to its subsidiary. In this case, the parent patentee is the foreign vendor and the subsidiary is the owner of the exclusive right under the Canadian patent as the exclusive licensee or the assignee. Because a subsidiary is a separate entity from the parent corporation, the owner of the exclusive right in Canada is different from the foreign vendor (the foreign patentee). Thus, the importation of foreign-sold patented products into Canada can be blocked by the Canadian subsidiary, and the subsidiary may enjoy the advantage resulting from the different ownership of the exclusive right under the patent. Furthermore, the subsidiary can protect the parent patentee's best interest in the business in relation to the licensed or assigned patent. Such a licence or assignment arrangement is thus an excellent strategy to block parallel import, while at the same time protecting the interest of the patentee. However, the relationship between the patentee and the exclusive licensee or assignee could be an important factor in determining whether parallel imports can be blocked. The parent–subsidiary relationship should, therefore, be carefully reviewed.

A subsidiary is a corporation that is a legal entity distinct from its shareholders.[101] A subsidiary is controlled, either directly or indirectly, by a parent corporation,[102] which is a legal entity distinct from a subsidiary. Thus, a parent corporation can control the operation policies of the subsidiary for the benefit of the parent corporation. Control is obtained by majority voting rights or agreements with other shareholders. However, where a subsidiary is not wholly owned by a parent corporation, the parent corporation may not have full control of the subsidiary's operation. To address the question whether the subsidiary can block the importation of patented products,

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[101] See *Canadian Private Copying Collective v First Choice Recording Media Inc*, 2005 FC 187 at para 26.

[102] See Daphne A Dukelow, *The Dictionary of Canadian Law*, 4th ed (Toronto: Carswell, 2011) at 1249–1250.

exclusive control of the subsidiary's operation by the parent corporation must be considered. (In the discussion that follows, a "subsidiary" is assumed to be a "wholly owned subsidiary.")

While a parent corporation and a subsidiary seem to be juxtapositions of different legal entities, the latter may act as an agent of the former. Simpson J of the Federal Court explained, with respect to the subsidiary's action and its legal consequences, that "if a parent exercised sufficient control over a subsidiary such that the subsidiary could be said to be *acting as an agent, the subsidiary's actions might be regarded as actions taken by both* [the subsidiary and the parent]."[103] Because the operation of a wholly owned subsidiary is controlled exclusively by the parent corporation, such a subsidiary can be said to be sufficiently controlled by the parent corporation. In this regard, the subsidiary is "not operating on its own account but solely as an *integral part of the parent company's activities*."[104] Therefore, the parent corporation's operation and the subsidiary's operation, which is integrated into the former, can collectively be seen as a group's operation for achieving the parent corporation's business purpose and objectives. The parent corporation and the subsidiary operate as a group to protect the former's best interest. In this regard, the parent corporation has the exclusive privilege of consenting to the subsidiary's business activities, which is the "parent corporation's exclusive privilege."

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103 See *Sanofi-Aventis Canada Inc v Teva Canada Limited*, 2010 FC 1210 at para 42 [*Sanofi-Aventis*] [emphasis added].

104 See *Hoffmann-La Roche Ltd v Canada (Minister of National Health and Welfare)*, [1997] 2 FC 681 at para 17 (TD) [emphasis added], online: *Office of the Commissioner for Federal Judicial Affairs Canada* <https://reports.fja-cmf.gc.ca/fja-cmf/j/en/332941/1/document.do>.

With regard to sales of patented products, not only the patentee but also a person representing the patentee can impose restrictive conditions. In *National Phonograph*, Lord Shaw stated:

> [A] sale having occurred, … the owner's rights in a patented chattel will be limited, if there is brought home to him the knowledge of conditions imposed, by the Patentee or *those representing the Patentee*, upon, him at the time of sale.[105]

It appears from this statement that a person representing a patentee can impose restrictive conditions when the vending right is exercised. If the imposed restrictive conditions are brought to the purchaser's attention at the time of purchase, they will bind the purchaser. This applies to a parent corporation and its subsidiary; the subsidiary acts to express the intention of the parent corporation. Where a parent corporation is a patent owner, its subsidiary is a representing party and may impose restrictive conditions to protect the best interest of the parent patentee when a patented product is sold. Furthermore, where a subsidiary is an owner of a patent that is assigned by the parent corporation or acquired from another corporation, the parent corporation is a representing party and it may impose restrictive conditions when a patented product is sold. If a purchaser is aware of the conditions imposed by the subsidiary or the parent corporation at the time of acquisition of the patented product, the purchaser will be bound by the conditions. Therefore, the representing parties can limit purchasers' rights to the applicable patented products.

5.2 Subsidiaries' Attempts to Block Parallel Imports

A patentee may grant an exclusive licence or assign the Canadian patent to an established subsidiary and the subsidiary may take action to block the importation of foreign-sold/purchased

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[105] *National Phonograph*, *supra* note 36 at 248 [emphasis added].

patented products into Canada. A strategy such as licence or assignment arrangement can easily be implemented by executing contracts by the legal representatives of the parent corporation and its subsidiary.

In the context of patent law, with regard to a parent–subsidiary relationship, certain questions about the capacity of a subsidiary should be acknowledged. For example, one question is whether, through a parent–subsidiary relationship, a subsidiary has an implied licence that allows it to deal with a patent owned by its parent corporation. Another question is whether a subsidiary has standing to sue for infringement as a "person claiming under the patentee" under section 55(1) of the *Patent Act*.[106]

5.2.1 Subsidiary Exclusive Licensees

Suppose that a parent corporation owns a Canadian patent and a foreign patent for the same or equivalent invention. Suppose also that the legal representatives of both the parent corporation and its Canadian subsidiary implement a strategy to grant an exclusive licence to the subsidiary for the purpose of blocking parallel imports. If the exclusive licence is effective in the entire scope of the exclusive right under the patent, and if no interest is reserved in the patent to the parent patentee, the parent patentee-licensor will be precluded from exercising the exclusive right under the Canadian patent.[107] The subsidiary exclusive licensee can enjoy the monopoly granted under section 42 of the *Patent Act*—the exclusive right, privilege, and liberty of making, constructing, using, importing, and selling the invention to others to be used—a "licensee's

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[106] See, e.g., *Apotex Inc v Wellcome Foundation Ltd*, [2001] 1 FC 495 (CA).

[107] See Fox, *supra* note 28 at 300–301.

exclusive privilege." Thus, the foreign and Canadian exclusive rights are effectively owned by different legal entities: the foreign patentee (that is, the parent corporation—the Canadian patentee-licensor) and the subsidiary exclusive licensee in Canada. In such a corporate structure, the subsidiary exclusive licensee markets patented products in Canada, and the parent corporation (the foreign patentee) markets patented products in the foreign country. If the patentee sells patented products in the foreign country, the products originate from the patentee, who is different from the owner of the Canadian exclusive right—the subsidiary exclusive licensee. The importation of foreign-sold products into Canada infringes on the exclusive right under the Canadian patent and the importation can be blocked by the subsidiary exclusive licensee.

However, this strategy is questionable considering the parent–subsidiary relationship. Although the parent patentee cannot enjoy the section 42 privilege with respect to the licensed patent after granting an exclusive licence to the subsidiary, the patentee-licensor, as the parent corporation, can enjoy a certain privilege with respect to the licensed patent. The subsidiary exclusive licensee has the exclusive privilege of using, importing, and selling the invention claimed in the licensed patent. Considering such a subsidiary's operation as an integral part of its parent corporation's activities, the licensee's exclusive privilege of the subsidiary is integrated with the exclusive privilege of the parent corporation. Accordingly, the parent corporation can enjoy the licensee's exclusive privilege of consenting to selling and importing products implementing the licensed patent. Therefore, if the parent corporation acts to exercise its exclusive privilege, this action will affect its subsidiary's exclusive privilege. Consequently, if the parent corporation loses its exclusive privilege, the exclusive privilege of the subsidiary exclusive licensee, which is integrated with the exclusive privilege of the parent corporation, will also be automatically lost.

Furthermore, as a representing party, the parent patentee-licensor may impose restrictive conditions when a patented product is sold. Where the parent patentee-licensor (that is, the foreign patentee) sells a patented product unconditionally in the foreign country, the parent corporation's exclusive privilege of dealing with the sold product is impliedly renounced.[108] The renunciation of the parent corporation's exclusive privilege automatically renounces the exclusive privilege of the subsidiary licensee to consent to importing and marketing the patented product in Canada. This means that the foreign purchaser is allowed to deal with the patented product in Canada, for which the purchaser acquires an implied licence to import the patented product into Canada. Consequently, the subsidiary exclusive licensee cannot block the importation of the patented product into Canada, and the subsidiary's attempt to block the importation fails. Hence, owing to the parent–subsidiary relationship, the country-based territorial limitation of patents is not an important factor in determining whether the importation of patented products sold by the parent patentee can be blocked.

If, however, the parent patentee-licensor sells a patented product in a foreign country by imposing a no-export restriction, and the purchaser is aware of the restriction at the time of acquisition of the patented product, the conditional sale will have different consequences. The imposition of the restriction constitutes an action to exercise the exclusive privilege of the parent corporation, integrating the exclusive privilege of the subsidiary exclusive licensee. The parent patentee-licensor acts as the party representing the subsidiary licensee, who effectively owns the exclusive right under the Canadian patent.[109] Thus, the conditional sale of the patented product

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[108] See *Eli Lilly*, *supra* note 38 at para 99.

[109] See *National Phonograph*, *supra* note 36 at 248.

by the parent patentee-licensor is evaluated as the exclusive right of the exclusive licensee being exercised. If the purchaser is aware of the restriction at the time of purchase, the subsidiary exclusive licensee is regarded to have communicated with the purchaser, who will be bound by the no-export restriction. Accordingly, the purchaser acquires no right to import the purchased product into Canada, and the importation can be blocked by the subsidiary exclusive licensee.

As a result, if a Canadian exclusive licensee is a subsidiary of the Canadian patentee, the country-based territorial limitation of patents neither is a determining factor in purchasers' rights nor does it assist the exclusive licensee in blocking parallel imports. To block parallel imports, a no-export restriction must be clearly and unambiguously notified to each of purchasers and subsequent purchasers, if applicable, at the time of acquisition of the patented product. However, it is not practical to clearly notify each purchaser and subsequent purchaser of the no-export restriction. Therefore, the licensee's exclusive privilege does not assist the subsidiary exclusive licensee in taking action against the importer. Hence, even though the subsidiary is a separate legal entity, the parent patentee's strategy of benefiting from the subsidiary's exclusive right does not work out as planned. It can therefore be asserted:

> Parallel imports cannot be blocked even though an exclusive licence is granted to a Canadian subsidiary, unless foreign sales are made with no-export restrictions.

5.2.2 Subsidiary Assignees

Rather than granting an exclusive licence, a parent corporation may assign its patent to its subsidiary. In this case, because the subsidiary and parent corporation are separate legal entities, even though the subsidiary assignee is wholly owned by the parent assignor, the parent corporation is not considered to be the owner of the patent. Therefore, the assignee—the new patentee—owns the exclusive right, privilege, and liberty of importing and selling patented products. The subsidiary assignee has the exclusive privilege of consenting to importing and marketing patented products and can impose restrictive conditions when patented products are sold.

While the parent assignor loses the exclusive right and privilege under the assigned patent, the parent assignor has a certain right concerning the assigned patent. Under the parent–subsidiary relationship, the parent corporation controls the operation policies of the subsidiary. As a result, the parent corporation (the assignor) has the exclusive privilege over the operation of the subsidiary assignee—the "parent corporation's exclusive privilege." As the new patentee, the assignee has the exclusive right, privilege, and liberty of making, constructing, using, importing, and selling the invention of the assigned patent—the "assignee's exclusive privilege." Since the subsidiary operates as an integral part of the parent corporation's activities, the assignee's exclusive privilege of the subsidiary is integrated into the parent corporation's exclusive privilege. Furthermore, the parent assignor represents the subsidiary assignee in imposing restrictive conditions when patented products are sold.[110]

Where, after a parent patentee assigns its patent to its subsidiary, the parent assignor sells patented products unconditionally in a foreign country, it is implied that the assignor-vendor renounces the parent corporation's exclusive privilege with respect to the sold products. The renunciation of the parent corporation's exclusive privilege automatically renounces the assignee's exclusive privilege of the subsidiary, which is integrated in the parent corporation's

[110] *Ibid.*

exclusive privilege. Thus, the foreign purchaser obtains the consent to deal with the patented product in Canada and acquires an implied licence to import the purchased patented product. The subsidiary assignee cannot block the importation of the foreign-sold products into Canada, and the subsidiary's attempt to block parallel imports will fail.

The parent assignor (that is, the foreign patentee) stands to have the exclusive privilege and liberty of consenting to the subsidiary's business activities. Where the parent assignor sells a patented product in the foreign country with a no-export restriction and the purchaser is aware of the restriction at the time of acquisition, the purchaser acquires an explicit licence with the condition imposed by the parent assignor. The explicit licence does not carry the right to import the patented product into Canada; thus, the importation of patented product infringes on the Canadian patent owned by the subsidiary assignee, and the importation can be blocked by the assignee. It can therefore be asserted:

> Parallel imports cannot be blocked even though the patent is assigned to a Canadian subsidiary, unless foreign sales are made with no-export restrictions.

The purchaser's knowledge of the restriction at the time of acquisition is therefore relevant in determining purchasers' rights to import foreign-sold products. However, it may not be a convenient practice to inform every purchaser of the restriction at the time of sale of a patented product. As a result, on account of the parent–subsidiary relationship between an assignor and an assignee, the country-based territorial limitation of patents is not a determining factor, and the purchaser's knowledge of the restrictions is relevant. Therefore, the parent corporation's exclusive control of the subsidiary does not assist the subsidiary in blocking parallel imports.

Establishing a subsidiary—a separate legal entity—as an assignee is, thus, ineffective in blocking parallel imports.

6.0 Licensing and Assigning Foreign Patents

The foregoing sections discussed several issues related to licence and assignment arrangements of Canadian patents by addressing the previously formulated questions based on the takeaway points from *Euro-Excellence*. This section extends the discussion to foreign patents. Foreign vendors of patented products can be differentiated from the owner of the exclusive right in Canada on the basis of licensing or assigning the foreign patent to another party. The following subsections discuss whether licensing and assigning foreign patents to unrelated and related parties to market patented products in the foreign countries are effective in blocking parallel imports.

6.1 Unrelated Parties

6.1.1 Licensee Vendors

Since a patent conferred by a foreign competent authority is effective only in that country, the exclusive right under the patent is limited by its own country-based territorial limitation. Where a patentee grants a non-exclusive or exclusive licence under a foreign patent to another party, the licensee is authorized to exploit the patented invention and allowed to sell patented products in that country. This means that the granted licence is limited by the country-based territorial limitation of the licensed patent and is not effective in another country.

Where a patented product is sold by a foreign licensee, the purchaser’s right is derived from the licensee’s vending right; thus, the purchaser’s right to the patented product is limited by the country-based territorial limitation of the foreign licence. The purchaser's right does not extend to any another country. This was clarified, after *Betts v Willmott*, in *Société Anonyme des Manufactures de Glaces v Tilghman's Patent Sand Blast Company*,[111] wherein it was held that a licence granted under a patent of a foreign country (an exporting country) was not a licence granted under a patent of an importing country. In addition, in *Minnesota Mining & Manufacturing Co v Geerpres Europe, Ltd*,[112] the owner of UK and US patents granted a licence allowing the licensee to exercise only the US patent. Later, the patented products sold by the US licensee were brought to England and sold. Graham J held that the purchaser acquires no greater right than the vendor can pass on.[113] Thus, the right acquired by the purchaser in a foreign country (an exporting country) is limited by the territorial limitation of the licence of that country. In other words, the country-based territorial limitation of the licensee vendor in the exporting country runs with the sold/purchased patented product. This approach was followed by Arnold J in *HTC Corporation v Nokia Corporation*.[114] Hence, it should be noted that the purchaser acquires no greater right than the vendor can pass.[115] This proposition is consistent with the general rule under which a transferee acquires no greater right than a transferor can pass.

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[111] *Société Anonyme des Manufactures de Glaces v Tilghman's Patent Sand Blast Company* (1884), LR 25 Ch D 1 [*Tilghman's*].

[112] *Minnesota Mining & Manufacturing Co v Geerpres Europe, Ltd*, [1974] RPC 35 (HC).

[113] *Ibid* at 40.

[114] *HTC Corporation v Nokia Corporation*, [2013] EWHC 3247 at para 162 (Pat).

[115] See Hayhurst, *supra* note 3 at 301.

If patented products are sold by a foreign licensee, the country-based territorial limitation of the foreign vending right will run with the sold/purchased patented products, regardless of whether the territorial limitation was brought to the purchasers' attention at the time of acquisition. Thus, the importation of the foreign-sold patented products into Canada will infringe on the Canadian patent. The Canadian patentee can invoke the exclusive right under the Canadian patent to block the importation. In this case, a clear and explicit agreement (for example, the no-export restriction) is not required for blocking parallel imports. The country-based territorial limitation of patents is a determining factor of purchasers' rights to import the patented products sold by the foreign licensee. The importation of patented products sold by the foreign licensee into Canada can be blocked by the owner of the exclusive right under the Canadian patent. It can therefore be asserted:

> Parallel imports can be blocked if *a licensee* of a foreign patent sells patented products in the foreign country.

6.1.2 Assignee Vendors

Where the foreign patent in the exporting country is assigned to another party, the patents are owned by different parties in the exporting country and Canada. This situation is similar to the hypothetical case discussed by Lord Hatherley in *Betts v Willmott*,[116] where the owner of English and French patents assigns the French patent and retains the English patent. Thereafter, if the French patentee (the assignee) sells a patented product in France, the purchaser will not acquire the right to defeat the English patent. If the patented products sold in France (the exporting

[116] *Betts v Willmott*, *supra* note 34 at 244.

country) are imported into England (the importing country), the importation will be an infringement of the English patent owned by the assignor of the French patent. As a result, when the assignee sells patented products in the foreign country, the assignee transfers with the products the necessary licence to use them wherever the assignee vendor has patents. However, the foreign assignee has no patent in Canada and, therefore, cannot give a licence to deal with the patented products in Canada, because the Canadian patent is owned by the foreign patent assignor.

As for the sale of a patented product by the foreign assignee, the foreign purchaser’s right is limited to the territory of the foreign country where the assignee vendor has the exclusive right. Therefore, the foreign purchaser’s right does not defeat the Canadian exclusive right. The Canadian patentee can invoke the patent to block parallel imports. In this case, the purchaser’s knowledge of the country-based territorial limitation of the assignee’s vending right at the time of acquisition is irrelevant. The country-based territorial limitation of patents is thus a determining factor of purchasers’ rights to import the patented products. The importation of patented products sold by the foreign assignee into Canada can be blocked by the owner of the exclusive right under the Canadian patent. It can therefore be asserted:

> Parallel imports can be blocked if *an assignee* of a foreign patent sells patented products in the foreign country.

6.2 Related Parties: Foreign Subsidiaries

A Canadian patentee may establish a wholly owned subsidiary in a foreign country so that the subsidiary can market patented products in that country. Regardless of whether an explicit licence is granted by the patentee to the subsidiary, under specific circumstances an “implied agency relationship" may be created between the parent patentee and the subsidiary. Nevertheless, a typical example is that the parent patentee grants a non-exclusive or exclusive licence under the foreign patent to the subsidiary or assigns the foreign patent to the subsidiary. While the Canadian patentee and the foreign subsidiary are different legal entities, the parent–subsidiary relationship should be considered regarding parallel imports.

6.2.1 Subsidiary Licensees

Regarding the importation of patented products sold by a foreign licensee who is a subsidiary of a Canadian patentee, a UK case *Wellcome Foundation Ltd v Discpharm Ltd*[117] is noteworthy. In this case, Wellcome Foundation had patents in the United Kingdom and Spain and licensed the Spanish patent to its wholly owned subsidiary in Spain. The Spanish subsidiary sold patented products to initial purchasers in Spain without any restriction on their subsequent use (that is, without a no-export-to-UK restriction), and the sold products were imported to the United Kingdom by subsequent purchasers. The UK patentee, Wellcome Foundation, sued the importers for infringement of the UK patent. Ford J held that there was no right to import the patented products into the United Kingdom, considering the country-based territorial limitation of the licence granted to the Spanish subsidiary, the operation of which was permitted within a very limited scope.[118] Furthermore, it was held that the initial purchasers could not pass on to subsequent purchasers the right to import the patented products into the United Kingdom.[119] The importers argued that the corporate enterprise group (of the UK parent patentee and the Spanish

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[117] *Wellcome Foundation Ltd v Discpharm Ltd*, [1993] FSR 433 (Pat) [*Wellcome Foundation*].

[118] *Ibid* at para 3.11, citing *Tilghman's*, *supra* note 111.

[119] *Wellcome Foundation*, *supra* note 117 at para 3.13.

subsidiary licensee) was viewed as an "economic entity" and, by applying *Betts v Willmott*, it was implied that licences were conferred on the importers. Ford J rejected the arguments. It was, however, held that even though *Betts v Willmott* was applicable, the importers were notified of the imposed restrictions. In fact, the UK patentee gave "warning notices" to the importers through the association in which they were members.[120] This warning notice would have been regarded as a notice of a "no-export-to-UK" restriction to the importers and, thus, they did not acquire the right to import the purchased products into the United Kingdom.

In *Wellcome Foundation*, the initial sales by the Spanish subsidiary were unconditional (without no-export restrictions), and thus implied licences were conferred on the initial purchasers; however, the rights of subsequent purchasers were restricted by the "late notice" to limited licences. Hence, the purchasers' rights were narrowed when the patented products were transferred from the initial purchasers to the subsequent purchasers. It cannot, however, be generalized that an unlimited right conferred on the initial purchaser can be restricted to a limited right by a late notice. Nonetheless, on the basis of *Wellcome Foundation*, parallel imports of patented products may be allowed when the foreign vendor is a wholly owned subsidiary of the patentee of the importing country, unless the purchaser importer is aware of the no-export restriction at the time of acquisition of the patented products.

As noted previously, regarding the parent–subsidiary relationship in Canada, the subsidiary operates as an integral part of the parent corporation's activities. This also applies to the relationship between a Canadian parent corporation and its foreign subsidiary. Where an

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[120] *Ibid* at para 3.12.

exclusive licence is granted under the foreign patent to the foreign subsidiary, only the subsidiary exclusive licensee is allowed to market patented products in that country. If, however, the patentee grants a non-exclusive licence to the subsidiary, the subsidiary licensee is able to market patented products alone or, concurrently, with the patentee. Nevertheless, the subsidiary licensee's marketing activities are integral to the worldwide activities of the parent patentee. Considering the parent–subsidiary relationship and the parent patentee's exclusive control of the subsidiary, the subsidiary's operation is an integral part of the parent corporation's activities, and the foreign sale of patented products by the subsidiary licensee is judged as a sale by the parent patentee-licensor.[121] The unconditional sale of a patented product by the subsidiary licensee impliedly renounces the exclusive right under the Canadian patent of the parent patentee-licensor.[122] Accordingly, the licence to deal with the purchased product in Canada is automatically conferred on the purchaser. The purchaser thus acquires the right to import the patented product into Canada, and the importation does not infringe on the Canadian patent. Thus, the patentee cannot block the importation.

As a representing party, the foreign subsidiary licensee can impose restrictive conditions such as a no-export restriction at the time of sale of a patented product in the foreign country. If the purchaser is aware of the restriction at the time of acquisition of the patented product, the purchaser will not acquire a right to import it into Canada. Therefore, the importation of the patented product infringes on the Canadian patent, and the parent patentee-licensor can block the importation.

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[121] See Hayhurst, *supra* note 3 at 301.

[122] See *Eli Lilly*, *supra* note 38 at para 99.

As a result, where a foreign licensee is a subsidiary of the Canadian patentee, the country-based territorial limitation of patents (that is, the territorial limitation of the vendor's vending right) is not a factor in determining purchasers' rights to import patented products sold by the foreign subsidiary licensee. Instead, the purchaser-importer's knowledge of the no-export restriction imposed by the vendor is a factor. It can therefore be asserted:

> Parallel imports cannot be blocked if a foreign subsidiary as *a licensee* sells patented products without a no-export restriction in the foreign country.

6.2.2 Subsidiary Assignees

Where a foreign patent is assigned to a subsidiary of a Canadian patentee, the foreign subsidiary acquires the exclusive right to market patented products in that country; the subsidiary assignee operates as an integral part of the parent corporation (that is, the foreign assignor and the Canadian patentee). The subsidiary assignee's business is not independent of the control of the parent patentee with respect to the sale of patented products in the foreign country. By virtue of the parent–subsidiary relationship, the subsidiary assignee represents the parent assignor. An unconditional sale of a patented product by the foreign assignee is evaluated as an unconditional sale by the parent corporation (the Canadian patentee). Hence, the exclusive right under the Canadian patent of the parent patentee is impliedly renounced, and the purchaser acquires the right or an implied licence to deal with the patented product in Canada.[123] The purchaser is given immunity from infringing the Canadian patent by importing the purchased product. The

[123] *Ibid* at paras 99–100.

Canadian patentee cannot, therefore, block the importation of the patented product sold by the subsidiary assignee in the foreign country.

If, however, the foreign assignee sells a patented product by clearly and unambiguously expressing a no-export restriction, the purchaser will not acquire a right to deal with the purchased product in Canada,[124] and the importation of the patented product will infringe on the Canadian patent. Hence, the Canadian patentee can block the importation of the patented product sold by the subsidiary assignee in the foreign country.

As a result, where a foreign assignee is a subsidiary of a Canadian patentee, because of the parent–subsidiary relationship, the country-based territorial limitation of patents is not a determining factor, and the purchaser's knowledge of the no-export restriction is relevant in determining whether parallel imports of patented products can be blocked. It can therefore be asserted:

> Parallel imports cannot be blocked if a foreign subsidiary as *an assignee* sells patented products without a no-export restriction in the foreign country.

7.0 Licensing or Assigning Both Canadian and Foreign Patents

An owner of a Canadian patent and a foreign patent for the same or equivalent invention may license or assign the Canadian and foreign patents to other parties to protect the patentee's best interest in the business. Suppose that the patentee grants an exclusive licence or assigns the Canadian patent to another party and grants a licence (non-exclusive or exclusive) or assigns the

[124] *Ibid* at para 100.

foreign patent to a different party. In such a case, neither the foreign licensee nor the foreign assignee has the right to sell patented products in Canada. Where the foreign licensee or assignee sells patented products in that country, the products do not originate from the Canadian exclusive licensee or assignee. The foreign purchasers do not acquire the right to deal with the patented products in Canada, and thus the importation of the patented products into Canada infringes on the exclusive right under the Canadian patent. The Canadian exclusive licensee or assignee can block the importation. It can therefore be asserted:

> Parallel imports can be blocked if Canadian and foreign patents are licensed or assigned to *different parties*.

Where the Canadian exclusive licensee or assignee and the foreign licensee or assignee are wholly owned subsidiaries of the Canadian patentee, the operation of each subsidiary is an integral part of the business activities of the parent patentee. In such licence or assignment arrangements, the Canadian and foreign subsidiaries are controlled by the common parent corporation (the Canadian patentee), and actions of each subsidiary are regarded as actions taken by the parent patentee.[125] In the case of a sale of a patented product by the foreign subsidiary, it is regarded as a sale by the parent corporation, so that the parent patentee has impliedly renounced its exclusive privilege with respect to the sold patented product.[126] As a result, the exclusive privilege of the Canadian exclusive licensee or assignee (the Canadian subsidiary) is also impliedly renounced. Accordingly, the foreign purchaser would be considered to have impliedly received consent to deal with the purchased patented product in Canada. The

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[125] See *Sanofi-Aventis*, *supra* note 103 at para 42.

[126] See *Eli Lilly*, *supra* note 38 at para 99.

importation of the patented product, thus, does not infringe on the exclusive right under the Canadian patent. The Canadian subsidiary (the exclusive licensee or the assignee) cannot block the importation. As a result, even though the foreign and Canadian subsidiaries are legal entities separated from the parent patentee, the parent corporation's common control over its subsidiaries does not help to block parallel imports. If the foreign subsidiary (the foreign licensee or assignee) or the parent corporation (the representing party) clearly and unambiguously notifies the purchaser of a no-export-to-Canada restriction at the time of acquisition of the patented product, the purchaser will not be given the consent to deal with the patented product in Canada. The importation of the patented product can, thus, be blocked by the Canadian subsidiary. It can therefore be asserted:

> Parallel imports cannot be blocked if Canadian and foreign patents are licensed or assigned to *commonly controlled subsidiaries*, unless foreign sales are made with no-export restrictions.

8.0 Conclusion

This article addressed questions related to parallel imports of patented products in various scenarios and hypothetical situations and, specifically, whether licence and assignment arrangements of patents are effective in blocking parallel imports of patented products. My view can be stated as follows:

1. Where Canadian and foreign patents are owned by the same party, parallel imports will be blockable or unblockable, if patented products are sold by the patentee, with or without a "no-export-to-Canada" restriction, in the foreign country.

2. The question whether parallel imports of patented products are blockable or unblockable through licence and assignment arrangements of patents can be answered as follows:
    a. An effective way to block parallel imports is for the Canadian patentee to grant an exclusive licence under the patent without reserving interest in the patent to another party unrelated to the patentee, before the patentee licensor sells patented products in a foreign country. The exclusive licensee can block the importation into Canada of patented products that were sold by the patentee licensor in the foreign country
        i. regardless of whether the importer is aware or unaware of the Canadian exclusive licence at the time of acquisition of the patented product; and
        ii. regardless of whether a “no-export-to-Canada” restriction is imposed and the importer is clearly and unambiguously notified of the restriction at the time of acquisition of the patented product.
    b. An effective way to block parallel imports is for the Canadian patentee to assign the patent to another party unrelated to the patentee, before the patentee sells patented products in a foreign country. The assignee can block the importation into Canada of patented products that were sold by the assignor in the foreign country
        i. regardless of whether the importer is aware or unaware of the assigned patent at the time of acquisition of the patented product; and
        ii. regardless of whether a no-export restriction is imposed and the importer is clearly and unambiguously notified of the restriction at the time of acquisition of the patented product.

c. An ineffective way to block parallel imports is for the Canadian patentee to grant an exclusive licence or assign the patent, after patented products are sold by the patentee in a foreign country. The exclusive licensee or assignee cannot block the importation into Canada of patented products that were sold by the patentee (that is, the licensor or the assignor) in the foreign country, unless the importer is clearly and unambiguously notified of the no-export restriction at the time of acquisition of the patented product.

d. Regardless of whether the Canadian patentee owns a patent for the same or equivalent invention in the foreign country, items (a)–(c) are applicable.

e. An effective way to block parallel imports is for the owner of a Canadian patent and a foreign patent to grant an exclusive or non-exclusive licence or to assign the foreign patent to a party unrelated to the patentee. The importation into Canada of patented products that were sold by the licensee or assignee in the foreign country can be blocked

    i. regardless of whether the importer is aware or unaware of the Canadian patent at the time of acquisition of the patented product; and

    ii. regardless of whether the importer is clearly and unambiguously notified of the no-export restriction at the time of acquisition of the patented product.

f. An ineffective way to block parallel imports is for the Canadian patentee to grant an exclusive licence or to assign the Canadian patent to an entity related to the patentee—a wholly owned subsidiary—of the patentee. The importation into Canada of patented products that were sold by the licensor or the assignor in the foreign country cannot be blocked by the subsidiary exclusive licensee or assignee, unless the importer is clearly and unambiguously notified of the no-export restriction at the time of acquisition of the patented product.

g. An ineffective way to block parallel imports is for the owner of Canadian and foreign patents to grant an exclusive or non-exclusive licence or to assign the foreign patent to a wholly owned subsidiary of the patentee. The importation into Canada of patented products that were sold by the foreign subsidiary—the licensee or assignee—cannot be blocked by the patentee, unless the importer is clearly and unambiguously notified of the no-export restriction at the time of acquisition of the patented product.

h. An ineffective way to block parallel imports is for the patentee to grant an exclusive licence or assign the Canadian patent to a wholly owned subsidiary of the patentee, and to grant an exclusive or non-exclusive licence or assign the foreign patent to another wholly owned subsidiary of the patentee. The importation into Canada of patented products that were sold by the foreign subsidiary licensee or assignee cannot be blocked by the Canadian subsidiary exclusive licensee or assignee, unless the importer is clearly and unambiguously notified of the no-export restriction at the time of acquisition of the patented product.

i. It can be said from items (f)–(h) that parallel imports of patented products cannot be blocked by licensing or assigning the patent to a fully controlled subsidiary that functions as a "puppet."[127]

Whether parallel imports of patented products are allowable (unblockable) or not allowable (blockable) is an unsettled issue in Canada. Canadian jurisprudence needs to be developed to achieve a reasonable balance between purchasers-importers' rights to foreign-sold/purchased patented products and the exclusive rights under the Canadian patents.

[127] A wholly owned subsidiary functions as a puppet of its parent corporation that owns any intellectual property right. Granting a licence under the intellectual property right or assigning it to the wholly owned subsidiary may not be effective in blocking parallel imports of IP-protected products, if purchasers' or acquirors' rights to IP-protected products are recognized by an implied licence-based theory.