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ARTICLES

- 6 Constitutionality of Canadian Trademark Legislation Revisited**
Tony Bortolin
- 30 Case Comment: *La Dolce Vita* and Design: Italian Court Confirms Copyright of Concept Store**
Daniela Bassan
- 35 Cinq décisions d'intérêt rendues en 2020 en droit des brevets**
Gabriel Melançon
- 50 More Problem Than Solution? Patent Subject-Matter Eligibility Following *Choueifaty* and CIPO's 2020 Practice Notice**
Mitchell Folk
- 58 Protection Against Infringement of Patents in Canada**
Ronald E. Dimock, Shahrzad Esmaili, James Green, and Harvey Lim
- 80 Licence and Assignment Arrangements of Patents: Effective or Ineffective in Blocking Parallel Imports of Patented Products—Thoughts of *Euro-Excellence v Kraft***
Shuji Sumi

IN MEMORIAM

- 102 Casey Paul August**
- 103 David Langton**



Stephanie Chong
2020-2021
IPIC President/
Président de l'IPIC, 2020
à 2021

Message from the President

Welcome to Volume 36 of IPIC's Canadian Intellectual Property Review (CIPR). We are pleased to offer this double-blind, peer-reviewed journal ensuring that this knowledge is available to anyone interested in IP.

As this edition goes to print, the world is still grappling with the COVID-19 pandemic, and recent events both within and outside Canada have brought a sharper focus to issues associated with climate change. Yet, despite such circumstances, there is still hope, and much of that hope is driven by innovation. The IP profession is fortunate to be inspired by our clients and others in the innovation space, who constantly demonstrate their resilience and ability to pivot under the most challenging circumstances.

Many of us have sought a silver lining during recent times by reflecting upon what is truly important and the type of legacy that we want to leave. As an organization, IPIC took an opportunity to reflect on its values and goals, resulting in a three-year strategic plan in which equity, diversity and inclusion is a cornerstone. This philosophy of inclusiveness is not only IPIC's way of recognizing current societal change, but an important foundation upon which key values will continue to be built and supported.

The Canadian IP profession, and IP agents in particular, are also pivoting to a new regulatory structure with the creation of the College of Patent Agents and Trademark Agents (CPATA). As usual, IPIC was at the forefront of discussions with both government and CPATA leadership prior to and during the implementation process. IPIC will continue to represent the Canadian IP profession on issues regarding the new regulatory regime.

These are only a couple of examples of what IPIC has accomplished during a very challenging year. IPIC has also continued to rely on its incredible volunteers to respond to various government submissions on proposed changes to legislation and practice issues before the Canadian IP Office; liaise with government on treaties relating to IP; and provide top-notch continuing education to the profession.

We are fortunate to work in such a collegial profession, one which focuses on innovation without losing sight of core values. It is that message which should leave us with ongoing optimism for the future. Stay healthy, stay safe, and looking forward to a time in the not-too-distant future when in-person meetings will once again be the norm.

Stephanie Chong
IPIC President, 2020-2021

Message de la présidente

Voici le volume 36 de la Revue canadienne de propriété intellectuelle (RCPI). Nous sommes fiers d'offrir cette revue professionnelle examinée par les pairs pour veiller à ce que ces connaissances soient accessibles à toute personne intéressée par la PI.

Au moment d'imprimer ce numéro, le monde entier est toujours aux prises avec la pandémie de COVID-19 et les récents événements, au Canada comme à l'étranger, ont recentré encore plus l'attention sur les problèmes associés aux changements climatiques. Pourtant, en dépit de ces circonstances, il reste encore un peu d'espoir, en grande partie portée par l'innovation. Heureusement, la profession de la PI est inspirée par nos clients et d'autres parties intéressées par l'espace de l'innovation qui démontrent constamment leur résilience et leur capacité de réorientation dans les circonstances les plus difficiles.

Ces derniers temps, nous avons été très nombreux à rechercher un certain réconfort en réfléchissant à ce qui est réellement important et au genre d'héritage à laisser. En tant qu'organisation, l'IPIC en a profité pour refléter sur ses valeurs et ses objectifs, ce qui a mené à un plan stratégique triennal axé sur le grand principe d'équité, de diversité et d'inclusion. Cette philosophie d'inclusivité est non seulement le moyen que l'IPIC a adopté pour reconnaître l'évolution actuelle de la société, mais en plus une importante base sur laquelle les valeurs essentielles continueront d'être assises et soutenues.

La profession canadienne de la PI et plus particulièrement les agents de PI se sont réorientés vers une nouvelle structure de réglementation avec la création du Collège des agents de brevets et des agents de marques de commerce (CABAMC). Comme toujours, l'IPIC est demeuré à l'avant-plan des discussions avec le gouvernement et la direction du CABAMC avant et pendant le processus de mise en œuvre du Collège. L'IPIC continuera de représenter la profession canadienne de la PI pour toutes les questions qui concernent le nouveau régime réglementaire.

En plus de ces quelques exemples de réalisations de l'IPIC au cours de cette année très difficile, l'Institut a continué de compter sur son armée de remarquables bénévoles pour répondre aux diverses présentations gouvernementales sur les propositions de changements législatifs et de modifications aux procédures du bureau canadien de la PI, en plus d'assurer la liaison avec le gouvernement sur les traités relatifs à la PI et d'offrir aux membres de la profession une formation continue de premier ordre.

Nous sommes privilégiés de travailler au sein d'une profession aussi collégiale qui met l'accent sur l'innovation, sans perdre de vue les valeurs fondamentales. Ce message devrait nous permettre de regarder l'avenir avec beaucoup d'optimisme. Demeurez en santé et en sécurité, en espérant que les rencontres en présentiel redeviendront la norme dans un avenir très rapproché.

Stephanie Chong,
présidente de l'IPIC (2020-2021)

Message from the Editor-in-chief

Welcome to another issue of the *Canadian Intellectual Property Review* (CIPR)! As I am writing this message, we are still in a global pandemic but with most Canadians now vaccinated signs of life as we knew it are beginning to show.

We are pleased to share six articles in this issue. The articles cover diverse aspects of intellectual property in Canada and abroad. No matter your specific field, these articles will certainly be of interest to you and provoke some thoughts.

We begin with an article that revisits the constitutionality of Canadian trademark legislation (Bortolin). The next article provides comments on the Italian Supreme Court of Cassation decision in a copyright case involving competing retailers in the global cosmetics industry (Bassan).

Next, we dive into the field of patents. The third article reviews five cases of interest that marked Canadian case law on non-pharmaceutical patents during the year 2020 (Melançon). The fourth article discusses patent subject-matter eligibility following the Federal Court decision in *Choueifaty* and the Canadian Intellectual Property Office 2020 Practice Notice (Folk). The fifth article reviews patent law relating to claim construction and infringement in Canada, the United Kingdom, and the United States (Dimock et al.)

Lastly, the sixth article discusses parallel imports of products protected by intellectual property rights following the Supreme Court of Canada decision in *Euro-Excellence Inc v Kraft Canada Inc* (Sumi).

This is my last editorial message as I recently completed my term as Editor-in-chief – it has been a great honor and privilege to be of service. The baton is now passed on to Jeiliah Chan. A big thank you to the women and men who volunteer their time contributing to the production of these insightful and informative articles for the benefit of the IP community as a whole.

Finally, let me express my profound gratitude to Christina Locmelis, IPIC's Director of Communications and Membership Services who has worked tirelessly in the preparation of this issue.

Happy reading everyone, and *Aurevoir!*

Béatrice Ngatcha, Editor-in-chief, 2020-2021

Message de la rédactrice en chef

Bienvenue dans ce nouveau numéro de la *Revue Canadienne de propriété intellectuelle* (RCPI) !

Au moment d'écrire ces lignes, la pandémie mondiale de COVID-19 continue toujours de faire des ravages, mais bien que la plupart des Canadiens soient vaccinés les signes de vie telle que nous la connaissions commencent à refaire surface.

Nous sommes heureux de présenter dans ce numéro six (6) articles qui traitent de divers aspects de la propriété intellectuelle au Canada et à l'étranger. Peu importe votre champ de compétences, ces articles sauront éveiller votre intérêt et provoquer certaines réflexions.

Nous commençons par un article qui réexamine la constitutionnalité de la Loi canadienne sur les marques de commerce (Bortolin). Le deuxième article présente certains commentaires sur la décision de la Cour suprême de cassation italienne dans un litige en matière de droit d'auteur entre deux détaillants concurrents de l'industrie cosmétique mondiale (Bassan).

Nous plongeons ensuite dans le domaine des brevets. Le troisième article examine cinq (5) décisions d'intérêt rendues en 2020 qui ont marqué la jurisprudence canadienne en matière de brevets non pharmaceutiques (Melançon). Le quatrième article discute d'admissibilité des sujets de brevets, à la suite de la décision de la Cour fédérale dans l'affaire *Choueifaty* et l'énoncé de pratique de 2020 de l'Office de la propriété intellectuelle du Canada (Folk). Le cinquième article examine le droit des brevets relativement à l'interprétation des revendications et des violations de brevets au Canada, au Royaume-Uni et aux États-Unis (Dimock et al.)

Le sixième et dernier article traite d'importations parallèles de produits protégés par droit de propriété intellectuelle, à la suite de la décision de la Cour suprême du Canada dans l'affaire *Euro-Excellence Inc c. Kraft Canada Inc* (Sumi).

Ceci est mon dernier message de la rédaction, puisque j'ai récemment complété mon mandat de rédactrice en chef – ce fut un immense honneur et privilège de vous servir. Je passe le flambeau à Jeiliah Chan. Je tiens plus particulièrement à remercier sincèrement les femmes et les hommes qui ont donné de leur temps et contribué à la production de tous ces articles éclairants et riches en informations pour le bénéfice de l'ensemble de la communauté de la PI.

Enfin, permettez-moi d'exprimer ma profonde gratitude à Christina Locmelis, directrice des communications et services aux membres de l'IPIC, qui a travaillé sans relâche à la préparation de ce numéro.

Bonne lecture à tous et *Au revoir!*

Béatrice Ngatcha, rédactrice en chef



Béatrice Ngatcha,
Editor-in-Chief/
Rédactrice en chef



Tony Bortolin

Constitutionality of Canadian Trademark Legislation Revisited*

Tony Bortolin**

Abstract

There are serious concerns regarding the currently accepted rationale for the validity of Canadian trademark legislation in terms of the division of legislative authority. That rationale is both unsound and inconsistent. This article helps to identify those problems and looks at alternative support for that validity. In doing so, this article also looks to overcome certain limitations on Parliament's legislative authority in the field—limitations that have been imposed by the currently accepted rationale.

Résumé

De sérieuses préoccupations ont été soulevées relativement à la justification actuellement acceptée pour la validité de la législation canadienne sur les marques de commerce en termes d'autorité législative. Cette justification est discutable et incohérente. Le présent article aide à cerner ces problèmes et à envisager d'autres formes de soutien pour cette validité. Ce faisant, l'article examine aussi d'autres moyens de surmonter certaines limitations pour le pouvoir législatif du Parlement dans le domaine — limitations imposées par la justification actuellement acceptée.

Contents

1.0 Introduction.....	7	4.0 Implications Favouring Validity Generally.....	18
2.0 Some Concerns Regarding the Current Rationale for Constitutionality of Statutory Passing Off.....	7	4.1 Introduction	18
2.1 Introduction	7	4.2 Implication Based on Legislation Enacted "Federally" Prior to Confederation	18
2.2 The Two Limitations	7	4.3 Implication Based on Legislation Enacted Federally	19
2.3 Concerns Regarding the Two Limitations	9	5.0 Revisiting Constitutionality Under Certain Trade and Commerce Powers.....	20
2.3.1	9	5.1 Introduction	20
2.3.2	9	5.2 Regarding Interprovincial Trade	20
2.3.3	10	5.3 Regarding Intraprovincial (and Interprovincial) Trade Under .. the Commerce Power Based on the Parsons General Branch Despite the Negative Comments in Vapor	21
2.3.4	10	5.3.1	22
2.3.5	11	5.3.2	24
2.3.6	11	5.3.3	24
3.0 Some Concerns Regarding the Current Rationale for the Basic Constitutionality of Trademark Legislation	12	5.3.4	24
3.1 Introduction	12	5.3.5	24
3.2 The <i>General Motors</i> Trade and Commerce Indicia	13	5.4 Regarding Intraprovincial (and Interprovincial) Trade Under the "Power" in Respect of Trademarks (and Trade Names).....	25
3.2.1 Possible Failure to Satisfy Indicum 2 (Federal Monitoring and Enforcement).....	13	5.5 Regarding Intraprovincial (and Interprovincial) Trade Under the Commerce Power Based on Its Straightforward Meaning	27
3.2.2 Possible Failure to Satisfy Indicum 3 (Being Concerned with Trade as a Whole).....	14	5.5.1 Assessment Under the Original Meaning of Section 91(2). 27	
3.2.3 Possible Failure to Satisfy Indicia 4 and 5 (Whether the Provinces Are Incapable)	16	5.5.2 Federal Civil Remedies.....	28
3.2.4 Possible Failure to Satisfy Other Indicia.....	17	6.0 Conclusion	29
3.3 Transition	18		

* Submission to the Editor, February 24, 2021.

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1.0 Introduction

This article revisits the validity of Canadian trademark legislation, including the overall registration scheme and the civil remedy for infringement found in the *Trademarks Act*.¹ Such validity is reviewed in terms of the division of legislative authority as between the federal Parliament and the provincial legislatures.²

While this article supports that validity, it does not do so on the basis of the currently accepted jurisprudence and rationale. With great respect, that rationale is unsound and too restrictive (as discussed in sections 2.0, 3.0, and 5.3). This article looks instead for support by means of alternate rationale and jurisprudence (as discussed in sections 4.0 and 5.0).

2.0 Some Concerns Regarding the Current Rationale for Constitutionality of Statutory Passing Off

2.1 Introduction

The Canadian Constitution does not expressly assign the subject of trademarks to the federal division of government.³ The constitutionality of trademarks depends on the judicial interpretation of the Constitution. Much of that jurisprudence has focused on the constitutionality of the federal civil remedy in respect of classical passing off, namely, section 7(b) of the *Trademarks Act*. That jurisprudence shows that, for constitutional reasons, section 7(b) is limited in two respects: it applies only to cases (1) where a proper “trademark” is involved and (2) where that trademark has been properly “used,” as those terms are defined in the Act (as discussed below).

Subject to other jurisprudence and rationale (as discussed in sections 4.0 and 5.0 below), those two limitations seemingly lead to several inadvertent consequences: certain other federal trademark laws may also be partially or totally invalid; the legislative authority in respect of invalid federal laws is given to the provincial legislatures, awkwardly dividing the authority between the Parliament and provincial legislatures; and Parliament is improperly allowed to unilaterally shift that dividing line.

2.2 The Two Limitations

The two limitations mentioned above were most prominently indicated by the Federal Court of Appeal in *BMW Canada Inc v Nissan Canada Inc* (2007).⁴ (Hence, the overall jurisprudence

calling for those two limitations is referred to herein as “the *BMW v Nissan* line of cases.”)

Coincidentally, the particular requirement of involving a “trademark” was also indicated by the Federal Court of Appeal in *Dumont Vins & Spiritueux Inc v Celliers du Monde Inc* (1992).⁵ For example, the court in that case held:

[Section] 7(b) is valid in so far as the passing-off action is *connected* to a trade mark ... but that it would not be valid in a case such as the one at bar in which the passing off action ... is not *connected* to any trade mark.⁶

Without necessarily citing *Dumont*, but relying on the same constitutional jurisprudence,⁷ the requirement of a proper “trademark” was also indicated by the Federal Court of Appeal in *Kirkbi AG v Ritvik Holdings Inc* (2003),⁸ and the requirement was applied by that court in *Cheung v Target Event Production Ltd* (2010).⁹ For example, in *Kirkbi*, Sexton JA, with Rothstein JA (as he then was), said:

I cannot endorse the separation of paragraph 7(b) from the definition of “trade-mark” ... in section 2 of the Act. ... [I]n order to use paragraph 7(b) a person must prove that they have a valid and enforceable trade-mark. ... To bring a passing-off action under the Act, one must have a valid trade-mark within the meaning of the Act. The definitions in section 2 of the Act are integral to any trade-mark passing-off action under paragraph 7(b) ...¹⁰

Similarly, at the Supreme Court of Canada in *Kirkbi* (2005), LeBel J, writing for the court, stated:

[T]he passing-off action protects unregistered trade-marks and goodwill enjoyed by the trade-marks. Section 7(b) is therefore *limited by the provisions of the Trade-marks Act* ...¹¹

[Section 7(b) is] limited to trade-marks as defined in the Act (ss. 2 and 6).¹²

All of this is substantially based on the comments of Laskin CJ in *MacDonald v Vapor Canada Ltd* (1976).¹³ In that case, the chief

1 RSC 1985, c T-13. The spelling of the term “trademark” has changed over time. In the current statute, it has changed from the *Trade Marks Act* (in which “trademark” was spelled as two words) from 1953 to 1985, to the *Trade-marks Act* from 1985 to 2019, to the *Trademarks Act* as of 2019. Older forms of the term “trademark” may thus appear in this article in quotations from earlier years.

2 That is, this article does not look at the constitutional validity of the *Trademarks Act* under the *Canadian Charter of Rights and Freedoms*.

3 This is in contrast, for example, to the Australian constitution, (1900), 63–63 Vict, c 12 (UK), s 52(xviii), which expressly assigns jurisdiction over trademarks to the federal division.

4 2007 FCA 255 at paras 14–29, 60 CPR (4th) 181.

5 (1992), 42 CPR (3d) 197 at 209–211 (FCA).

6 *Ibid* at para 38 [emphasis added].

7 *MacDonald v Vapor Canada Ltd* (1976), [1977] 2 SCR 134, 22 CPR (2d) 1 [Vapor]; *Asbjorn Horgard A/S v Gibbs/Nortac Industries Ltd*, [1987] 3 FC 544, 14 CPR (3d) 314 at 328 (FCA).

8 2003 FCA 297 at paras 37–39, 93 (even the dissent at paras 98–99), [2004] 2 FCR 241, 26 CPR (4th) 1, reversing para 61 of the trial decision yet affirming paras 36–43 thereof: 2002 FCT 585, 20 CPR (4th) 224.

9 2010 FCA 255 at paras 19–20, 87 CPR (4th) 287.

10 *Supra* note 8 (FCA) at para 38.

11 *Kirkbi AG v Ritvik Holdings Inc*, 2005 SCC 65 at para 26, [2005] 3 SCR 302 [*Kirkbi*], per LeBel J [emphasis added].

12 *Ibid* at para 33. The term “use” happens to appear within the definition of “trademark”; this explains why the same line of cases has required that a trademark be “used” (particularly, in accordance with the statutory definitions thereof, such as section 4).

13 *Supra* note 7.

justice indicated that most of the causes of action within section 7 are likely valid, but not on their own; he expressed strong concerns in that regard.¹⁴ He considered section 7 to be valid only on the basis that it seems to “round out” regulatory schemes prescribed by Parliament, including the trademark registration scheme. For example, Laskin CJ said:

The cases to which I have referred indicate some association of s. 7(a), (b) and (d) with federal jurisdiction in relation to patents and copyrights arising under specific heads of legislative power, and with its jurisdiction in relation to trade marks and trade names ...¹⁵

Similarly, he later said:

I come back to the question whether s. 7, and particularly s. 7(e), can stand as part of the scheme of the *Trade Marks Act* and other related federal legislation.¹⁶

And:

It is said ... that s. 7, or s. 7(e), in particular, may be viewed as part of an overall scheme of regulation which is exemplified by the very Act of which it is a part [meaning the *Trade Marks Act*] and, also, by such related statutes in the industrial property field ...¹⁷

Still further, as part of his conclusion on the issue, he said:

Neither s. 7 as a whole, nor section 7(e), if either stood alone and in association only with s. 53,¹⁸ would be valid federal legislation in relation to the regulation of trade and commerce Section 7 is, however, *nourished* for federal legislative purposes in so far as it may be said to round out regulatory schemes prescribed by Parliament in the exercise of its legislative power in relation to patents, copyrights, trade marks and trade names. The subparagraphs of s. 7, if limited in this way, would be sustainable ...¹⁹

Such judicial wording of an impugned provision being sufficiently associated with (rounding out, linked to, or connected to) a statute reflects as many as three overlapping constitutional principles.²⁰ While I have concerns regarding those principles, the focus of this article is the weak application of those principles and the search for an alternate rationale.

The two judicially imposed limitations in the field have further significance in that they may also lead to limitations on the jurisdiction of the Federal Court. It has been ruled that it is a statutory court, not a court of inherent jurisdiction.²¹ Such jurisprudence thus indicates that the court’s jurisdiction is restricted to statutory laws enacted by Parliament, and that limitations on that legislative authority represent limitations on the jurisdiction of the court it created.²² If Parliament’s jurisdiction is reconsidered as being broader (as discussed in this article), the jurisdiction of the Federal Court could also be broader on that basis.

One slight break in the above-mentioned line of cases is the decision of Phelan J in *JAG Flocomponents NA v Archmetal Industries Corporation* (2010).²³ He demonstrated a more instinctive approach in indicating that civil remedies regarding any trademarks, valid or invalid (proper or improper), fall within the federal domain. In *JAG Flocomponents*, the defendants had attempted to defend the claim for trade libel under section 7(a) by arguing that the case did not involve a proper “trademark” because the plaintiff’s mark had been ruled invalid. This defence was rejected, even though the mark was recognized as not being valid.²⁴ Phelan J rejected this defence (without openly challenging the *BMW v Nissan* line of cases) by stating:

It is integral to the integrity of the Canadian system that [even] *non-recognized* marks not be used in this manner [namely, in this case, to commit trade libel].²⁵

But again, the weight of the above-mentioned authorities is to the contrary, even those involving section 7(a). Pursuant to the *BMW v Nissan* line of cases, this provision, like section 7(b), has been found to validly apply only to misrepresentations regarding “trademarks” (or patents or copyrights).²⁶ This line of cases has continued into 2021.²⁷

¹⁴ See section 5.3 below.

¹⁵ *Vapor*, *supra* note 7 at 157 [emphasis added].

¹⁶ *Ibid* at 159 [emphasis added].

¹⁷ *Ibid* at 165 [emphasis added].

¹⁸ Section 53 of the *Trade Marks Act*, RSC 1970, c T-10, was renumbered in 1994 as section 53.2. (This is the general civil remedy in respect of any acts done contrary to the Act. The section is reproduced in *Vapor*, *supra* note 7 at 141.)

¹⁹ *Vapor*, *supra* note 7 at 172 [emphasis added].

²⁰ Such wording constitutes an “indicium” under the trade and commerce power, a component of the ancillary doctrine, and a factor in assessing the validity of federal civil remedies in general, all as discussed, for example, in *Kirkbi*, *supra* note 11 at paras 14, 17, 20–23, 27, 32–36.

²¹ *Supra* note 8 (FCT) at para 38. See also *Quebec North Shore Paper v CP Ltd* (1976), [1977] 2 SCR 1054 at 1057–1066.

²² *Ibid*.

²³ 2010 FC 627, 84 CPR (4th) 323, *aff’d* on other grounds 2011 FCA 235.

²⁴ For example, Phelan J said it had been “‘poisoned’ as a viable mark”: *ibid* at para 80.

²⁵ *Ibid* at para 118 [emphasis added]; see also paras 61, 80, 104–105, 116–118. The point was noted, for example, in David Vaver, *Intellectual Property Law: Copyright, Patents, Trade-Marks*, 2nd ed (Toronto: Irwin Law, 2011) at 427.

²⁶ *Canada (Canadian Copyright Licensing Agency) v Business Depot Ltd*, 2008 FC 737 at paras 26–33 (per Montingy J), referring to the obiter in *Vapor*; and applied in *Corocord Raumnetz GMBH v Dynamo Industries Inc*, 2016 FC 1369 at para 41.

²⁷ See, e.g., *Hidden Bench Vineyards & Winery Inc v Locust Lane Estate Winery Corp*, 2021 FC 156 at paras 32–45.

2.3 Concerns Regarding the Two Limitations

This section presents a more detailed discussion of the concerns regarding the limitations discussed above, namely, that the matter must involve a proper “trademark” that has been “used.”

2.3.1

The requirement that the matter must involve a proper “trademark” leads to the curious result that, while the law of passing off involving a proper trademark (registered or not) is considered to constitute a federal matter, the law of passing off in cases that do not involve a proper “trademark” is not.

A simple example will illustrate. The law of passing off encompasses cases where confusion is caused by the overall impression formed by the packaging and markings on a product, even if none of those individual markings would qualify as a proper “trademark.”²⁸ Confusion can still be caused, and trade can still be unfairly diverted. It is hard to see how one of those types of passing off constitutes subject matter falling within that federal domain while the other does not.

To further explain, the bulk of legislative authority is divided between the federal Parliament and the provincial legislatures pursuant to sections 91 and 92 of the *Constitution Act, 1867*.²⁹ Legislation is authorized under either section 91 or section 92 if it is “in relation to” a “matter” that comes within one of the “classes” enumerated therein. Thus, the constitutional classification of a law under sections 91 and 92 of the *Constitution Act, 1867* depends on the “matter” of the legislation.

As to some of the “classes,” section 92(13) provides the provincial legislatures with exclusive legislative authority regarding “Property and Civil Rights in the Province,” while section 91(2) provides Parliament with exclusive legislative authority regarding “The Regulation of Trade and Commerce” (referred to herein as “the trade and commerce power”).

As to the issue of identifying the “matter” of the legislation, “the court considers the law’s purpose and its effect with a view to identifying the true subject matter—the *pith and substance*—of the law in question.”³⁰ In the field of trademarks and unfair competition, there are numerous prohibitions and causes of action that overlap,

but generally these laws feature one or more of the following interrelated foundational purposes or objectives:

1. prospective purchasers should not be deceived;
2. damage should not be caused to the signification or distinctiveness of marks, especially to the ability to signify goods or services as coming from a particular source or as having a particular quality (sometimes referred to herein as “signification”); and
3. business goodwill (income goodwill, trade) should be protected from unfair diversion or damage, especially so as to encourage the development of good-quality products and services.³¹

It is thus immediately hard to see how the purpose and effect (pith and substance) of passing off in cases involving a proper “trademark” is a matter coming within “The Regulation of Trade and Commerce” while passing off in cases that do not involve a proper “trademark” is not. One would think that both forms of passing off would constitute the same matter for such classification purposes. This is discussed further in this article.

2.3.2

The corollary of saying that a certain legislative power falls outside the federal domain (as in cases not involving proper “trademarks”) is that the power falls within the provincial domain.

This flows from the fact that the division of legislative authority under the *Constitution Act, 1867* was intended to be exhaustive; there should be no “gap” in legislative authority (except where constitutionality is denied to both levels of government, for instance, by the *Charter of Rights and Freedoms*).³² If the legislative authority does not fall within a power specifically assigned to Parliament under section 91 (such as trade and commerce), and if the matter can be considered as falling within section 92(13) regarding property and civil rights, then it falls within the provincial domain. And there were strong indications by the Supreme Court of Canada in *Kirkbi*³³ and in *Vapor*³⁴ that civil remedies such as section 7(b) of the Act *prima facie* come within that provincial power.

28 Other examples are found in the *BMW v Nissan* line of cases, discussed in section 2.2 above. In many of those cases, the claim failed because the plaintiff did not have a proper trademark. But imagine if the plaintiff had nevertheless established confusion resulting in trade being unfairly diverted by the defendant. This article raises the concern that this line of cases would again constrain the court to throw out any claims under the *Trademarks Act*.

29 (UK), 30 & 31 Vict, c 3, reprinted in RSC 1985, Appendix II, No 5.

30 Reference re *Pan-Canadian Securities Regulation*, 2018 SCC 48 at para 86, [2018] 3 SCR 189 [*Pan-Canadian Securities Reference*] [emphasis in original].

31 All three objectives are supported by the authorities, including *Kirkbi*, *supra* note 11 at paras 35, 39; see also text accompanying *infra* at note 237, and Tony Bortolin, “Foundational Objectives of Laws Regarding Trademarks and Unfair Competition” (2017) 107 TMR (INTA) 980.

32 For example, as indicated by the Supreme Court of Canada in *Reference Re Securities Act* (2011): “Such a gap is constitutional anathema in a federation”: 2011 SCC 66 at para 83, [2011] 3 SCR 837 [*Securities Reference*]. See also *ibid* at paras 81, 87.

33 *Kirkbi*, *supra* note 11 at paras 20, 23; for example, LeBel J said that section 7(b) “essentially codifies” a common-law tort; “[s]tanding alone it appears to encroach on provincial power.” See also *General Motors*, *infra* note 76 at 672.

34 *Vapor*, *supra* note 7 at 147, 156; for example, Laskin CJ said, at 156, “the Parliament of Canada has, by [section 7], either overlaid or extended known civil causes of action, cognizable in the provincial courts and reflecting issues falling within provincial legislative competence” [emphasis added]; at 165, “existing tort liability, cognizable in provincial Courts as reflective of provincial competence,” [emphasis added]; and at 172, “The position which I reach in this case is this. Neither s. 7 as a whole, nor section 7(e), if either stood alone and in association only with s. 53, would be valid federal legislation There would, in such a situation, be a clear invasion of provincial legislative power” [emphasis added].

Returning to the example of passing off being caused by the totality of unregistrable markings, the legislative authority in that regard somehow falls within the provincial domain, at least according to the currently accepted jurisprudence.³⁵

Another example would be the legislative authority regarding passing off involving marks or features of shape that are “purely functional” (design marks which embody a utilitarian feature in the patentable sense). The courts in the *Kirkbi* decisions³⁶ held that those marks cannot constitute proper “trademarks” and that the functional shaping of the plaintiff’s legal blocks failed in that regard. This ruling combined with the “gap” principle mentioned above leads to the notion that the ability to legislate in respect of passing off involving such purely functional marks falls in the provincial domain (again, within section 92(13) regarding property and civil rights—subject to an alternate rationale for judging it to fall in section 91). The *Kirkbi* decisions did not spell out this consequence, but they clearly held that the plaintiff’s mark did not constitute a proper “trademark,” as was needed for the cause of action to fall within the currently accepted constitutional scope of section 7(b) of the *Trademarks Act* under section 91(2) of the *Constitution Act, 1867*. For example, the Federal Court of Appeal in *Kirkbi* stated:

In *Asbjorn Horgard* ... this Court [quoted from Laskin CJ in *Vapor* and] determined that paragraph 7(b) was *intra vires* Parliament because it fitted into the overall trade-marks scheme, an area over which Parliament had jurisdiction to legislate.³⁷

And:

The appellants’ action is grounded in paragraph 7(b) and hence, to succeed, *the appellants must establish that they have a trade-mark within the meaning of the Act*. If the doctrine of functionality prevents a mark from being a trade-mark under the Act, then the appellants cannot prevail.³⁸

It is understood that the *Kirkbi* decisions preclude plaintiffs from asserting passing off in such cases at common law, and even under section 7(b), insofar as that provision may be interpreted as

merely codifying the common law. The scope of the common law obviously falls within the domain of the courts, and thus there is no challenge here to their ability to restrict the scope of the cause of action at common law. But the courts cannot preclude the possibility of legislation explicitly authorizing such cause of action.³⁹ This is not to call for such legislation to be enacted. It is simply to draw attention to the questionable manner in which the subject of passing off is carved up between Parliament and the provincial legislatures according to the currently accepted rationale for the constitutionality of federal trademark legislation.⁴⁰

2.3.3

The concern resulting from the first limitation is compounded by the existence of the second limitation, namely, that the trademark must have been “used.” On the basis of the case law discussed above, the ability to enact a civil remedy in respect of cases not meeting that requirement could also fall within provincial jurisdiction. In other words, the *BMW v Nissan* line of cases effectively indicates that such cases could somehow be regulated by the provincial legislatures, even though those cases may involve a “trademark” that is proper except for the fact that it has not been “used.”⁴¹ But this contradicts the notion that the legislative authority in respect of proper “trademarks” belongs to Parliament.

To further explain, recall that the *BMW v Nissan* line of cases purports to limit Parliament’s legislative authority in the field of trademarks to cases involving proper “trademarks” that have been “used.” This jurisprudence leads to the questionable result that *the provincial legislatures* have legislative authority in cases involving proper “trademarks” that have not been “used.”

2.3.4

Another concern is with the limitations on Parliament’s authority in the field of trademarks is that the limitations rely, at least to some extent, on the terms “trademark” and “use” as they are defined in the *Trademarks Act*.⁴² But those definitions are enacted by Parliament, which means that they can be amended by Parliament. So, this jurisprudence leads to the questionable result that Parliament can effectively amend the scope of its own legislative authority. But this is contrary to the longstanding constitutional principle that neither Parliament nor the provincial legislatures can unilaterally expand or contract their own legislative authority.⁴³

35 Again, a fuller review is provided in sections 4.0 and 5.0 below.

36 *Kirkbi* (SCC), *supra* note 11 at paras 40–55; *supra* note 8 (FCA) at 13–20, 35, 38–55.

37 *Supra* note 8 (FCA) at para 38 [emphasis added].

38 *Ibid* at 39 [emphasis added].

39 Unless the legislation prohibits the *Charter of Rights and Freedoms* or some other unknown constitutional principles that might prohibit both divisions of government from enacting it.

40 The example of passing off involving functional marks inadvertently being judged to fall within the provincial domain is especially bizarre considering that Parliament has an express power in respect of patents (pursuant to section 92(22) of the *Constitution*) and should thus be able to legislate regarding functional trademarks (whether in a patent statute or another statute such as the *Trade-marks Act*).

41 Theoretically, one solution would be that the legislative authority regarding trademarks is not exclusive as between the two divisions of government. This solution would be based on the modern notion that federal and provincial legislation under sections 91 and 92 can overlap. However, the notion of overlap is entirely suspect because the modern jurisprudence is based on various misunderstandings of earlier jurisprudence and because sections 91 and 92 of the *Constitution Act, 1867* expressly call for those legislative powers to be exclusive.

42 For example, as expressly stated in the excerpt from *Kirkbi* (FCA), *supra* note 38: “to succeed [under section 7(b)], the appellants must establish that they have a trade-mark *within the meaning of the Act*” [emphasis added]. See also the excerpts at notes 10–12.

43 For example, in *A-G Can v Can Nat Transportation* (1983), [1983] 2 SCR 206 at 235 [*Can Nat Transportation*], Laskin CJ said that one division of government “cannot of itself determine where that constitutional authority lies.” And in *Severn v The Queen* (1878), 2 SCR 70 at 117, Fournier J said that “the Dominion, no more than the Provinces, can increase its jurisdiction by its own legislation.”

2.3.5

It is also questionable whether the courts in the *BMW v Nissan* line of cases properly applied the constitutional principle of “reading down” legislation. The principle was not extensively discussed in those cases but it is simple enough: When legislation is challenged for invalidity, a court can sometimes salvage the legislation by narrowing or “reading down” its application; if the impugned legislation is capable of different interpretations, one being valid and another not, the court can assume that the legislative body had intended the version which is valid (but without the court going to the extent of effectively redrafting it).⁴⁴ Thus, the broad, literal wording of section 7(b) has effectively been read down, or constitutionally interpreted as not having been intended by Parliament to apply to non-trademarks, on the assumption that the subject matter of non-trademarks is beyond Parliament’s legislative authority.

But did Parliament truly intend to limit section 7(b) to cases involving proper “trademarks” that have been “used”? Parliament did not use those terms in section 7(b). In fact, the Federal Court of Appeal has itself ruled on occasion (separate from the issue of Parliament’s constitutional authority in the field) that the definitions of “use” (including in section 4 of the Act) were probably not intended to apply to section 7(b).⁴⁵

Such reading down is especially questionable when contrasted with the 1879 US decision in which the first US federal statute was struck down instead of being read down. In *Trade-Mark Cases*,⁴⁶ the US Supreme Court observed that Congress was constitutionally restricted in certain respects (particularly in terms of certain inability to deal with intrastate trademark usage). The court did not read down the trademark statute (as if it applied only to interstate and international usage), but instead ruled that the entire statute entirely invalid. Again, the reading down of section 7(b) in Canada is questionable, and it would be good to consider some alternate rationale for the validity of such legislation.

2.3.6

Taken together, the concerns discussed above cast a cloud over the validity of other important provisions of the Act, including the following:

- Section 20(1)(a), the infringement provision, is one of the Act’s most critical provisions, but it may be partially or totally invalid according to the jurisprudence discussed above. For example, pursuant to the amendments effective June 17, 2019, registrations can be granted for marks that have not yet been “used,”⁴⁷ and thus the

civil remedy under section 20 for enforcing such registrations seems to fail to satisfy the judicial requirement of “use,” at least in cases where the subject mark has not been “used.” It is also hard to see how section 20 could be safely read down to salvage at least part of the provision (in those cases involving “use”) when it was clearly intended by Parliament to apply to registrations for marks that have not been “used.” Section 20 also prohibits certain activities comprising advertising or displaying of marks, and thus those activities might also fail to constitute “use.” And does the civil remedy for infringement of a trademark that has not been used truly constitute a different constitutional “matter” such that it was intended by the framers of the Constitution to separately fall in the domain of the provincial legislatures?⁴⁸

- Sections 9 and 10,⁴⁹ together with section 11, focus on certain special marks or signs, such as government marks, official flags, the Red Cross, and the likenesses or signatures of individuals.⁵⁰ On the basis of the *BMW v Nissan* line of cases, such legislation may be invalid or otherwise overreach because such signs would not always qualify as “trademarks” that have been “used.” In addition, those provisions appear to overreach (again according to the *BMW v Nissan* line of cases) because they expressly prohibit the adoption of such signs “as a trademark or otherwise.”
- Section 7(d) raises similar concerns. The wording of the provision encompasses cases in which a defendant misrepresents, for example, the quantity or quality of its own goods. Such misrepresentations can obviously be made without involving any trademark of the plaintiff or honest competitor (let alone any proper “trademark” of either party, or any trademark that has been properly “used”). Similarly, the federal *Competition Act* purports to allow a person to sue for damages caused by someone who, “for the purpose of promoting ... the supply or use of a product or for the purpose of promoting ... any business interest, by any means whatever, makes a representation to the public that is false or misleading in a material respect.”⁵¹

All such provisions are at risk of being invalidated in their entirety pursuant to the currently accepted jurisprudence.

44 See, e.g., *Council of Natural Medicine College of Canada v College of Traditional Chinese Medicine Practitioners and Acupuncturists of BC*, 2013 FC 287 at para 53 (Rennie J); PW Hogg, *Constitutional Law of Canada*, 5th ed, vol 2 (Toronto: Carswell, 2007) (loose-leaf) section 15.7.

45 *Enterprise Rent-A-Car Co v Singer*, 1998 CanLII 7405 at paras 3–7, 79 CPR (3d) 45 (FCA).

46 100 US 82 (1879).

47 Especially ss 330, 339, 345 of the *Economic Action Plan 2014 Act, No 1*, SC 2014, c 20 (brought into force effective 17 June 2019).

48 Along the lines of the discussion in section 2.3.2 above.

49 The validity of such provisions has been accepted in certain lower court rulings such as *Council of Natural Medicine College of Canada*, *supra* note 44, although such rulings do not appear to have fully explored the concerns discussed in this article. Even the decision of Rennie J focused on the validity of the actual prohibitions rather than the civil remedy for their breach.

50 Section 53.2 of the statute permits claims for civil remedies for the misuse of such marks just as it permits claims for violations of section 7(b).

51 RSC 1985, c C-34, ss 36(1), 74.01(1)(a). See also *Consumer Packaging and Labelling Act*, RSC 1985, c C-38, ss 7(1), 9(1).

3.0 Some Concerns Regarding the Current Rationale for the Basic Constitutionality of Trademark Legislation

3.1 Introduction

Many believe that the decision of the Supreme Court of Canada in *Kirkbi*⁵² resolved the long-term uncertainty over the validity of the Canadian trademark registration scheme. For example, it has been said that the validity of such trademark legislation was “decided” and “finally laid to rest.”⁵³

Nevertheless, there are concerns whether *Kirkbi* in fact decided the validity of trademark legislation for all purposes. Such concerns are at least relevant to the ability to assess the validity of other trademark legislation pursuant to the rationale set forth in *Kirkbi*. For example, recall that the civil remedy pursuant to section 7(b) was ruled to be valid but not on its own, and the civil remedy pursuant to former section 7(e) was ruled in *Vapor* to be completely invalid. So how would the civil remedy based on section 20 fare, or the provisions of section 9? And what about any existing or future trademark provisions outside the *Trademarks Act*, such as the *Olympic and Paralympic Marks Act*?⁵⁴

It is true that the validity of the *Trademarks Act* was put into issue implicitly in *Kirkbi*. In that case, LeBel J stated, twice, that the court must “determine whether the *Trade-marks Act* is valid.”⁵⁵ The decision includes a subheading that reads, “The Validity of the Federal *Trade-marks Act*.” It also contains a number of references to the “federal jurisdiction in relation to trade-marks”⁵⁶ and an excerpt from the decision in *Asbjorn Horgard A/S v Gibbs/Nortac Industries Ltd* (1987),⁵⁷ indicating that all five of the constitutional indicia (discussed below in section 3.2) had been verified in the Act.⁵⁸ The court also expressly concluded “that s. 7(b) lies within the federal government’s legislative competence.”⁵⁹

However, despite all of this, there was no clear conclusion in the decision that the Act itself is valid.⁶⁰ Perhaps the omission was intentional if not all members of the court agreed on the issue.⁶¹ LeBel J did not even state any approval of the above-mentioned excerpt from *Asbjorn* as to the validity of the overall Act. LeBel J said that the validity of the trademark statute “has never been conclusively determined.”⁶² In section 5.0 of this article, I argue that the validity of the Act has already been determined, but in this section I focus on the possibility that its validity was not necessarily determined in *Kirkbi* and, even if it was, it was done on questionable grounds.

It is conceivable that a future panel of the Supreme Court could read *Kirkbi* as if the validity of the Act had not actually been decided in that case, or that it had been decided only as between the parties. In the decision, LeBel J indicated that (1) the constitutionality of the Act “as a whole” (the registration scheme) was not challenged,⁶³ and (2) “[t]he parties *do not dispute* Parliament’s constitutional power to regulate *registered trade-marks*.”⁶⁴ From this basis, the decision proceeded instead to address the specific challenge to the validity of section 7(b) of the Act. The provision’s validity was challenged simply on the basis, discussed above,⁶⁵ that the provision was “not linked or connected in any way to [or sufficiently associated with] the trade-mark registration scheme in the Act,”⁶⁶ as required by certain constitutional jurisprudence.⁶⁷ That is, the decision could be read as if the court assessed the validity of the provision on the assumption that the registration scheme is valid.

Consider also that much of the support in *Kirkbi* for the validity of section 7(b) directly or indirectly relies on Laskin CJ’s comments in *Vapor*;⁶⁸ however, those comments were based on the same presumption as in *Kirkbi*. Laskin CJ in *Vapor* clearly said:

52 *Supra* note 11.

53 Kelly Gill, *Fox on Canadian Law of Trade-marks and Unfair Competition*, 4th ed (Toronto: Carswell, 2006) (loose-leaf, release 1) sections 2.1 to 2.2, especially at 2-3, 2-20; see also Roger T Hughes, *Hughes on Trade Marks*, 2nd ed (Markham, ON: LexisNexis) (loose-leaf, 2009 release) at § 4 n 4; *Robic—Canadian Trade-marks Act Annotated* (Toronto: Carswell) (loose-leaf, February 2009 release) at 1-1 (indicating its validity under section 91(2) is “generally accepted”); Vaver, *supra* note 25 at 45; PW Hogg, *Constitutional Law of Canada* (Toronto: Carswell, 2012) (loose-leaf, release 1) section 20.3 at 20-17 to 20-18. This reading of *Kirkbi*, as to the validity of the Act, has also been indicated judicially, as in *Council of Natural Medicine College of Canada*, *supra* note 44 at para 51.

54 SC 2007, c 25. Section 3(1) provides: “No person shall adopt or use in connection with a business, as a trademark or otherwise, an Olympic or Paralympic mark.”

55 *Kirkbi*, *supra* note 11 at paras 27–28.

56 *Ibid* at paras 19, 26, 34 (see also paras 18 and 28 in quoting from the *Asbjorn* case).

57 [1987] 3 FC 544 at 559, 14 CPR (3d) 314 (FCA).

58 *Kirkbi*, *supra* note 11 at para 28; and see the text accompanying *supra* note 20.

59 *Ibid* at para 36.

60 It is true that the first sentence of para 32 of *Kirkbi* uses the phrase “the otherwise valid statute,” but in context this was not necessarily a reference to the trademark statute. Rather, the court was simply reiterating the next step under the “ancillary doctrine” and otherwise continuing with the assumption that the Act was valid as between the parties, as discussed next.

61 This is especially possible considering that the division of legislative authorities has been a highly contentious issue in Canada dating back to pre-Confederation.

62 *Kirkbi*, *supra* note 11 at para 19.

63 *Ibid* at para 19.

64 *Ibid* at para 28 [emphasis added].

65 See the text accompanying *supra* notes 13–19.

66 *Kirkbi*, *supra* note 11 at para 14. In fact, the focus of the decision was even narrower in that section 7(b) was only challenged as to whether it covered passing off by means of a certain type of unregistered trademark, and thus the decision focused on whether legislation of such unregistered marks was sufficiently associated with—and should fall within the same domain as—the legislation of registered marks. *Ibid* at para 29; see also para 28.

67 See the text accompanying *supra* note 20.

68 As discussed throughout this article.

No attack has been made on the *Trade Marks Act* as a whole, and the validity of its provisions in so far as they deal with trade marks is not in question.⁶⁹

The only legislation impugned in *Vapor* was section 7(e) of the Act,⁷⁰ and its validity was assessed on its own. The other provisions of the Act, including the registration scheme, were “admittedly valid.”⁷¹ Thus, the validity of the registration scheme was not actually judged in *Vapor*.

Further uncertainty can be raised regarding the validity of the *Trademarks Act* (pursuant to the rationale in *Kirkbi*) in light of the decision of the Supreme Court in *Securities Reference* (2011),⁷² in which a proposed federal regulatory scheme regarding securities was deemed not to satisfy the “indicia” of validity under the federal trade and commerce power. Those indicia are discussed next.

3.2 The General Motors Trade and Commerce Indicia

According to the constitutional jurisprudence to date, the trade and commerce power has two “branches.” They were initially indicated by Sir Montague Smith on behalf of the Judicial Committee of the Privy Council in *Citizens’ Insurance Company v Parsons* (1881).⁷³ One of them is known as the “general branch.”⁷⁴

LeBel J indicated in *Kirkbi* that, for federal legislation to be valid under the general branch, the court must consider the following five factors, hallmarks, or “indicia”:

1. the impugned legislation must be part of a regulatory scheme;
2. the scheme must be monitored by the continuing oversight of a regulatory agency;
3. the legislation must be concerned with trade as a whole rather than with a particular industry;
4. the legislation should be of a nature that provinces jointly or severally would be constitutionally incapable of enacting; and
5. the failure to include one or more provinces or localities in a legislative scheme would jeopardize the successful operation of the scheme in other parts of the country.⁷⁵

These indicia were principally developed and enunciated by Dickson CJ in *General Motors v City National Leasing* (1989),⁷⁶ and thus are referred to herein as “the *General Motors* indicia.”

While the trademark registration scheme should be valid on other grounds,⁷⁷ it is proposed that such legislation possibly fails to satisfy some of these indicia. This is discussed under the next headings.

3.2.1 Possible Failure to Satisfy Indicium 2 (Federal Monitoring and Enforcement)

While it seems safe to say that the trademark registration scheme is “regulatory” in nature for the purposes of satisfying indicium 1,⁷⁸ it is questioned whether the trademark registration scheme satisfies indicium 2. (Again, even if that has been conclusively determined in *Kirkbi* with respect to the trademark registration scheme, the question may still need to be assessed regarding such provisions as the civil remedies for infringement.)

Perhaps it can be said that the granting and cancelling of registrations constitutes “monitoring” by the Canadian Intellectual Property Office (CIPO), the federally appointed agency under the *Trademarks Act*. But CIPO does not monitor the actual misuse of those registered trademarks, let alone the misuse of unregistered marks.

In addition, there are several direct comments in *Vapor* regarding section 7 of the trademark statute (including section 7(b), which encompasses unregistered trademarks) including each of the following:

In the absence of any federal regulatory administration to oversee the prescriptions of s. 7, there is no basis in federal power to justify such legislation.⁷⁹

In the absence of any regulatory administration to oversee the prescriptions of s. 7 ... I cannot find any basis in federal power to sustain the *unqualified* validity of s. 7 as a whole or s. 7(e) taken alone.⁸⁰

What is evident here is that the predatory practices [of section 7] are not under administrative regulation of a competent federally-appointed agency ...⁸¹

⁶⁹ *Vapor*, *supra* note 7 at 158–159.

⁷⁰ Section 7(e), which was then in force, is reproduced in section 3.2.2 below.

⁷¹ *Vapor*, *supra* note 7 at 159.

⁷² *Supra* note 32.

⁷³ (1881), 7 AC 96 at 113 (PC) [*Parsons*]. See also *Vapor*, *supra* note 7 at 162–164, where Laskin CJ referred to the general branch as a “category.” See also the other authorities in this section.

⁷⁴ The other branch is discussed in the text accompanying *infra* note 159.

⁷⁵ *Kirkbi*, *supra* note 11 at paras 15–17; confirmed in *Securities Reference*, *supra* note 32 at paras 76–85, and in *Pan-Canadian Securities Reference*, *supra* note 30 at paras 101–103.

⁷⁶ *General Motors v City National Leasing*, [1989] 1 SCR 641 [*General Motors*].

⁷⁷ See sections 4.0 and 5.0 below.

⁷⁸ As indicated in *Kirkbi*, *supra* note 11 at paras 25, 28.

⁷⁹ *Vapor*, *supra* note 7 at 135 [emphasis added].

⁸⁰ *Ibid* at 156 [emphasis added].

⁸¹ *Ibid* at 158.

Its enforcement is left to the chance of *private* redress without public monitoring ...⁸²

[Section 7] has not been brought under a regulatory authority in association with the scheme of public control operating upon trade marks.⁸³

Such comments are significant in that the very formulation of indicia 1, 2, and 3 by Dickson CJ was based on such comments by Laskin CJ.⁸⁴ In other words, it was effectively indicated in *Vapor* that section 7 did not satisfy indicium 2.⁸⁵ It is thus difficult to see how the trademark scheme satisfied (or would satisfy) that indicium.

Such comments in *Vapor* are also significant in that they could just as well be made in respect of the other prohibitions in the Act, including section 20 regarding the infringement of registered trademarks. As with the civil remedies based on violations of section 7, violations of section 20 are enforced, not by the registrar of trademarks, but substantially by civil proceedings.⁸⁶ So, if indicium 2 was not satisfied in respect of section 7(b), it is hard to see how it would be satisfied by section 20.

If anything, the legislation with regard to registered marks actually goes the other way. It is commonly known that if a trademark registration is not properly monitored and enforced privately, the *Trademarks Act* does not call for the exclusivity to be monitored and enforced publicly, but instead makes it vulnerable to cancellation.⁸⁷

It is also questionable whether the registrar oversees the misuse of official marks under section 9 or the misuse of registered marks.

It is true that, elsewhere in *Vapor*, Laskin CJ said that the trademark statute features “administrative controls,”⁸⁸ thereby suggesting the registration provisions do satisfy indicium 2, but again it is questionable whether the registrar actually oversees the misuse or infringement of trademarks. Furthermore, such comments in *Vapor* were not specifically directed to the validity of the civil remedy under section 20.

It is also true that some trademark wrongdoing involves criminal liability⁸⁹ and that criminal conduct is, in general, publicly monitored.

But Laskin CJ in *Vapor* indicated that reliance on the federal *criminal* power to justify the federal prohibition of certain conduct would jeopardize, rather than support, the validity of a corresponding federal *civil* remedy.⁹⁰ It appears that indicium 2 calls for some sort of monitoring and enforcement by a federal regulatory agency that is distinct from the usual monitoring and enforcement of the criminal law. Instead, indicium 2 presumably calls for monitoring and enforcement similar to that under the competition legislation approved in *General Motors*, and it does not appear that the trademark scheme meets that standard. This point appears to have been indicated in *General Motors* itself. Rather than saying that the *Trademarks Act* satisfies this indicium, Dickson CJ distinguished that statute from the federal competition statute impugned in *General Motors*; in particular, he noted that the enforcement of the trademark statute has been “left to suit by private actors.”⁹¹

3.2.2 Possible Failure to Satisfy Indicium 3 (Being Concerned with Trade as a Whole)

In *Kirkbi*, LeBel J seemingly indicated that the trademark registration scheme completely satisfied indicium 3 when he stated:

The *Trade-marks Act* is clearly concerned with *trade as a whole*, as opposed to *within a particular industry*. There is no question that trade-marks apply across and between industries in different provinces.⁹²

This dictum was confirmed in *Securities Reference*.⁹³ However, the actual wording of this dictum seems to reflect two principles, and it is not clear whether the trademark registration scheme satisfies both. One of those principles is that the federal scheme should not be concerned “within a particular industry,” and this certainly seems to be satisfied in that the registration scheme applies to all trades. However, it is not entirely clear from the jurisprudence that such legislation satisfies the other principle, namely, that the trademark scheme is concerned “with trade as a whole.”

In *Vapor*, Laskin CJ indicated that the provision challenged in that case was *not* “concerned with trade as a whole nor

82 *Ibid* at 165 [(emphasis added)].

83 *Ibid* at 167. In addition, Bruce Ryder commented (in “*The End of Umpire? Federalism and Judicial Restraint*” (2006) 34 SCLR (2d) 345 at 359–360) as follows: “the oversight of the Registrar of Trade-marks does not relate to” unregistered trade-marks; in that regard, there is an “absence of a regulatory oversight.” (Ryder was counsel helping with the partial challenge to the validity of section 7(b) in *Kirkbi*.)

84 As indicated in *Can Nat Transportation*, *supra* note 43 at 267–268, 274–275, as confirmed in *Kirkbi*, *supra* note 11 at para 16, and *Securities Reference*, *supra* note 32 at para 76.

85 While Laskin CJ ultimately indicated in *Vapor* that certain prohibitions in section 7 (including section 7(b) regarding unregistered marks) may indeed have some validity, this was solely on the basis of such prohibitions being “nourished ... in so far as it may be said to round out” the trademark regulatory scheme (as discussed in the text accompanying *supra* notes 13–19). The comments in *Vapor* do not indicate that the trademark regulatory scheme would satisfy what was later described by Dickson CJ as indicium 2, namely, that legislation is publicly monitored and enforced.

86 Pursuant to what is now section 53.2.

87 Such as under section 18. (This exposure to cancellation was noted, e.g., in *Mattel, Inc v 3894207 Canada Inc*, 2006 SCC 22 at para 26, [2006] 1 SCR 772, per Binnie J.)

88 *Vapor*, *supra* note 7 at 166.

89 For example, sections 408(a), 406–407, 380 of the *Criminal Code*, RSC 1985, c C-46.

90 *Vapor*, *supra* note 7 at 146.

91 *General Motors*, *supra* note 76 at 693.

92 *Kirkbi*, *supra* note 11 at para 29 [emphasis added].

93 *Supra* note 32 at para 81.

with general trade and commerce.”⁹⁴ He added, “I do not read s. 91(2) as in itself authorizing federal legislation that merely creates a statutory tort, enforceable by private action, and applicable, as here, to the entire range of business relationships in any activity ... [even where] the activity be itself within ... federal legislative authority.”⁹⁵ This ground was a fundamental feature of the ruling in *Vapor* against the validity of the provision, given that the lengthy decision of the Federal Court of Appeal⁹⁶ was reversed on that ground. Therefore, the indication by Laskin CJ was important and, assuming that it was sound, it is hard to see how the trademark registration scheme—as well as individual provisions such as the section 20 civil remedy for infringement—would satisfy the judicially imposed need to be concerned with trade as a whole.

Recall that the provision impugned in *Vapor* was section 7(e) of the very statute that contains the registration scheme. Section 7(e) prohibited forms of unfair competition not enumerated elsewhere in section 7. Before it was repealed,⁹⁷ the provision appeared under the following heading and provided as follows:

UNFAIR COMPETITION AND PROHIBITED MARKS

Prohibitions

7. No person shall ...

(e) do any other act or adopt any other business practice contrary to honest industrial or commercial usage in Canada.

Specifically, section 7(e) was assessed in *Vapor* to the extent that it applied to breaches of confidence and contract by a former employee. Such breaches constitute different causes of action from passing off and trademark infringement, but again it has hardly been explained how the passing-off cause of action impugned in *Kirkbi* is concerned with trade as a whole, and with general trade and commerce (all in accordance with indicium 3), whereas section 7(e) was not so concerned, as indicated in *Vapor*.

As a related matter, the constitutional principle of being “concerned with trade as a whole” was paraphrased in *Kirkbi* as something that

“requires an assessment of the relative importance of an activity to the national economy,”⁹⁸ and that must address “genuinely a national economic concern.”⁹⁹ But there was no direct explanation in *Kirkbi* as to whether the trademark scheme satisfies those requirements. There was no discussion of the relative importance of trademarks “to the national economy,” or of the federal enactment addressing a “national economic concern.”¹⁰⁰ The *Trademarks Act* might very well fail to satisfy such constitutional principle or indicium.

To return to the discussion in *Vapor* regarding section 7(e) not satisfying the constitutional principle, Laskin CJ said that the provision was “not directed to trade but to the ethical conduct of persons engaged in trade.”¹⁰¹ This strongly suggests that, for a provision to satisfy indicium 3, it must be directed to trade rather than to the ethical conduct of persons engaged in trade.

So, can the remaining provisions of the *Trademarks Act* (especially regarding the registration scheme) be distinguished from section 7(e) on the basis that those provisions are “directed to trade” rather than “to the ethical conduct of persons engaged in trade”? Not necessarily. Such other provisions can easily be seen as being directed to the ethical conduct of persons engaged in trade. A breach of such other provisions would give an unfair (unethical) advantage to traders who commit such acts. In particular, provisions such as sections 7(b) and 20 essentially prohibit a person from simulating a trademark so as to mislead customers into thinking that products bearing the simulated trademark are those of the trademark owner, and thereby steal that trademark owner’s business goodwill. Also recall that the heading of section 7 (and the long title of the statute) expressly refers to “Unfair Competition.” Similarly, in *Kirkbi*, the statutory cause of action in respect of passing off was literally described as being “concerned with the honesty and fairness of competition.”¹⁰² All of this sounds like legislation that is “directed to ... the ethical conduct of persons engaged in trade.” It sounds even more like legislation directed to ethical conduct, as compared to the above-mentioned breaches of confidence and contract, in that violations of such trademark laws have been referred to as “piracy”¹⁰³ and can give rise to criminal liability.¹⁰⁴

There are thus serious questions whether the trademark registration scheme satisfies (or did satisfy) indicium 3 under such jurisprudence.

⁹⁴ *Vapor*, *supra* note 7 at 164.

⁹⁵ *Ibid.*

⁹⁶ [1972] FC 1156, 8 CPR (2d) 15.

⁹⁷ Repealed by SC 2014, c 32, s 10. (Section 7, as it read at the time, is reproduced in *Vapor*, *supra* note 7 at 141.)

⁹⁸ *Kirkbi*, *supra* note 11 at para 16 [emphasis added].

⁹⁹ *Ibid* at para 17 [emphasis added].

¹⁰⁰ As Ryder, *supra* note 83, commented at 360–361: “In short, section 7(b) does not appear to have any connection to a public scheme of national economic regulation”; that provision features an absence of “any connection to a public scheme of national economic regulation.” In the same passage, Ryder said that the trademark registration scheme, as somehow distinct from section 7(b), does feature this connection: “The *Trade-marks Act* is valid only because it consists, in pith and substance, of a public scheme of national economic regulation that differentiates it from regulation of local trade and the creation of civil causes of action.” However, with respect, the article does not explain precisely how the Act qualifies as a scheme of national economic regulation.

¹⁰¹ *Vapor*, *supra* note 7 at 165 [emphasis added]. In *General Motors*, this principle was recognized as an argument and, while the principle did not succeed in *General Motors*, it was not conclusively rejected for future cases. Dickson CJ dismissed the argument merely by distinguishing the federal civil remedy challenged in *General Motors* from the federal civil remedy challenged in *Vapor*; see *General Motors*, *supra* note 76 at 689–692.

¹⁰² *Kirkbi*, *supra* note 11 at para 63.

¹⁰³ For example, in *Mattel*, *supra* note 87 at para 115.

¹⁰⁴ For example, pursuant to *Criminal Code*, ss 408(a), 406–407, 380. Such criminal provisions are not new, dating back to pre-Confederation.

There are, in turn, serious questions whether legislation such as the *Olympic and Paralympic Marks Act* and section 9 of the *Trademarks Act* are actually “concerned with trade as a whole” or with “general” trade and commerce, and address a “national economic” concern.

3.2.3 Possible Failure to Satisfy Indicia 4 and 5 (Whether the Provinces Are Incapable)

Indicia 4 and 5 both relate to whether the provincial legislatures would be “incapable” of enacting the impugned legislation. They would be incapable on constitutional grounds if the subject of the legislation does not even prima facie fall within their constitutional jurisdiction, or they would be incapable on practical grounds, such as if the subject requires the cooperation of the other provinces to enact complementary legislation.¹⁰⁵

In *Kirkbi*, it may have been understood that the provincial legislatures would have difficulty legislating in respect of the interprovincial and international use of trademarks.¹⁰⁶ However, the decision included little or no discussion of whether the provincial legislatures are constitutionally incapable of legislating in respect of the intraprovincial use of trademarks.¹⁰⁷

This apparent omission in *Kirkbi* is significant because it is in stark contrast to that court’s decision in *Securities Reference*. In considering the proposed federal securities legislation in that case, the court clearly discussed whether, in accordance with indicia 4 and 5, the provincial legislatures are constitutionally capable of regulating intraprovincial activities¹⁰⁸ as distinct from interprovincial activities.¹⁰⁹ In addition, the court’s finding that provincial the legislatures are capable of legislating in respect of intraprovincial activities strongly contributed to its ruling that the securities legislation at issue in the case did not fall within section 91(2).

As for whether the provincial legislatures are prima facie capable of legislating in respect of trademarks intraprovincially, consider that trademarks have been at least somewhat regulated, so to speak, within each of the provinces under their respective common or civil law.¹¹⁰

Also recall the strong indications in *Kirkbi* and *Vapor*¹¹¹ that the statutory civil remedy for passing off, at least prima facie, comes within the provincial domain, particularly property and civil rights in the province, pursuant to section 92(13) of the *Constitution Act, 1867*.¹¹²

Similarly, in a passing-off case, *Ciba-Geigy Canada Ltd v Apotex Inc* (1992), the Supreme Court—albeit without much discussion—approved the notion that passing-off rules “may be sought in federal as well as provincial law.”¹¹³ This dictum could explain Vaver’s comment: “In Canada, Parliament can legislate for registered marks under its power to regulate trade and commerce, while provinces may protect peripheral IP such as unregistered marks ... under provincial laws, the common law or the law of delict.”¹¹⁴

If the provinces do have prima facie authority to regulate passing off within the province, this increases the possibility that they have prima facie authority for the purposes of regulating registered marks within the province, especially where the causes of action in respect of infringement of registered marks and passing off overlap. (Conduct that constitutes infringement of a registered mark often also constitutes passing off.) It could thus be said that regulating passing off and enacting a trademark registration scheme constitute the same subject matter for the purposes of constitutional classification. This may have been acknowledged in *Kirkbi* when LeBel J said, “[M]arks remain marks, whether registered or unregistered, because their legal characteristics are the same.”¹¹⁵ Similarly, he said, “s. 7(b) is, in its pith and substance, directly connected to the enforcement of trade-marks and trade-names in Canada because it is directed to avoiding confusion through use of trade-marks.”¹¹⁶ Thus, if the provinces have prima facie authority regarding the subject matter of section 7(b) within the province, they could very well have prima facie authority to enact a registration scheme within the province.

Another consideration is that legislative authority regarding trademarks is divided between the local and central governments in the United States, meaning the states and the federal Congress respectively.¹¹⁷ Even though this division of authority has its own constitutional reasons,¹¹⁸ the point here is that those local governments certainly appear to be practically capable of legislating with respect to the misuse of trademarks within their territorial jurisdiction. That is, US federal trademark legislation has generally been focused on interstate (and cross-border) trademark usage, while intrastate trademark usage has been regulated by the individual states for many years. This division of authority might not be the most effective, but, considering that this division has survived for years, it would be difficult to say it is not effective at all, as if the local legislatures are truly incapable.

¹⁰⁵ *Kirkbi*, *supra* note 11 at paras 17, 28.

¹⁰⁶ Again, LeBel J said that “trade-marks apply across and between industries in different provinces”: *Ibid* at para 29.

¹⁰⁷ *Ibid* at paras 28–29.

¹⁰⁸ *Supra* note 32 at paras 118–122, 125.

¹⁰⁹ *Ibid* at paras 32, 47, 129.

¹¹⁰ For example, *Vapor*, *supra* note 7 at 147 referred to the causes of action embraced by s. 7 as having been “governed” provincially.

¹¹¹ See the text accompanying *supra* notes 33–34.

¹¹² This is supported by the view of Ryder, *supra* note 83 at 358–359, 360–361.

¹¹³ [1992] 3 SCR 120 at 134 per Gonthier J [emphasis added], quoting André Nadeau & Richard Nadeau, *Traité pratique de la responsabilité civile délictuelle* (Montreal: Wilson & Lafleur, 1971).

¹¹⁴ David Vaver, “Canada’s Intellectual Property Framework” (2004) 17 IPJ 125 at 127 [emphasis added].

¹¹⁵ *Kirkbi*, *supra* note 11 at para 30 [emphasis added].

¹¹⁶ *Ibid* at para 33.

¹¹⁷ The ability of the court to consider comparative regulatory schemes in other federal systems for the purposes of such indicia was implicitly approved in such cases as the *Securities Reference*, *supra* note 32 at paras 48–52.

¹¹⁸ As discussed, for example, by the US Supreme Court in *Trade-Mark Cases*, *supra* note 46, when it struck down the first US federal trademark scheme, which had attempted to apply to intrastate trademark usage.

This leads to yet another concern regarding the idea of relying solely upon *Kirkbi* for the validity of the federal trademark registration scheme. LeBel J said that legislation dealing with unregistered marks must be federal because dividing this authority between Parliament and the legislatures might “lead to duplicative or conflicting *and hence inefficient* enforcement procedures.”¹¹⁹ But being somewhat inefficient is not the same as being completely ineffective. In other words, LeBel J’s comment did not go so far as to say—as is required by the wording of indicia 4 and 5—that the legislatures are actually incapable of so legislating. Again, the issue under these indicia is not whether provincial legislation would be less effective than federal legislation, but whether it would not be effective at all.

It appears to have been especially unsound for the court in *Kirkbi* to have suggested that the authority falls within the federal domain on the basis that the provinces are merely less efficient than Parliament; this would be more of a policy concern rather than an interpretation of the Constitution. In that regard, the Supreme Court in *Securities Reference* (after *Kirkbi*) firmly stated:

[T]he policy question of whether a single national securities scheme is preferable to multiple provincial regimes is not one for the courts to decide. Accordingly, our answer to the reference question is dictated solely by the text of the Constitution, fundamental constitutional principles and the relevant case law. ...

Effaciousness is not a relevant consideration in a division of powers analysis.¹²⁰

Similarly, Laskin CJ for the majority in *Can Nat Transportation* (1983) discounted “practical considerations,” which might have otherwise suggested that the legislatures should have legislative competence (in that case, regarding certain criminal prosecutorial authority). He said:

[T]he issue must be decided on the basis of the language of ss. 91 and 92 and the principles of federal exclusiveness ... It would be one thing to assert that *practical considerations* would best be served by recognizing provincial prosecutorial authority in the general run of criminal law offences, *but this is a matter to be considered by the legislature that has constitutional authority to enact the relevant provisions*.¹²¹

And as Ritchie CJ stated in *City of Fredericton v R* (1880),¹²² again in reference to the constitutional division of powers, “with its expediency, its justice or injustice, its policy or impolicy, we have nothing whatever to do.”

In view of the discussion above, it does not appear that indicia 4 and 5 were properly indicated within *Kirkbi* to have been satisfied for the purposes of trademark legislation in respect of intraprovincial trade. If, for example, a restaurant in a Canadian city wants to protect its name as against other restaurants in that city, indicia 4 and 5 would suggest that the provincial legislature may *prima facie* have that capability.

3.2.4 Possible Failure to Satisfy Other Indicia

The Supreme Court has indicated that the list of indicia is not exhaustive.¹²³ With that in mind, another indicium, or perhaps even a stand-alone ground for ruling against the validity of the federal civil cause of action in section 7(e) of the *Trade-marks Act* (as that provision was interpreted in *Vapor*), was indicated in *Vapor* as follows:

Even on the footing of being concerned with practices in the conduct of trade, its private enforcement by civil action gives it a local cast because it is as *applicable in its terms to local or intraprovincial competitors as it is to competitors in interprovincial trade*.¹²⁴

This was recognized as another argument against the validity of the federal legislation that was challenged in *General Motors*.¹²⁵

Laskin CJ made a similar comment regarding the validity of another prohibition in the Act, namely, section 7(d), as follows:

[T]he issue of a violation of s. 7(d) could as *easily arise in a local or intraprovincial transaction* as in an interprovincial one; there is nothing in s. 7(d) that emphasizes any *interprovincial or transprovincial* scope of the prohibition in s. 7(d) so as to establish some connection with federal legislative authority under s. 91(2) of the *British North America Act*.¹²⁶

And with respect to all the prohibitions in section 7 collectively, including the trademark prohibition in section 7(b), Laskin CJ stated:

[T]hey are left to merely private enforcement as a private matter of business injury *which may arise, as to all its elements* including damage,

119 *Kirkbi*, *supra* note 11 at para 29 [emphasis added].

120 *Securities Reference*, *supra* note 32 at paras 10, 90.

121 *Can Nat Transportation*, *supra* note 43 at 235 [emphasis added].

122 (1880), 3 SCR 505 at 535.

123 *Kirkbi*, *supra* note 11 at para 17; *Securities Reference*, *supra* note 32 at para 81.

124 *Vapor*, *supra* note 7 at 165 [emphasis added].

125 *General Motors*, *supra* note 76 at 689–690. The argument did not succeed in that case, but again the reasoning expressed by Dickson CJ did not necessarily eliminate the argument for future cases. He said: “Every general enactment will necessarily have some local impact and it would be absurd to strike down legislation for that reason alone.” *Ibid* at 692–693. However, permitting federal legislation to have “some” local impact does not necessarily contradict the indication in *Vapor* that federal legislation cannot have so much local impact to the point that it is as *applicable* to local, intraprovincial competitors as it is to competitors in interprovincial trade.

126 *Vapor*, *supra* note 7 at 148 [emphasis added].

*in a small locality in a Province or within a Province.*¹²⁷

This concern was recognized in an article by Daniel Bereskin.¹²⁸ The Canadian trademark scheme was to be amended so as to allow registrations for trademarks that have not been used.¹²⁹ He expressed concern regarding the constitutionality of that proposed legislation in view of the above comments in *Vapor* requiring legislation under section 91(2) to regulate interprovincial trade more than it does intraprovincial trade.¹³⁰ In his words, “There is nothing in [the proposed amendments] that makes that distinction.”¹³¹ The point here is that such concern could also be directed to the trademark scheme itself, apart from those amendments; the trademark scheme is not necessarily directed to regulating interprovincial trade more than intraprovincial trade.

To add to this concern, there are a variety of similar comments in *Securities Reference* to the effect that, for any trade and commerce legislation to properly come within federal competence, it *must* address concerns that “transcend provincial competence” and “transcend local, provincial interests”; it *must* be “qualitatively different” from anything that could be enacted by the provinces.¹³² For example, the Supreme Court in *Securities Reference* stated:

The general trade and commerce power *cannot* be used in a way that denies the provincial legislatures the power to regulate *local matters within their boundaries*.¹³³

Applying such dicta to the overall trademark statute, it seems that such legislation is “as applicable in its terms to local or intraprovincial competitors as it is to competitors in interprovincial trade”; a trademark dispute may arise having “all its elements ... in a small locality in a Province.” For example, if two restaurants (or construction companies, or professional firms, etc.) are quarrelling over a trademark entirely within a municipality or province, this could theoretically be considered as a “local matter,” and therefore would not fall within the federal trade and commerce power.

Rightly or wrongly, all of this indicates that the federal trademark legislation would not be valid insofar as it applies to intraprovincial matters or transactions. It thus appears that this judicial ground, which has served to partially or totally rule section 7(e) out of section 91(2) of the *Constitution Act, 1867*, could just as easily serve to rule out the registration scheme in respect of intraprovincial transactions, again apart from a fresh rationale for its constitutionality.

As another potential indicium, consider that numerous learned authorities have suggested that the exclusive rights in trademarks are a form of property.¹³⁴ While such comments have not been intended to reflect on the constitutionality of trademark legislation, they could nevertheless have this effect. Obviously, the stronger the connection between trademark law and “property,” the stronger the connection between trademark law and the exclusive provincial legislative authority, which is literally in respect of “Property and Civil Rights.”¹³⁵

Still further, the express listing of patents and copyrights in section 91¹³⁶ without the express listing of trademarks implies that the subject of trademarks was not intended to fall within section 91.

In view of the above, there is some uncertainty whether trademark legislation properly satisfies the above-mentioned constitutional principles as they stand.

3.3 Transition

It is difficult to summarize all the concerns raised in sections 2.0 and 3.0 above regarding the validity of Canadian trademark legislation. Suffice it to say that the above-mentioned jurisprudence is in an awkward state of affairs. Nevertheless, there are other grounds that support the validity of federal trademark legislation and that do not feature the same awkward limitations. Such grounds are discussed in sections 4.0 and 5.0.

4.0 Implications Favouring Validity Generally

4.1 Introduction

There are at least two general implications strongly indicating that legislative authority regarding trademarks and unfair competition was intended to fall within the federal domain.

4.2 Implication Based on Legislation Enacted “Federally” Prior to Confederation

One strong implication is based on the fact that, prior to Confederation, such legislation was effectively enacted federally within the quasi-federal colonial Province of (United) Canada.

In the years prior to Confederation, the colonial province had two parts: Upper Canada (which was primarily English and Protestant and was renamed “Ontario” on Confederation), and Lower Canada (which was primarily French and Catholic and was renamed “Quebec”). The colonial province even had joint premiers, one for each part.

¹²⁷ *Ibid* at 158 [emphasis added].

¹²⁸ Daniel R Bereskin, “Canada’s Ill-Conceived New ‘Trademark’ Law: A Venture into Constitutional Quicksand” (2014) 104 TMR (INTA) 1112.

¹²⁹ This proposed amendment was subsequently enacted: *supra* note 47.

¹³⁰ Especially the comment quoted at *supra* note 124.

¹³¹ Bereskin, *supra* note 128 at 1124.

¹³² *Securities Reference*, *supra* note 32 at paras 79, 83, 87, 89, 90, 105, 107, 111, 114, 116, 125. See also *Pan-Canadian Securities Reference*, *supra* note 30.

¹³³ *Securities Reference*, *supra* note 32 at para 89 [emphasis added].

¹³⁴ For example, *Kirkbi*, *supra* note 11 at para 39 (“form of property”); *Mattel*, *supra* note 87 at para 27 (“a trade-mark is a proprietary right”); *Fox on Canadian Law of Trade-marks and Unfair Competition*, *supra* note 53 at sections 4.2(c), (d). Even Bereskin comments that the proposed amendments (to permit registrations regardless of trademark usage) cannot be valid under section 91(2) because that legislation intrudes unduly into matters of property and civil rights: *supra* note 128 at 1113, 1115–1116, 1124.

¹³⁵ Again, as provided in section 92(13) of the *Constitution Act, 1867*.

¹³⁶ Namely, in section 91(22) and (23), respectively.

Legislation was designated as having effect only in one part of the colony or only in the other, or in both. The latter was effectively “federal” (that is, “quasi-federal”), while legislation that was enacted to apply in only one part or the other was not.

Generally, there is support for a presumption or implication that legislation that was enacted quasi-federally was intended to continue to be federal after Confederation.¹³⁷ With that in mind, it is significant that seemingly any and all enacted or proposed legislation in the Province of Canada relating to trademarks or unfair competition was quasi-federal.

In particular, the colonial province enacted or otherwise introduced trademark legislation almost annually, starting in 1860 with the enactment of *An Act respecting Trade Marks*.¹³⁸ Section 3 of that statute provided for actions by the owner of an infringed mark for damages. The statute did not provide for registration, and thus the civil remedy inherently encompassed a form of passing off (unfair competition) by means of infringement in respect of marks that were not registered.

The 1860 statute was replaced in 1861 by a statute that did provide for the registration of trademarks, again quasi-federally.¹³⁹

Thereafter, two intellectual property bills were introduced that included proposed amendments to the trademark scheme.¹⁴⁰ The amendments were drafted with the understanding they were to have effect in both parts of the Province of Canada. After Confederation, the legislation was indeed enacted federally, as discussed next.

4.3 Implication Based on Legislation Enacted Federally Shortly After Confederation

Another strong implication or presumption that legislative authority regarding trademarks and unfair competition falls within the federal domain is based on the fact that such legislation was enacted federally *shortly after* Confederation.

Just as there is judicial support for the constitutional presumption based on how legislation was enacted shortly before Confederation,

there is support for a presumption based on how it was enacted shortly after.¹⁴¹ This presumption flows from the fact that several of the framers of the *Constitution Act*, 1867 had continued as politicians within the newly formed Dominion of Canada, and they were obviously aware of how legislative authority was intended to be divided within the Constitution.¹⁴²

One of those framers was Sir John A Macdonald, who became Canada’s first prime minister. Not only was he involved in drafting the Constitution, but he was also involved in drafting the division of powers.

In particular, the federal Parliament of the new Dominion of Canada enacted the *Trade Mark and Design Act of 1868*,¹⁴³ which provided a registration scheme, together with a cause of action (civil remedy) for infringement of a registered mark.¹⁴⁴ Section 7 of that statute made it a criminal offence (misdemeanour) to use a registered trademark, and provided that the penalty was to be paid in full to the proprietor, together with costs, thereby in effect providing a form of civil remedy.¹⁴⁵

At the same time, it does not appear that any provincial legislature attempted to enact trademark legislation, or to challenge the validity of the federal legislation. The *Trade Mark and Design Act of 1868* was not even challenged by Ontario, even though one of its early premiers, Sir Oliver Mowat, had also been one of the Fathers of Confederation who had worked on drafting the division of powers. He had been a member of the Legislative Assembly of the Province of Canada from 1858 to 1864 (and had served on the Court of Chancery of Upper Canada). Thus, Mowat was also aware that the pre-Confederation legislation regarding trademarks had been enacted quasi-federally rather than quasi-provincially.¹⁴⁶ Shortly after Confederation, he became premier and attorney general of Ontario, from 1872 to 1896, and he had prominently challenged a variety of federal laws in other fields. The fact that he did not challenge any of the federal laws regarding trademarks is especially significant considering that the federal trademark statute in the United States had been challenged and ruled unconstitutional in 1879.¹⁴⁷

137 For example, Richards CJ in *Severn v The Queen*, [1878] 2 SCR 70 at 93 took into account that the Province of Canada had been “formed by the union of two Provinces having different laws and to some extent different interests,” and thus it was a place “where some of the objects of Confederation had been practically worked out.”

138 1860, 23 Vict, c 27 (Prov C).

139 *An Act to amend the Act respecting Trade Marks and to provide for the Registration of Trade Marks*, 1861, 24 Vict, c 21 (Prov C).

140 No 14, 1st Sess, 7th Parl, 25 Vict, 1862, and No 205, 2nd Sess, 7th Parl, 26 Vict, 1863.

141 *Supra* note 137.

142 An early example of the principle is found in *Valin v Langlois* (1879), 3 SCR 1 at 22, aff’d (1879), 5 AC 115, where Ritchie CJ discussed the validity of certain federal legislation in respect of court procedure in respect of a federal subject matter. In support of federal validity, he took into account that legislation regarding procedure had been enacted federally in various other statutes immediately after Confederation, as part of Parliament’s very first session, “by those who took the most active part in the establishment of Confederation, and who had most to do with framing the *British North America Act* the large majority of whom sat in the first Parliament.” Ritchie CJ (at 24) even took into account that such procedural provisions had been enacted federally within the 1868 trademark statute without any hesitation as to the validity of that statute.

143 31 Vict, c 55.

144 *Ibid*, s 12.

145 As discussed in the text following *infra* note 151, section 9 also provided that some of the criminal penalties available under the *Trade Mark and Design Act of 1868* be paid to the trademark owner. This overlap between criminal and civil remedies is understandable because, at the time, there was not such a strong distinction between criminal and civil proceedings as at the present. The civil remedy for infringing a registered mark was made express, and separate from the criminal sanction, when the trademark statute was revised in 1879: *Trade Mark and Design Act*, 42 Vict (1879–80), c 22, ss 17, 4; RSC 1886, c 63, ss 18–19.

146 Such legislation is discussed in section 4.2 above.

147 *Supra* notes 46, 118.

Some provinces joined Confederation with the 1868 statute already in force, and again seemingly did not challenge it or try to enact or maintain their own trademark scheme.¹⁴⁸

In addition, the 1868 federal trademark statute repealed the colonial provincial trademark statutes¹⁴⁹ and grandfathered colonial-provincial trademark registrations into the new federal scheme of 1868. The 1868 repeal included a repeal of the trademark statute enacted by the colonial province of New Brunswick.¹⁵⁰ All of this further supports the understanding that Parliament had the authority to do so. It is notable that the wording of the New Brunswick statute was very similar to the wording of the legislation that was being developed quasi-federally in the colonial Province of Canada, and was thus very similar to the statute enacted federally in 1868. The repeal of the New Brunswick statute has further significance in that this colonial-provincial trademark legislation applied to intraprovincial trade (that is, trade within the province). Thus, in repealing that statute after Confederation, the politicians and framers of the Constitution clearly had in mind that legislative authority regarding even the intraprovincial use of trademarks was intended to fall within the domain of Parliament.

This conclusion is further supported by the fact that New Brunswick had enacted its colonial-provincial trademark statute as late as the spring of 1867 knowing that Confederation was pending. It seems the colonial-provincial government of New Brunswick had rushed to enact its registration scheme for the very purpose of having New Brunswick trademarks grandfathered into the upcoming federal system. (This further confirms the understanding among the framers that the subject matter was intended to be federal.)

It has been suggested that the 1868 Dominion trademark statute did not have a statutory civil remedy in respect of infringement or passing off involving unregistered trademarks, and that this omission indicates that Parliament was not intended to have legislative authority in that regard.¹⁵¹ However, there are several replies to this suggestion. First, the 1868 statute did indeed have what was, in effect, a civil remedy in respect of passing off involving unregistered trademarks. Section 9 provided for the payment of a fine with costs, “one-half of which penalty *shall be paid to the complainant* and the other half to the Crown” [emphasis added]. This intermixing of civil and criminal remedies was not uncommon in that era.

Second, a broader civil remedy in respect of passing off involving unregistered trademarks was provided as part of a separate line of legislation, in *The Trade Marks Offences Act, 1872*.¹⁵² That statute contained five provisions prohibiting the counterfeiting or misuse of trademarks,¹⁵³ and two provisions providing civil remedies in respect of that misconduct.¹⁵⁴ The statute also expressly stated that it applied, not just to registered, but also unregistered trademarks.¹⁵⁵

Third, it is hard to see any distinction between the “pith and substance” of prohibiting the infringement of trademarks whether they are registered or unregistered. Prohibitions of both types of infringement address the same social and foundational objectives, as discussed above,¹⁵⁶ and thus must constitute the same constitutional subject matter for the purposes of sections 91 and 92 of the *Constitution Act, 1867*. Coincidentally, LeBel J commented in *Kirkbi*:

Registration does not change the nature of the mark ... [R]egistered or not, marks share common legal attributes. They grant exclusive rights to the use of a distinctive designation or guise ... Registration just facilitates proof of title ...¹⁵⁷

5.0 Revisiting Constitutionality Under Certain Trade and Commerce Powers

5.1 Introduction

In this section I try to advance the thinking that legislation in the field falls specifically within the trade and commerce power.

5.2 Regarding Interprovincial Trade

Recall that the trade and commerce power has two branches. The general branch involves the *GM indicia* discussed above in section 3.2. The other branch (again, as first identified in *Parsons*¹⁵⁸) involves matters of international or interprovincial trade (herein referred to as the “interprovincial” branch or power). This branch was confirmed in, for example, *Kirkbi*.¹⁵⁹

Although this branch has often been overlooked, this branch is significant because it should easily validate federal trademark law in respect of interprovincial transactions.

148 Newfoundland joined Confederation in 1949, and its registrations were grandfathered into the federal system (see section 67 of the *Trademarks Act*).

149 Pursuant to *Constitution Act, 1867*, s 129.

150 *An Act relating to Trade Marks*, 30 Vict, c 31 (NB).

151 As commented by Ryder, *supra* note 83 at n 55.

152 35 Vict, c 32. Coincidentally, such titles reflect the fact that the statutes were focused both on trademarks and preventing fraud (deception) in the course of trade. Meanwhile, the long title of this statute was, as in the United Kingdom, *An Act to amend the Law relating to the fraudulent marking of Merchandise*.

153 Sections 2–6 (in both the Canadian and UK statutes).

154 Sections 21–22 (in both the Canadian and UK statutes).

155 Section 1 (in the Canadian statute) indicated that it applied to marks “registered or unregistered.”

156 See the text accompanying *supra* note 31.

157 *Kirkbi*, *supra* note 11 at para 58 emphasis added].

158 *Parsons*, *supra* note 73.

159 *Kirkbi*, *supra* note 11 at para 15. See also *Pan-Canadian Securities Reference*, *supra* note 30 at para 99; *Securities Reference*, *supra* note 32 at paras 46, 75.

The validity of federal trademark law in respect of such transactions should also be confirmed by the federal “residual” power. That power is based on the principle that if any legislative authority is beyond the domain of the provincial legislatures, it is deemed to fall within the federal residual power pursuant to the opening clause of section 91 (although some powers may be neither federal nor provincial because they may be limited by, for instance, the *Charter of Rights and Freedoms*); this is part of the principle that there should be no “gap” in legislative authority.¹⁶⁰

The provincial inability—and thus the federal ability—to legislate in respect of interprovincial trade is supported even by comments of Laskin CJ in *Vapor*. For example, he noted that *Parsons* had technically decided that certain conditions on the business of fire insurance as enacted by the provincial legislature were valid “so long as those conditions only affected provincial trade.”¹⁶¹ He also said that some of the “marketing board” constitutionality cases indicated that federal regulatory legislation will be valid if it meets the “requirement ... of applying the regulation to the flow of interprovincial or foreign trade.”¹⁶² Both comments appear to be entirely separate from Laskin CJ’s discussion of the general branch of section 91(2).¹⁶³

Accordingly, the ability to legislate regarding international and interprovincial trade may inherently fall within the federal domain pursuant to that federal residual power on the basis of such authority being territorially beyond the reach of the provincial legislatures. In particular, in contrast to the opening words of section 91, the wording of section 92 provides: “In each Province the Legislature may exclusively make Laws in relation to ... (13) Property and Civil Rights in the Province” [emphasis added]. Such wording strongly suggests that legislative authority in respect of interprovincial use of trademarks and interprovincial unfair competition falls within the federal domain.

Meanwhile, it is doubtful that this interprovincial power would cover the intraprovincial use of trademarks (and intraprovincial unfair competition). Legislation in certain fields affecting intraprovincial activities can sometimes fall within the “international and interprovincial” branch of the federal trade and commerce power, especially when

this is needed to prevent the defeat of provisions that are competent under the interprovincial (and international) power.¹⁶⁴ However, it is difficult to say that trademark legislation in respect of interprovincial and international trade would actually be defeated if such legislation in respect of intraprovincial trade were not also federal. For example, as mentioned above, local (intrastate) trademark legislation has been enacted in the United States, presumably without undermining the efficacy of the federal legislation in that country.¹⁶⁵

The constitutionality of trademark legislation in respect of intraprovincial (and interprovincial) activities specifically under the general (intraprovincial) branch is discussed next.

5.3 Regarding Intraprovincial (and Interprovincial) Trade Under the Commerce Power Based on the *Parsons* General Branch Despite the Negative Comments in *Vapor*

This section considers the validity of trademark legislation pursuant to the general branch¹⁶⁶ of the trade and commerce power. The discussion applies not just to interprovincial but also to intraprovincial usage of marks.

Both before and after the development of the *General Motors* indicia,¹⁶⁷ this branch has often been described as “general regulation of trade affecting the whole Dominion.”¹⁶⁸ This has been paraphrased or otherwise described in various terms, including being described in both *Kirkbi*¹⁶⁹ and *Securities Reference*¹⁷⁰ as “whether the legislation is concerned with trade as a whole rather than with a particular industry.” It also reads very much like indicium 3 of the *General Motors* indicia,¹⁷¹ meaning that it is the core indicium: if certain legislation does not fit within those paraphrases, it almost surely does not fall within that judicially declared branch of section 91(2)—at least according to that jurisprudence.

This section challenges several of Laskin CJ’s comments in *Vapor* where he indicated that section 7 of the Act does not fall within the general branch on its own. Recall that he made very strong negative comments as to whether section 7, on its own accord, falls within that branch, and that the provision would only partially and barely be valid on the basis that it rounds out the trademark scheme.¹⁷² Those comments, in turn, have cast a

¹⁶⁰ *Securities Reference*, *supra* note 32. This was indicated even in *Parsons*, *supra* note 73 at 116–117.

¹⁶¹ *Vapor*, *supra* note 7 at 162.

¹⁶² *Ibid* at 163.

¹⁶³ *Ibid* at 162–164, referring to the general branch as a “category.”

¹⁶⁴ For example, in words approved by Laskin CJ in *Vapor*, *ibid* at 167, quoting *In re Dominion Trade and Industry Commission Act*, 1935, [1936] SCR 379 at 382: “If confined to external trade and interprovincial trade, the section [being discussion in that case] might well be competent under head no. 2 of section 91; and if the legislation were in substance concerned with such trade, incidental legislation in relation to local trade necessary in order to prevent the defeat of competent provisions might also be competent” [emphasis added].

¹⁶⁵ See the text accompanying *supra* notes 117–118. Individual states have enacted state trademark systems, while the US Congress has enacted federal trademark legislation.

¹⁶⁶ See the text accompanying *supra* note 73 and following.

¹⁶⁷ See the discussion in section 3.2 above.

¹⁶⁸ Wording as first expressed in *Parsons*, *supra* note 73 at 113.

¹⁶⁹ *Supra* note 11 at para 17.

¹⁷⁰ *Supra* note 32 at paras 76–85. See also *Pan-Canadian Securities Reference*, *supra* note 30.

¹⁷¹ See the text accompanying *supra* notes 168–170.

¹⁷² See the text accompanying *supra* notes 13–19.

shadow over whether other trademark provisions or legislation would fall within the trade and commerce power.¹⁷³

With great respect, most of those negative comments were based on misunderstandings of the provisions of section 7; those misunderstandings affected the assessment of the nature (“pith and substance”) of such provisions, and thus their constitutionality. Such misunderstandings are not surprising given that the proceedings, as pleaded, involved the validity of only section 7(e) and, even then, only insofar as that provision was purported to encompass breach of confidence and breach of contract by a former employee.¹⁷⁴ In other words, the substantive elements and constitutionality of the other provisions of section 7 were not fully argued and explained to the court. These misunderstandings need to be mentioned in the interest of reconsidering Laskin CJ’s restrictive view of the validity of trademark legislation.

5.3.1

It may be easiest to first discuss Laskin CJ’s interpretation of section 7(c). He described the provision as a “federal intrusion upon provincial legislative power.”¹⁷⁵ But he admitted that he did not fully understand the provision:

Section 7(c) is a *curious* provision to be armed with a civil sanction by way of damages *when one already exists in the ordinary law of contract*. The provision refers to substitution of other goods for those ordered or requested, but there is always *the right to reject* upon discovery of the substitution If s. 7(c) purports to give additional relief even if the substituted goods are knowingly accepted, *where are the damages?* Or does the provision envisage damages arising from failure to deliver the proper goods in time? If so, there is the usual remedy for breach of contract.¹⁷⁶

While civil remedies under the law of contract may indeed exist on behalf of *deceived purchasers*, Laskin CJ did not recognize that the provision was also confirming, codifying, or otherwise creating an overlapping cause of action on behalf of the *honest trader* in such situations, known as a form of “reverse” passing off.¹⁷⁷ As between the honest trader and the offender there is no privity, and thus no easy remedy exists “in the ordinary law of

contract.” Nevertheless, when a product of a different brand is substituted for the one that is ordered, not only do deceived purchasers have a cause of action (under the law of contract), so too does the honest trader (under the passing-off law covered by section 7(c))—meaning the trader who owns the brand by which purchasers are placing orders with the offender.

This cause of action is analogous to classical passing off as covered by section 7(b) and similar cases as may be covered by section 20. It hardly matters that the misrepresentation covered by section 7(c) is implied rather than express.¹⁷⁸

In having asked “where are the damages?” Laskin CJ failed to recognize the damage (and thus the possible general and national importance) in terms of (1) the mass deception among purchasers; (2) lost profits of the honest trader who owns the mark (thereby discouraging the honest trader from developing good-quality products that would otherwise be to the benefit of the public as well); and (3) damage to the signification of the mark, given that the substituted product is likely of a different quality but otherwise inherently of a different source (having passed through different hands), and thus there is harm not just to the trademark owner but to the overall system of helping the public to distinguish the goods and services of one trader from those of others.¹⁷⁹ Having not understood the nature of the prohibition, it is entirely conceivable that Laskin CJ did not soundly cast a doubt on the constitutionality of section 7(c) under section 91(2).¹⁸⁰

Similarly, regarding section 7(d) (covering a form of false advertising and extended passing off), Laskin CJ recognized only that the provision is “directed to the protection of a purchaser or a consumer of wares or services.”¹⁸¹ That is, Laskin CJ again considered only the purchaser’s cause of action for such deceit. This narrow focus was reflected in his observation that

[i]f any aggrieved person would have a cause of action under s. 53 in respect of damages suffered by him by reason of a breach of s. 7(d), *it would ordinarily be expected to arise through breach of contract*.¹⁸²

Again, such cause of action through breach of contract would typically be open only to a purchaser rather than a competitor, but the competitor is nevertheless damaged by the unfair competition comprising a false or misleading exaggeration of the character or quality of the violator’s goods or services.

173 As discussed in sections 2.0 and 3.0 above.

174 The ruling in that regard may or may not also be worth reviewing.

175 *Vapor*, *supra* note 7 at 148.

176 *Ibid* at 147–148 [emphasis added].

177 As discussed, for example, in *Vapor* itself in the excerpt at 152–153.

178 The dishonest competitor is not displaying or uttering the plaintiff’s trademark but is nevertheless filling an order for the product requested by the purchaser under that mark.

179 See the text accompanying *supra* notes 31.

180 The misconduct might be covered by section 7(b) insofar as section 7(b) may have been intended to go beyond its literal wording so as to cover the broader common-law concept of passing off or unfair competition, but surely the enactment of section 7(c) has helped to make it clear that this type of deception in the course of trade is prohibited.

181 *Vapor*, *supra* note 7 at 148 [emphasis added]. Laskin CJ especially understood this when he added that “[i]t involves what I would term *deceit* in offering goods or services to the public, deceit in the sense of material false representations likely to mislead in respect of the character, quality, quantity or composition of goods or services, or in respect of their geographic origin or in respect of their mode of manufacture, production or performance”: *ibid* [emphasis added].

182 *Ibid* [emphasis added].

The ability of a competitor to bring such a claim was indicated at least as early as 1845 in *Coats v Holbrook*.¹⁸³ The court in that case held the defendant liable because, among other things, the defendant stamped its spools of thread as being of “six cord” when they were only of three, and as being 200 yards in length when they were only 120.¹⁸⁴ By falsely upgrading its goods, such a trader can earn an unfair profit. It can also sell such goods at a cheaper price. It is competing unfairly, diverting trade away from the honest competitor.

Such cause of action was also prominently indicated in other common-law cases as discussed, for example, by Lord Diplock in *Erven Warnink BV v J Townend & Sons (Hull) Ltd* (1979), including where he stated as follows:

The goodwill of a manufacturer’s business may well be injured by someone else who sells goods which are ... *misrepresented as goods of his manufacture of a superior class or quality*. This type of misrepresentation was held in *A.G. Spalding & Bros. v. A.W. Gamage Ltd.* (1915), 84 LJ Ch 449 to be actionable and *the extension* to the nature of the misrepresentation which gives rise to a right of action in passing off which this involved was regarded by Lord Parker as *a natural corollary of recognising that what the law protects by a passing off action is a trader’s property in his business or goodwill*.¹⁸⁵

The cause of action on behalf of the competitor was not only recognized in that excerpt, but recognized as a species of “passing off.” Accordingly, the constitutionality of section 7(d) should be recognized as being much closer to that of section 7(b).¹⁸⁶

As to section 7(a) (trade libel), the concern with Laskin CJ’s analysis is effectively the opposite; he said this provision was “in contrast with” section 7(d), as if section 7(d) involved deceit among the public while section 7(a) did not.¹⁸⁷ In other words, as to section 7(a), Laskin CJ recognized the cause of action on behalf of competitors, but did not recognize the damage or harm to the public. The libelling of a trader or its goods deceives the purchasing public regarding their alleged inferior quality or character (thereby unfairly diverting those purchasers away from the honest trader toward the dishonest one). Thus, damage is also suffered by the purchasing public—here, in the form of that deception. And that deception is similar to the other forms of deception in the course of trade addressed in section 7 (and section 20 etc.).

Section 7(a)—as with sections 7(b), (c), and (d)—can also be seen as addressing the third foundational objective of protecting the

signification of trademarks. When a trader falsely upgrades the character or quality of its goods, or falsely downgrades the character or quality of a competitor’s goods, the signification of the respective name or mark is improperly upgraded or downgraded. The public can no longer rely on the mark to signify what it formerly signified.

As to section 7(e), recall that this provision was broadly worded as prohibiting “any other act or ... any other business practice contrary to honest industrial or commercial usage in Canada,” and yet Laskin CJ said that it “appears to me to be simply a formulation of the tort of conversion.”¹⁸⁸ He also said that section 7(e) “is not a trademark provision”¹⁸⁹ and that, in view of the scope of sections 7(a), (b), (c), and (d), “there is no subject matter left for s. 7(e) in relation to patents, copyright, trade marks and trade names.”¹⁹⁰ Again, his narrow view of the provision can perhaps be explained on the basis of the narrow framing of the case.¹⁹¹ Either way, it seems Laskin CJ did not consider that section 7(e) could have encompassed other causes of action in the field (again assuming that they are not covered by a broad reading of section 7(b) or (d)). For example, section 7(e) could have encompassed: “extended” passing off; reverse confusion (or reverse passing off) by means of falsely taking credit for the plaintiff’s goods; reverse confusion (or reverse passing off) by means of swamping or overwhelming the notoriety of the senior user’s mark as if the mark belongs to the junior user; dilution of trademarks by “blurring” them (using them in a field so different as to avoid confusion but nevertheless undermining their established recognizability); and dilution of trademarks by tarnishment or unwholesome association.

So, having read several, if not all, of the prohibitions provided in section 7 as if they were directed to merely private matters (private disputes), Laskin CJ suggested that such provisions did not address matters of “general and national importance” (as required by certain case law for validity under the trade and commerce power, as discussed above). For example, he said:

[The predatory practices of s. 7] are left to merely private enforcement as a *private matter* of business injury ...¹⁹²

Similarly, De Grandpré J, in the minority concurring opinion, understood the chief justice as follows:

As to the trade and commerce power, I share the view that *the facts of this case* do not permit its application, the contract between the individual appellant and respondent *being of a private nature and involving essentially private rights*.¹⁹³

183 2 Sand Ch R 586, Cox Amer TM Cas 20 (NY 1845) [cited to Cox Amer TM Cas].

184 *Ibid.* The decision had also involved a form of classical passing off, given that the case report explains that the defendants had copied the plaintiff’s name, figures, colour, and general appearance. *Ibid.* at 22.

185 *Erven Warnink BV v J Townend & Sons (Hull) Ltd*, [1979] AC 731 at 741, [1980] RPC 31 (HL) (UK) [the Advocaat case] [emphasis added].

186 The close association of sections 7(b) and (d) is further reflected by the fact that these prohibitions are similarly covered in the US Trademark Act as part of the same section, namely, as (A) and (B) of 15 USC § 1125(a)(1).

187 *Vapor*, *supra* note 7 at 148.

188 *Ibid.* at 149. See also at 157.

189 *Ibid.* at 159. See also at 157.

190 *Ibid.* at 172.

191 Text accompanying *supra* at note 174.

192 *Vapor*, *supra* note 7 at 158 [emphasis added].

193 *Ibid.* at 175 [emphasis added]. See also at 164.

5.3.2

Laskin CJ's comments in *Vapor* are also based on the misunderstanding that the provisions of section 7 do not relate to trademarks. For example, he said that section 7(e) "is not a trademark provision."¹⁹⁴ In addition, despite having said that other parts of section 7 "round out" the federal trademark scheme,¹⁹⁵ he said:

Section 7 of the *Trade Marks Act* is the first of five sections of the Act (ss. 7 to 11) that are subsumed under the sub-title "Unfair Competition and Prohibited Marks." It stands alone, however, among those sections *in not being concerned with trade marks or trade names*.¹⁹⁶

Respectfully, this is incorrect. The provisions of section 7 are indeed "concerned with trade marks or trade names." First, section 7(b) is concerned with, among other things, the causing of confusion by means of trademarks or trade names; recall that LeBel J in *Kirkbi* said this was its very pith and substance.¹⁹⁷ Similarly, LeBel J endorsed the view that "[t]he tort of passing off [including section 7(b)] is in many respects the equivalent cause of action for *unregistered* trade-marks as infringement [section 20 of the Act] is to *registered* trade-marks."¹⁹⁸

As just noted above, sections 7(a), (c), and (d) are also concerned with, among other things, protecting the signification of trademarks,¹⁹⁹ as was former section 7(e).²⁰⁰

5.3.3

Laskin CJ in *Vapor* was also of the view that the other provisions of the Act do not relate to unfair competition. In thinking this while having thought that section 7 does not involve trademarks or trade names, Laskin CJ consequently held the highly questionable view that trademarks and trade names constitute entirely different subject matter from unfair competition. For example, he said:

It [section 7] *alone* gives any substance to the "Unfair Competition" portion of the sub-title.²⁰¹

And:

To refer to *trade mark regulation as a scheme for preventing unfair competition* and to

seek by such labelling to bring s. 7 within the area of federal competence *is to substitute nomenclature for analysis*.²⁰²

But trademarks and trade names do not constitute entirely different subject matter from unfair competition, as was just discussed above. Simply put, using someone else's trademark, whether it is registered or not, is a form of unfair competition. The 1932 version of the Canadian trademark statute was even titled the *Unfair Competition Act*.²⁰³

Laskin CJ also tried to draw the same distinction in respect of the provisions within that 1932 statute, and also in respect of the constitutional decision thereunder of *Angers J the Good Humor* case (1936).²⁰⁴ In short, Angers J ruled that sections 3 and 7 of the 1932 *Unfair Competition Act* "fell within federal competence under the trade and commerce power," and Laskin CJ did not question this but instead tried to distinguish it.²⁰⁵ For example, he said "the only provision [of the 1932 act] that related to unfair competition was s. 11."²⁰⁶ But section 3 of the 1932 act provided that, among other things, no person shall knowingly adopt someone else's unregistered trademark that was used abroad and made known in Canada—obviously addressing a form of unfair competition. Again, this is based on Laskin CJ's misunderstanding of the substantive nature of the provisions. Prohibiting the misuse of confusing trademarks significantly overlaps with prohibiting unfair competition (passing off).

5.3.4

Laskin CJ also tried to distinguish section 7 from the trademark registration scheme as if only the latter featured "administrative controls."²⁰⁷ This is another questionable distinction. As discussed above, the infringement of registered marks is enforced privately as much as passing off and other violations covered by section 7.²⁰⁸

5.3.5

Yet another questionable comment by Laskin CJ as to the alleged invalidity of section 7 on its own was as follows:

What is evident here is that the predatory practices [of s. 7] are not ... even expressly brought under criminal sanction *in the statute in which they are prohibited* ...²⁰⁹

¹⁹⁴ *Ibid* at 159 [emphasis added]. See also at 157.

¹⁹⁵ See the text accompanying *supra* notes 13–19.

¹⁹⁶ *Vapor*, *supra* note 7 at 141.

¹⁹⁷ Text *supra* at note 116.

¹⁹⁸ *Kirkbi*, *supra* note 11 at para 25, quoting A Kelly Gill & R Scott Jolliffe, *Fox on Canadian Law of Trade-marks and Unfair Competition*, 4th ed (Toronto: Carswell, 2002) (loose-leaf) at 2-22.

¹⁹⁹ See section 5.3.1 above.

²⁰⁰ See the text following *supra* note 191.

²⁰¹ *Vapor*, *supra* note 7 at 142 [emphasis added].

²⁰² *Ibid* at 167 [emphasis added].

²⁰³ SC 1932, c 38.

²⁰⁴ *Good Humor Corp of America v Good Humor Food Products Ltd*, [1937] Ex CR 61.

²⁰⁵ *Vapor*, *supra* note 7 at 142–143.

²⁰⁶ *Ibid* at 142.

²⁰⁷ See the text accompanying *supra* notes 79–83.

²⁰⁸ See section 3.2.1 above regarding indicium 2.

²⁰⁹ *Vapor*, *supra* note 7 at 165 [emphasis added].

It is hard to see why prohibitions of predatory *trade* practices can more easily fall under the federal *trade* and commerce power if they are brought under *criminal* sanction, let alone brought under criminal sanction in the same statute. Such factors do not seem to be in accordance with the express constitutional issue of whether the legislative authority relates to a matter coming within an enumerated class such as the regulation of *trade* and commerce.

Even if they were proper factors, Laskin CJ was apparently not apprised of the fact that, in the early days, trademark prohibitions with civil remedies had indeed been “brought under criminal sanction” in the same statute including *The Trade Marks Offences Act, 1872*.²¹⁰ The criminal provisions of the 1872 statute were amended and transferred to the new *Criminal Code* of 1892.²¹¹ In other words, such federal trademark prohibitions had originally satisfied Laskin CJ’s requirements, suggesting that Parliament had the legislative authority at the time, and neither Parliament nor the provincial legislatures can inadvertently lose legislative authority, such as by moving or otherwise enacting the criminal sanctions in a different statute.

5.4 Regarding Intraprovincial (and Interprovincial) Trade Under the “Power” in Respect of Trademarks (and Trade Names)

In combination with the discussion above, this section looks at the validity of trademark legislation pursuant to a federal “power” that was judicially determined prior to *Vapor*.

Although Laskin CJ was under the impression that the subject of trademarks somehow constituted a different matter from the subject of unfair competition,²¹² he nevertheless did not contradict—and effectively approved—the understanding that the subject of trademarks (and trade names) comes within the trade and commerce power. His decision is replete with such comments.²¹³

Similar comments regarding the “federal jurisdiction in relation to trade-marks and trade-names” are found in *Kirkbi*.²¹⁴

Such comments are understandable in that there were two decisions, both in the late 1930s, supporting the

trademark power. Those decisions were implicitly under the general branch of section 91(2) and thus applicable to intraprovincial use of marks. One was the 1936 decision of Angers J in the *Good Humor* case.²¹⁵ Laskin CJ in *Vapor* summarized this aspect of that decision as follows:

Sections 3 and 7 [of the 1932 *Unfair Competition Act*, which was the trademark statute in issue in *Good Humor*] dealt with trade marks and trade names respectively and, as to those sections, the trial Judge was of opinion that they fell within federal competence *under the trade and commerce power*.²¹⁶

It is proposed that this comment is significant in supporting, not just federal prohibitions and civil remedies in respect of trademarks and unfair competition, but federal legislation in respect of the *registration* of trademarks. This is because the provisions that were upheld in *Good Humor*²¹⁷ effectively created exclusive rights in foreign marks (and names) that had been made known in Canada but not yet used in Canada; prohibiting the use of those marks was effectively the same as the exclusivity afforded by the registration of marks, including of foreign marks not yet used in Canada.²¹⁸

The other principal decision is that of the Privy Council in the *Canada Standard* case (1937), delivered by Lord Atkin.²¹⁹ On this issue, the decision is often quoted²²⁰ for the dictum, seemingly in obiter, that reads as follows:

No one has challenged the competence of the Dominion to pass [trademark] legislation. If challenged one obvious source of authority would appear to be the class of subjects enumerated in s. 91(2), the Regulation of trade and commerce, referred to by the Chief Justice [Duff, in the court below]. There could hardly be a more appropriate form of the exercise of this power than the creation and regulation of a uniform law of trade marks.²²¹

²¹⁰ See the text accompanying *supra* notes 152–154.

²¹¹ 55–56 Vict, c 29, ss 443–455.

²¹² See section 5.3 above.

²¹³ *Vapor*, *supra* note 7 at 141–142, 143, 144, 144–145, 150, 151–152, 157, 172–173. (The last two comments are reproduced above, emphasized with underlining, in the text at notes 15 and 19.)

²¹⁴ *Supra* note 56.

²¹⁵ *Good Humor*, *supra* note 204 at 75–77.

²¹⁶ *Vapor*, *supra* note 7 at 143 [emphasis added].

²¹⁷ Sections 3 and 7 of the 1932 *Unfair Competition Act*, as discussed above.

²¹⁸ The issue was even pleaded by the defendants; they said the provisions were invalid insofar as “they directly or impliedly create or purport to create proprietary rights in trade-marks and trade names not used in Canada”: *Good Humor*, *supra* note 204 at 65. But the provisions were upheld. That attack also calls into question the passage in *Kirkbi*, *supra* note 11 at para 18, that cited *Good Humor* but nevertheless expressed the (mistaken) notion that “[t]he federal government’s power to legislate with respect to trade-marks has never been the target of a direct constitutional challenge.”

²¹⁹ *A-G Ont v A-G Can*, [1937] AC 405 (PC) [*Canada Standard*] (appeal from *In re Dominion Trade and Industry Commission Act, 1935*, *supra* note 164). (The PC decision was released on 28 January 1937, while the Supreme Court decision under appeal was released on 17 June 1936; *Good Humor* was released between them on 28 August 1936.)

²²⁰ As in *Kirkbi*, *supra* note 11 at para 18.

²²¹ *Canada Standard*, *supra* note 219 at 417.

It is proposed that this dictum went further than mere obiter; it was part of a ruling on the issue. The proceedings involved the validity of different groups of provisions. One group comprised sections 18 and 19, which created a government mark ("C.S.," short for "Canada Standard") to designate goods that met a standard controlled by the Canadian government.²²² The provisions were ruled invalid by the Supreme Court of Canada, per Duff CJ, as not falling within section 91(2).²²³ But the Supreme Court's ruling was reversed by the Privy Council, with the provisions ultimately judged to be valid under that power. In contrast to Laskin CJ's tepid support for the validity of parts of section 7 on the basis that they were incidental to (or rounded out) the unchallenged trademark scheme,²²⁴ the Privy Council solidly judged sections 18 and 19 to valid on their own; they were not even enacted within a trademark statute. That is, in reversing the Supreme Court and finding the provisions to be valid under the general branch of section 91(2), the Privy Council delivered an actual ruling, rather than merely an obiter comment, on the validity of the federal trademark provisions standing on their own.

Some may try to discount the significance of the above ruling because the provisions did not create a typical business-type trademark but created rights in a government-held mark. Specifically, in the court below, Duff CJ, on behalf of the Supreme Court of Canada, described that mark as follows:

The so-called trade mark is not a trade mark in any proper sense of the term. The function of a trade mark is to indicate the origin of goods placed on the market and the protection given to a trade mark is intended to be a protection to the producer or seller of his reputation in his trade. The function of the letters "C.S.," as declared by section 18(1), is something altogether different. That subsection is really an attempt to create a civil right of novel character and to vest it in the Crown in right of the Dominion.²²⁵

Lord Atkin did not disagree with that description, and understood the impugned federal legislation created a trademark "in gross." He said that the national trademark in issue constituted the "creation of juristic rights in novel fields." But in ruling that Parliament had legislative authority in respect of non-typical trademarks, the Privy Council effectively ruled that Parliament also had authority in respect of typical trademarks. In having authority in

respect of non-typical marks, it must surely have authority in respect of typical trademarks. Both types of legislation overlap to such an extent that it would be questionable for Parliament to have authority in respect of one type while the authority for the other type would belong to provincial legislatures. Both types of legislation prohibit the use of marks in the course of trade and commerce. Both types also, at least to a degree, address the same social objectives. In particular, prohibiting the use of both government marks and the typical trademarks of businesses serves the objectives of preventing public misrepresentation (confusion) in the course of trade, and maintaining the signification of marks for the purposes of being able to distinguish goods and/or their sources and/or their qualities.²²⁶ Prohibiting the use of government marks arguably also addresses the third objective of protecting business goodwill in the sense of preventing one trader from unfairly diverting trade to itself by using the government mark as if it meets the government standard or otherwise has the endorsement of that government.

Some may also attempt to discount the significance of the above-mentioned comments of Lord Atkin (regarding the validity of a certain trademark statute) on the basis that the primary trademark statute in force at the time did not expressly provide a civil cause of action (the provisions were expressed as prohibitions); in other words, it may be objected that his comments simply supported the validity of the trademark registration scheme, rather than civil remedies in the field. However, there are several replies to this argument. First, the trademark statute addressed by Lord Atkin in *Canada Standard* was not the then current trademark statute (the *Unfair Competition Act* of 1932) but rather the previous trademark statute (the *Trade Mark and Design Act*).²²⁷ That statute was still partially subsisting, and it did have a couple of express civil remedies in respect of trademark infringement.²²⁸ Accordingly, in commenting on the validity of that particular statute, Lord Atkin did support the validity of a statute that included civil remedies.

Second, even the *Unfair Competition Act* of 1932 provided for civil relief. Perhaps this was not so clear, but this was found in section 17, which was worded similarly to, and evolved into, what is now section 53.2. Section 17 provided: "When it is made to appear to the [court] that any wares ... have been marked with any trade mark contrary to the provisions of this Act, the court may, in addition to any such order as the circumstances may require by way of injunction or for the recovery of damages ... order the delivery up for

222 That is, as summarized by Laskin CJ in *Vapor*, *supra* note 7 at 166, those provisions "provided for a national mark, Canada Standard or C.S., which was vested in the Crown in right of Canada, and which could be applied to goods which met the requirements for its use established by the legislation."

223 *Supra* note 164 at 382–383, per Duff CJ.

224 See the text accompanying *supra* notes 13–19, and questioned in the discussion in section 5.3 above.

225 *Supra* note 223 at 382–383.

226 See the text accompanying *supra* notes 31 and 179.

227 The *Trade Mark and Design Act* was specifically identified in the case report as "R.S.C. 1927, c. 201." In addition, both of these trademark statutes were mentioned in section 2(h) of the legislation impugned in that case (reproduced in the decision, *supra* note 223 at 381).

228 The express civil remedies comprised the ability to bring "an action or suit" under section 19 or 20, and to recover any fine under section 21. (Both were only in respect of infringement of registered marks, but, as discussed in the text accompanying *supra* note 151, it is difficult to see how Parliament can have legislative authority only in that respect while the provincial legislatures would supposedly have authority in respect of civil remedies for infringement of unregistered marks.)

destruction of all infringing labels.” (After all, it is hard to imagine that, when refreshing the *Trade Mark and Design Act* with the *Unfair Competition Act*, Parliament would have maintained the ability to register marks without maintaining or otherwise providing for any statutory civil remedies for infringement of those registrations.)

Third, the ability to obtain civil relief under the 1932 statute was implicitly, if not expressly, indicated in various reported cases after 1932.²²⁹

In terms of some other judicial support for federal legislative authority in the field, Lord Chancellor Buckmaster in December 1915 commented during an oral hearing, without any apparent objection from the other members of the Privy Council, that “trade mark legislation” might very well satisfy the strict requirements of the general branch under section 91(2) in the sense that it “would apply to all trades” rather than a single trade (and therefore satisfy the judicial need to apply to trade and commerce in general).²³⁰

In view of all the above, a safer reading of the jurisprudence is that Parliament’s legislative authority in the field, even in respect of intraprovincial trade, has in fact been judicially determined, long before such decisions as *Vapor* and *Kirkbi*. When this federal power regarding trademarks is combined with the understanding that trademarks and unfair competition constitute the same subject matter, it can be seen that such earlier jurisprudence supports a much broader federal power in the field. The limitations imposed on that power by the *BMW v Nissan* line of cases²³¹ are unsound.

5.5 Regarding Intraprovincial (and Interprovincial) Trade Under the Commerce Power Based on Its Straightforward Meaning

5.5.1 Assessment Under the Original Meaning of Section 91(2)

In view of the complications and concerns presented above,²³² the discussion here focuses on whether the validity of the legislation could simply be assessed under the original, literal meaning of section 91(2).²³³

For example, Dickson J in *Multiple Access Ltd v McCutcheon* (1982) put the issue in simple terms:²³⁴ “I turn now to the main question. Does the ‘matter’ (or pith and substance) of the insider trading provisions of the federal act [meaning the legislation impugned in that case] fall within a ‘class of subject’ (or head of power) allocated to Parliament?”²³⁵

With that simple question in mind, it seems obvious that the phrase “regulation of trade and commerce” encompasses *regulation* as to *unfair trade and commerce*, and thus encompasses unfair competition and the misuse of trademarks.

Such laws substantially overlap and address the same objectives (pith and substance).²³⁶

One example of the natural fit of trademark legislation within section 91(2) can be found in Binnie J’s comment in a trademark case as follows:

[The trademark owner’s] claim to monopoly rests ... on serving an important public interest in assuring consumers that they are buying from the source from whom they think they are buying and receiving the quality which they associate with that particular trade-mark. Trade-marks thus operate as a kind of shortcut to get consumers to where they want to go, and in that way perform a key function in a market economy.²³⁷

The fact that trademark legislation regulates a “key function in a market economy” should be easily recognized as coming within the regulation of trade and commerce.²³⁸

The fact that the subject matter of trademarks and unfair competition was understood by the framers of the Constitution as relating to “trade and commerce” is reflected in the 1845 UK Act to *Regulate the Trade of British Possessions Abroad*.²³⁹ The preamble to that statute even uses the term “trade and commerce.” Section 10 effectively protected the trademarks of UK residents by providing that articles of foreign manufacture bearing such marks shall be forfeited if imported into any British possession.

229 Such cases include *Good Humor*, *supra* note 204. (The civil proceedings for infringement in that case failed but only on the facts; the causes of action had nevertheless been entertained.) (The specific issue of the constitutionality of the federal civil remedies, as distinct from mere prohibitions, is discussed further below, in section 5.5.2.)

230 See ER Cameron, *Canadian Companies: Proceedings in the Judicial Committee of the Privy Council* (Toronto: Carswell/Sweet & Maxwell, 1917) at 57–58.

231 Discussed in section 2.2 above.

232 See especially sections 2.0, 3.0, and 5.3 above.

233 Recall that the plain wording in section 91 is: “the exclusive Legislative Authority of the Parliament of Canada extends to all Matters coming within the Classes of Subjects next hereinafter enumerated [including] (2) The Regulation of Trade and Commerce.” [1982] 2 SCR 161.

234 *Ibid* at 176. It was also originally understood that such federal powers had paramountcy over provincial powers; see text accompanying *infra* note 253.

235 See the text accompanying *supra* notes 31 and 179.

236 *Mattel*, *supra* note 87 at para 21 [emphasis added].

237 Coincidentally, this dictum also supports the characterization of such laws as relating to a matter of “general importance” to trade, and thereby satisfies even the stringent requirements of the general branch of section 91(2); that is, this further supports the discussion in section 5.3 above.

238 *Vict 8–9*, c 93 (UK) [emphasis added].

Also in 1845, the state of New York enacted a statute prohibiting the use of deceptive marks.²⁴⁰ This statute was classified by the revisers of New York statutes in 1862 under the heading of “Trade.”²⁴¹

The fact that laws regarding trademarks and unfair competition have related to “trade and commerce” as of Confederation is also reflected in the following passage from an 1857 passing-off case:

[I]f it be a crime to counterfeit labels, words, or devices [i.e., marks] previously appropriated to distinguish property, or to vend goods thus stamped, without disclosing the fact to the purchaser [meaning, committing trademark infringement, passing off], it is equally an offence against the spirit of the law, equally *injurious to trade and commerce* and equally an imposition upon the public, to palm off spurious goods under cover of genuine labels and devices.²⁴²

5.5.2 Federal Civil Remedies

The following are some additional comments specifically regarding the constitutionality of federal civil remedies in the field. In *General Motors*, Dickson CJ suggested that there is a separate set of constitutional indicia or factors regarding the validity of federal civil remedies.²⁴³ This set was separate from the *General Motors* indicia regarding the validity of federal legislation under the general branch of section 91(2). In particular, Dickson CJ upheld the validity of a federal civil remedy under the *Combines Investigation Act*, and LeBel J in *Kirkbi* summarized those factors as follows:²⁴⁴

Dickson C.J. [in *General Motors*] highlighted the following three factors: (i) the provision was remedial and was not in itself a substantive part of the Act; the provision did not create a general cause of action; (ii) its application was limited by the provisions of the Act; and (iii) Parliament was not constitutionally precluded from creating rights of civil action where such measures are shown to be warranted (p. 673)

LeBel J then held that the civil remedy based on a contravention of the prohibition in section 7(b) of the *Trademarks Act* equally satisfied those federal civil remedy factors.²⁴⁵ That decision, in turn, supports the view that the other federal civil remedies in the field, particularly regarding the infringement of registered marks, also satisfy those federal civil remedy factors.

Further support might be found in a passage in Dickson CJ’s reasons in *General Motors*. He referred to the decision in *Vapor* in detail, and noted that Laskin CJ supported the validity of certain trademark legislation even though “[t]he enforcement of the trade mark provisions of the Act were, and still are, left to suit by private actors.”²⁴⁶

Understandably, the ruling of LeBel J (on behalf of the court) could be questioned on the basis that section 7(b) does not necessarily satisfy the first federal civil remedy factor cited above, in that section 7(b) may very well constitute a “substantive” part of the legislation. As mentioned, the provision relates to the core objectives of the law in the field.²⁴⁷ Nevertheless, LeBel J did rule that the factor was satisfied.

Furthermore, Dickson CJ supported his decision to uphold the civil remedy impugned in *General Motors* by referring to the fact that federal civil remedies have been enacted elsewhere, such as in the fields of patents and copyrights.²⁴⁸ This could be strengthened by the fact that such civil remedies were enacted federally by framers immediately after Confederation.²⁴⁹

One could also question the soundness of the first federal civil remedy factor itself. That is, perhaps an even simpler approach would be to return again to the actual wording of the Constitution. The call for a federal civil remedy to be a “substantive part” of an act may constitute another judicial doctrine that is suspect insofar as it tends to override the issue pursuant to the actual wording and original understanding of the Constitution of whether the legislative authority relates to a matter that comes within one of the classes enumerated in section 91. The federal civil remedies in the field should be understood as relating to a matter of trademarks or unfair competition, which should in turn come within the class of “Regulation of Trade and Commerce.” That is, it seems entirely natural that allowing for regulations as to unfair trade and commerce to be enforced by means of civil remedies should fall within the natural understanding of the words “regulation of trade and commerce.” Consider also that there is nothing in section 91(2) that expressly excludes the regulation

240 *An Act to Punish and Prevent Frauds in the Use of False Stamps and Labels*, c 279 (NY, 14 May 1845) as that legislation was revised in 1850 (c 123) and 1862 (c 178). It referred to trademarks as “private stamps or labels” affixed on goods. The title was even amended to include reference to trademarks: *An Act to Punish and Prevent Frauds in the Use of False Stamps, Brands, Labels, or Trade Marks*, c 306 (NY, 17 April 1862, as amended by 1863, c 209).

241 *Statutes at Large of the State of New York: Comprising the Revised Statutes as They Existed on the 1st Day of July, 1862, and ... the Material Notes of the Revisers* (e.g., 1863, vol 4) Contents at xv–xvi (referring to Ch XVII at 655, 663, 671).

242 *Bloss and Adams v Bloomer*, 23 Barb 604, Cox Amer TM Cas 200 at 205 (NY Sup Ct 1857) [emphasis added] (case regarding the use of the trademark owner’s authentic bags to sell the defendant’s own seeds).

243 *General Motors*, *supra* note 76 at 672–674.

244 *Kirkbi*, *supra* note 11 at para 24.

245 *Ibid* at paras 24–27, 33.

246 *General Motors*, *supra* note 76 at 693.

247 As discussed, for example, in section 5.3 above.

248 *General Motors*, *supra* note 76 at 693.

249 See, e.g., *Copyright Act of 1868*, 31 Vict, c 55, s 16; see also ss 10–12, 17, 18. As to the relevance of legislation enacted shortly after Confederation, see the discussion in section 4.3 above.

of trade and commerce by means of civil actions for civil remedies. Dickson CJ effectively indicated as much in *General Motors* when he said that the impugned civil remedy in the *Combines Investigation Act* served not just the private interest of compensation, but also the public interest of prevention and deterrence.²⁵⁰

One can also further question the comments of Laskin CJ in *Vapor* where he seemed to resist almost any form of federal civil remedy. For example, he said that Parliament cannot “acquire legislative jurisdiction by supplementing existing tort liability,”²⁵¹ and that Parliament “has simply extended or intensified existing common and civil law of delict to a liability by statute which at the same time has prescribed the usual civil remedies open to an aggrieved person [that is, to the deceived purchaser].”²⁵² With respect, the question was not whether Parliament has attempted to “acquire legislative jurisdiction by supplementing existing tort liability,” but whether, in accordance with the wording of the Constitution, that legislative authority (regarding a civil remedy or otherwise) was “in relation to” a “matter” “coming within” one of the enumerated classes of subjects over which Parliament has paramountcy, including the class of subject comprising the regulation of trade and commerce. That power is “notwithstanding” such provisions as section 92(13). Accordingly, as indicated in a number of earlier cases, including *Citizens’ Insurance Company v Parsons* (1881), if the subject of the impugned provincial law falls within section 91(2), it is understood that the law was intended to fall within that power “notwithstanding” whether it also “prima facie” falls within section 92. The prima facie provincial power is “thereby overborne” (unless it falls within the narrow provincial power that itself needs to be carved out of a federal power).²⁵³ So, even if certain legislative authority is in respect of an “existing tort liability,” if it was assigned to Parliament, it belongs to Parliament.

It can also be emphasized that the wording of the constitutional power does not merely authorize “The Regulation of Trade and Commerce,” but legislation in relation to matters which come within that class, among others. Thus, a civil remedy could very well constitute legislation in relation to the “Regulation of Trade and Commerce” and thus fall within section 91(2), even if it does not itself constitute “regulation.”

Thus, the validity of a civil remedy in respect of trademark infringement (whether registered or unregistered) can be explained in simplified terms as legislation is “in relation to” a matter of trademarks, on the understanding such matter comes within section 91(2).

6.0 Conclusion

Certain courts have tried to impose limitations on federal legislative authority within the field of trademarks, namely, that a proper “trademark” must be involved and that the mark must be properly “used.” But that jurisprudence has a number of inherent flaws.

There are also some concerns as to the scope and soundness of certain aspects of the constitutional decision of the Supreme Court of Canada in *Kirkbi*. There is some doubt whether all existing legislation in the field of trademarks would be judged to be valid pursuant to the currently accepted principles governing the interpretation of the federal trade and commerce power.

Such jurisprudence is based on a number of obiter comments by the Supreme Court in *Vapor*, but those comments could be reconsidered. For example, with great respect, the court in that case did not fully understand the substantive nature or social objectives (pith and substance) of such legislation, and the court proceeded as if the subject of unfair competition constitutes a matter different from the subject of trademarks.

Nevertheless, despite such confusion, it should be obvious that trademark legislation, at least in respect of interprovincial trademark activity and unfair competition, falls within the federal domain insofar as it is inherently beyond the territorial reach of the provincial legislatures.

As to intraprovincial activity (and, further, as to interprovincial activity), there are strong implications that legislation regarding trademarks and unfair competition was intended by the framers of the Constitution to fall within the federal domain because it was effectively enacted federally prior to Confederation in the quasi-federal colonial Province of Canada, and then enacted federally shortly after Confederation with many of the framers being involved in the federal and provincial governments.

In earlier cases, it was judicially recognized that the federal Parliament has at least some sort of power in respect of “trademarks” within the trade and commerce power, even in accordance with the strained interpretation of that power. Two decisions in the late 1930s, *Good Humor* and *Canada Standard*, went even further in actually deciding that a wider range of such legislation falls within the trade and commerce power.

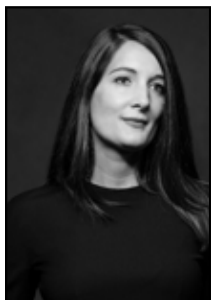
And, insofar as the issue may be revisited one day, it should be simple enough to see that legislation in the field falls within the literal, original understanding of that power. In particular, legislative authority regarding the registration scheme as provided in the *Trademarks Act*, the civil remedy pursuant to section 20 of the Act for infringement of a registration, and the civil remedy pursuant to section 7(b) of the Act all fall within the domain of the federal Parliament, particularly under the federal trade and commerce power pursuant to section 91(2) of the *Constitution Act, 1867*. And this is without the limitations of involving a proper “trademark” that has been “used” as defined in the *Trademarks Act*; with great respect, those limitations should be reconsidered.

250 *General Motors*, supra note 76 at 683–689.

251 *Vapor*, supra note 7 at 165 [emphasis added].

252 *Ibid* [emphasis added].

253 *Parsons*, supra note 73 at 107–109, 111, 112. See also the jurisprudence cited by Jaccett CJ of the Federal Court of Appeal (previously deputy minister of justice and a constitutional law writer) in the decision under appeal in *Vapor*: (1972), 8 CPR (2d) 15 at 25.



Daniela Bassan

Case Comment: *La Dolce Vita* and Design: Italian Court Confirms Copyright of Concept Store*

Daniela Bassan**

Abstract

On April 30, 2020, the Italian Supreme Court of Cassation (the highest court of appeal in the country) issued its decision in *Kiko SpA v Wycon SpA*, a long-standing copyright case involving competing retailers in the global cosmetics industry.¹ In particular, the Italian Supreme Court confirmed that copyright protection extended to the “concept-store” design that was created for and implemented in the Kiko retail locations.

Kiko reaches beyond Italian borders. The Italian Supreme Court relied on recent decisions of the European Union for both general and specific principles of intellectual property law, and applied those cases to confirm the Kiko copyright claim. *Kiko* is also relevant to Canadian copyright law and, in particular, recent case law on the protection of buildings as “architectural works.” Whether a *Kiko*-style case would be decided similarly in Canada is an open question.

Résumé

Le 30 avril 2020, la Cour suprême de cassation italienne (la plus haute juridiction d’appel du pays) a rendu sa décision dans l’affaire *Kiko s.p.a. c. Wycon s.p.a.*, un litige de longue date en matière de droit d’auteur entre deux (2) détaillants concurrents de l’industrie cosmétique mondiale¹. Plus particulièrement, la Cour suprême italienne a confirmé que la protection par droit d’auteur s’étendait « au plan de conception et à l’aménagement » d’un concept store qui avaient été créés et mis en place dans les points de vente au détail de l’entreprise Kiko qui en possède également dans d’autres pays.

La Cour suprême italienne a fondé sa décision sur les récents arrêts de l’Union européenne concernant des principes généraux et spécifiques du droit de la propriété intellectuelle et les a appliqués pour confirmer la revendication des droits d’auteur de l’entreprise Kiko. La décision *Kiko* est également pertinente pour le droit canadien en la matière et plus particulièrement la récente jurisprudence sur la protection des immeubles reconnus comme des « œuvres architecturales ». La question à savoir si une affaire du style *Kiko* aboutirait à une décision semblable au Canada reste en suspens.

Contents

1.0	Background of the Cosmetics Design Dispute	31
2.0	“Concept-Store” Design in Issue	31
3.0	Key Copyright Findings in Favour of Kiko Design	31
4.0	Recent European Union Copyright Cases Followed in <i>Kiko</i>	32
5.0	Similarities to Canadian Copyright and Architectural Works.....	32
6.0	Conclusion and Takeaway.....	33

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¹ Italian Supreme Court of Cassation, *Kiko SpA v Wycon SpA* (30 April 2020), no 8433 [*Kiko*], available at <<https://drive.google.com/file/d/1fICXafahdDOue6FoBx6VAIEgQoCj7OPn/view>>.

1.0 Background of the Cosmetics Design Dispute

In 2005, Kiko hired an architectural design firm to work on a new project for Kiko's retail chain of stores. In 2006, at a commission cost of €70,000, Kiko obtained the resulting work product entitled "Interior Design for Stores under the Kiko-Makeup-Milano Brand." This interior design concept was then implemented uniformly in Kiko stores.

In 2013, Kiko sued competitor Wycon and sought injunctive relief and damages against Wycon for the following: copying the layout of the Kiko stores contrary to Italian copyright law; unfair competition; and breach of the exclusive economic rights of Kiko to exploit the interior design of Kiko stores.²

In 2015, the Court of Milan granted Kiko's claims based on copyright and unfair competition and awarded damages to Kiko of more than €700,000 (that is, 10 times the commission design fee of €70,000). Wycon was enjoined from using the Kiko concept-store design in any Wycon stores, and was subject to a penalty of €10,000 for each Wycon store that was still furnished in the infringing layout after the effective date of the injunction.

In 2018, the Court of Appeal of Milan generally dismissed Wycon's appeal, except that Wycon was given a longer period of time (150 days) to comply with the injunction requiring the removal of the impugned furnishings from Wycon stores.

As further detailed below, the Italian Supreme Court confirmed the existence of copyright protection for the Kiko concept-store design, while remitting to the lower courts the questions of unfair competition and quantum of damages.

2.0 "Concept-Store" Design in Issue

The "concept-store" design owned by Kiko and copied by Wycon consisted of the following features:

An open-space entrance with large backlit graphics on both sides, inclined side display units with panels of transparent perforated Plexiglas housing in which products are inserted, curved "islands" placed in the centre of the store to hold the products and provide supporting counters, TV screens recessed into the inclined display units, use of the same colours (white, black, pink/purple) in combination and dance-floor-style lighting.³ [Translated from original Italian.]

The Italian Supreme Court expressly adopted, and repeatedly referred to, this description in its ruling.

3.0 Key Copyright Findings in Favour of Kiko Design

Wycon raised, without success, a number of grounds of appeal based on the nature and scope of copyright protection for the concept-store design.

First, Wycon argued that Kiko's interior design project was merely an idea for a template store that could be varied in the circumstances and that it lacked the fixed expressive elements required for copyright protection. This argument was rejected on the basis that the concept store was indeed "well defined" and intended to be reproduced

with "identical features in the concrete design of Kiko retail stores." Accordingly, the design did not consist of merely "abstract instructions" intended to be modified in different contexts or for different structures.⁴

Second, Wycon argued that the concept-store design did not qualify as an "architectural work" with full protection of Italian copyright law, but rather could only be protected, to a lesser extent, as an industrial design.⁵ Once again, this argument was rejected. The court confirmed that an interior design can be protected as an "architectural work" of copyright where the visually appealing design shows a clear "stylistic key" or reveals the "personality of the author" in the organization and combination of individual elements giving rise to a functional and harmonious space.⁶

The court also observed that today's notion of "architecture" is very broad and covers

intellectual activity directed at creating and modifying spaces for human use in the physical environment, landscape, cityscape, buildings, and also in the organization of interiors.⁷ [Translated from original Italian.]

Third, Wycon pointed to other forms of intellectual property, which were either not available to or not pursued by Kiko in its retail strategy, as a basis for undermining the copyright claim. For example, reference was made to Kiko's failed attempt in 2016 to obtain a 3D European Union trademark for its storefront layout (as seen from a frontal view of the store only). The proposed EU trademark was not available owing to lack of distinctiveness. However, the Italian Supreme Court found that the trademark issue was not determinative of the question of copyright (for the whole interior design of the store).

Fourth, Wycon argued that the Kiko design consisted of generic and technically necessary features that do not qualify for copyright protection. This functionality argument was rejected on the basis that it misconstrued the findings of the lower appellate court. In particular, the appellate court found that the original selection, organization, and combination of individual elements in the concept-store design were entitled to protection notwithstanding that each element viewed on its own might be generic on a functional level. As a result, the Italian Supreme Court found that the appellate court had not concluded that each and every element of the concept store was merely functional.⁸

Fifth, Wycon argued that the appellate court had erred by finding infringement in the absence of reproduction of the entire subject work, and based only on similarities between the Kiko and Wycon stores. The Italian Supreme Court rejected this ground of appeal on the basis that

the exclusive right of an author is infringed not only where the work is copied in its entirety, namely where there is an abusive reproduction, but also where there is partial copying as assessed in summary fashion without the need to examine analytically the quality and quantity of each similarity or difference in the second work as compared to the first one. . . . [T]he essential features of the earlier work are found in the subsequent one.⁹ [Translated from original Italian; emphasis added.]

2 The Italian Copyright Act is available at <http://www.interlex.it/testi/l41_633.htm#2>.

3 Kiko, *supra* note 1 at 4. All translations from Kiko are by the author.

4 *Ibid* at 13.

5 Article 2.5 of the Italian Copyright Act protects "architectural works"; article 2.1 protects "industrial designs."

6 Kiko, *supra* note 1 at 14.

7 *Ibid* at 16.

8 *Ibid* at 21–22.

9 *Ibid* at 23–24.

Ultimately, the Italian Supreme Court dismissed Wycon's appeal on copyright infringement, but it allowed the appeal on the quantum of damages and on liability for unfair competition.

On the issue of damages, the Italian Supreme Court noted that a lower court must describe, at least in summary fashion, the criteria used to determine the quantum and to avoid settling on an arbitrary amount. Here, the damages were simply assessed as the architect's fee paid by Kiko (€70,000) multiplied by a factor of 10.

On the issue of unfair competition, the Italian Supreme Court noted that it was insufficient that the parties had adopted similar marketing and promotional activities that may be common in the marketplace (for example, employee uniforms, product packaging, gift wrapping, and online communications). Wycon admitted that it had similar practices, but it denied that Kiko had proprietary interests in those elements.

4.0 Recent European Union Copyright Cases Followed in Kiko

In its reasoning, the Italian Supreme Court relied on two decisions of the Court of Justice of the European Union (CJEU).

The first decision was *Apple Inc v Deutsches Patent-und Markenamt*.¹⁰ There, the CJEU gave a preliminary ruling on trademark questions related to the refusal of the German Patent and Trademark Office to register a 3D trademark representing an Apple flagship store. The same trademark had already been registered in the United States, and Apple sought to expand its international registrations.

The CJEU confirmed that a representation or sign "which depicts the layout of a retail store by means of an integral collection of lines, curves and shapes" may constitute a trademark that distinguishes the products or services of one firm from another.¹¹ However, even though a sign is generally capable of constituting a trademark, it will not necessarily have a distinctive character sufficient for registration in every case. Finally, the court confirmed that a trademark for a store layout may also be registered for incidental services offered, and not only for the products actually sold, in the retail store.

The Italian Supreme Court referred to the *Apple* case in drawing a distinction between the requirements of trademark law on the one hand and copyright law on the other. The fact that Kiko failed to secure a trademark for its concept-store design did not determine the separate copyright question.

The second decision relied on by the Italian Supreme Court was *Cofemel - Sociedade de Vestuário v G-Star Raw CV*.¹² There, the CJEU was asked by the Supreme Court of Portugal to interpret the scope of copyright protection for competing clothing designs. G-Star, which produced and sold jeans, sweatshirts, and T-shirt designs under the G-STAR brand, sued Cofemel for copyright infringement for the manufacture and sale of competing clothing products under the TIFFOSI brand.

The CJEU had to decide whether, in light of EU law, Portuguese law could restrict copyright protection for industrial (clothing) designs on the condition that "over and above their practical purpose, they generate

a specific and aesthetically significant visual effect."¹³ This question was answered in the negative, not because of the overlapping nature of protection, but on the basis of the precise legal test to be applied.

Specifically, the CJEU confirmed that the concept of "work" as protected by copyright must meet two conditions: (1) there must be an original subject matter, in the sense that it is the result of the author's own intellectual creation; and (2) the classification as a protected "work" is reserved to those elements that are the expression of such intellectual creation.¹⁴ Where the subject matter has been dictated by purely "technical" considerations or constraints, which have left no room for "creative freedom," the originality condition will not be met.¹⁵

At the same time, the CJEU confirmed that copyright protection and industrial design protection pursue different objectives. There may still be "cumulative" protections in the right circumstances:

[T]he protection of designs, on the one hand, and copyright protection, on the other, pursue fundamentally different objectives and are subject to distinct rules. ... [T]he purpose of the protection of designs is to protect subject matter which, while being new and distinctive, is functional and liable to be mass-produced. ... For its part, the protection attached to copyright, the duration of which is significantly greater, is reserved to subject matter that merits being classified as works. ...

*It follows that, although the protection of designs and the protection associated with copyright may, under EU law, be granted cumulatively to the same subject matter, that concurrent protection can be envisaged only in certain situations.*¹⁶ [Emphasis added.]

The Italian Supreme Court referred to these principles of "originality" and "cumulative" protection as supporting Kiko's copyright claim. As already noted, the failure of the Kiko concept-store design to qualify for trademark protection did not undermine its status as an original and protected work of copyright.

Together, the *Apple* and *Cofemel* decisions stand for the following propositions under EU law: (1) a retail store layout is eligible for intellectual property protection, including but not limited to trademark rights; and (2) a design destined for use in the retail sector is eligible for copyright protection provided that the conditions for "originality" of the work are met. In combination, these cases previewed the result in *Kiko*: copyright protection for an interior design featuring a retail concept store.

5.0 Similarities to Canadian Copyright and Architectural Works

A question arises whether *Kiko* could have been similarly decided under Canadian law, particularly in light of the Federal Court's landmark decision in *Lainco Inc v Commission scolaire des Bois-francs*.¹⁷ There, the Federal Court held that a steel structure for an indoor soccer complex was protected as an "architectural work" under the *Copyright Act*.¹⁸ The decision is significant because it is one of few reported cases in Canada finding copyright for a building.

10 *Apple Inc v Deutsches Patent-und Markenamt*, C-421/13 (10 July 2014) [*Apple*].

11 *Ibid* at para 19.

12 *Cofemel - Sociedade de Vestuário v G-Star Raw CV*, C-683/17 (19 September 2019) [*Cofemel*].

13 *Ibid* at para 26.

14 *Ibid* at para 29.

15 *Ibid* at para 30.

16 *Ibid* at paras 50, 52.

17 *Lainco Inc v Commission scolaire des Bois-francs*, 2017 FC 825 [*Lainco*].

18 *Copyright Act*, RSC 1985, c C-42.

Many of the copyright principles applied in *Lainco* are comparable to those outlined in *Kiko*. The Federal Court found that the Lainco structural design for its building (“the Lainco Design”) was eligible for copyright protection under the *Copyright Act* for the following reasons:

- the choice and layout for the Lainco Design were the result of the designer’s “talent and judgment” and represented an independent work;
- the Lainco Design was not the result of a purely “mechanical” effort or intellectual exercise, nor was it dictated by merely “technical” considerations;
- the “arrangement, or choice and combination,” of structural elements in the Lainco Design was sufficiently original, even if the elements themselves were already known or commonly used; and
- an “architectural work”—such as the sports complex adapted from the Lainco Design—necessarily has functional features, but these do not prevent the other eligible features (original choice and arrangement of elements) from being protected by copyright.

Some of the defendants in *Lainco*, similar to the defendant in *Kiko*, argued that the copyright claim was precluded because the structural elements in the Lainco Design fulfilled a strictly utilitarian (or functional) purpose. The court rejected this position, which was based on section 64.1 of the *Copyright Act*:

However, the approach used [by the defendants] totally discharges the aesthetic or architectural dimension that a structure may, in drawings, possess. As we have seen, that is the case here. It seems to me that adopting this approach could ultimately have the effect of eliminating most architectural works from the scope of the [Copyright Act]. Thus, if the choice and combination of structural elements that are otherwise utilitarian gives the overall structure that they make up an architectural or aesthetic value, and if that choice and combination are the result of the author’s skill and judgment, I do not see why the work should not benefit from copyright protection.¹⁹ [Emphasis added.]

In a lengthy analysis of both factual and expert evidence, the Federal Court found all defendants severally liable for infringing the Lainco Design. The analysis made a number of fundamental points.

First, the court confirmed that unauthorized reproduction of a two-dimensional work, such as a design, in a three-dimensional form, such as a building (and vice versa), can give rise to copyright infringement. It follows that all material forms of the Lainco Design were covered by copyright, including the plans and resulting building structures.

Second, the defendants were liable for participating in the design, manufacture, and/or installation of an infringing sports structure that substantially copied the plaintiff’s structure as adapted from the Lainco Design.

Third, despite some differences between the parties’ buildings, the defendants’ complex reproduced the “distinctive aesthetic appearance” of the plaintiffs’ complex such that the “visual impact inside the two structures is essentially the same.”²⁰ In this regard, the court considered the point of view of a user of the sports complexes, who would be unable to differentiate the structural designs.

On the basis of *Lainco*, it is arguable that a *Kiko*-style case could be decided with a similar outcome in Canada—namely, copyright protection could be afforded to a retail concept-store design. However, this assumes that the work(s) in question would qualify as an “architectural work” or plan, based on the definition and scope of these concepts under the *Copyright Act* and according to the case law. A number of key questions would likely arise:

- Are the choice and layout for the store design the result of the designer’s “talent and judgment,” and are they capable of being an independent work (architectural plan)?
- Does the structural store layout adapted from the design contain features that are eligible for copyright protection—that is, is it an original choice, combination, or arrangement of structural elements (architectural work)?

Presumably, a combination of factual and expert evidence would be required to answer these questions, as was the case in *Lainco*.

Another “twist” to the *Kiko* case in Canada would be the potential application of section 64(2) of the *Copyright Act*, which precludes a copyright claim for designs that are produced in quantities of “more than fifty.”²¹ *Kiko*, like many global retailers, operates hundreds of retail stores worldwide; section 64(2) would put it over the limit of 50 copies. However, given the further exception under section 64(3) of the *Copyright Act* for “architectural works,” a mass-produced store design could, in theory, still be treated similarly to the Lainco Design.²²

On the other hand, a *Kiko*-style case could be decided differently in Canada such that copyright protection might not be extended to a retail concept-store design. For example, if the store design and resulting layout were dictated by merely technical or functional considerations related to the space itself, the test in *Lainco* would not be met. Along the same lines, unless the elements of the retail-store layout are arranged or combined in a sufficiently original manner, the threshold for copyright protection would not be met.

6.0 Conclusion and Takeaway

The *Kiko* decision highlights core concepts of copyright as applied to retail designs, which are not only relevant to Italian and EU law, but also of interest to Canadian law. As retailers increasingly seek international protection for their intellectual property, they will benefit from knowing what opportunities for exclusivity exist in other jurisdictions. As courts increasingly apply international norms in the field of intellectual property, the existence of comparable cases and predictable outcomes will benefit judges, advocates, and litigants.

19 *Lainco*, supra note 17 at para 127. Section 64.1 of the *Copyright Act* provides an exception to copyright infringement for “useful article features.” This exception was found not to apply in *Lainco*.

20 *Lainco*, supra note 17 at para 192.

21 Section 64(2)(a) of the *Copyright Act* provides an exception to infringement for a design that is applied to an “article reproduced in a quantity of more than fifty.” A defendant such as Wycon could rely on this exception where an interior design is applied to “more than fifty” retail stores.

22 Section 64(3)(d) of the *Copyright Act* provides that section 64(2) does not apply to “an architectural work that is a building or a model of a building.” A plaintiff such as *Kiko* could rely on this further exception to argue that an interior design is still a protected “architectural work,” regardless of the number of retail locations.



Gabriel Melançon

Cinq décisions d'intérêt rendues en 2020 en droit des brevets*

Gabriel Melançon**

Abstract

This article presents a review of five cases of interest that marked Canadian case law on non-pharmaceutical patents during the year 2020. The selected decisions are diverse in nature. They deal respectively with the valuation methods that the Canadian Intellectual Property Office should use, certain statements that are not admissible as evidence in litigation, the accounting of profits as a remedy for patent infringement, the powers of the Federal Court to interpret a contract in order to determine the ownership of a patent, and the legitimacy of a no-challenge clause in a settlement agreement.

Résumé

Cet article présente une revue de cinq dossiers d'intérêt ayant marqué la jurisprudence canadienne en matière de brevets non pharmaceutiques en 2020. Les décisions choisies sont de natures diversifiées, traitant respectivement des méthodes d'évaluation que l'Office de la propriété intellectuelle du Canada devrait employer, de certaines déclarations inadmissibles en preuve lors d'un litige, de la remise des profits en tant que réparation à la suite de la contrefaçon d'un brevet, des pouvoirs de la Cour fédérale pour interpréter un contrat afin de déterminer de la propriété d'un brevet ainsi que de la légitimité d'une clause de non-contestation de la validité d'un brevet dans une entente de règlement.

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Contents

1.0 Introduction.....	36	4.2 Les moyens d'appel	43
2.0 L'approche « problème – solution » dans la détermination de la brevetabilité d'une invention – <i>Choueifaty c Canada (Procureur général)</i> , 2020 CF 837	36	4.2.1 Est-ce que la Cour fédérale a commis une faute en rejetant la demande de répartition des profits de Nova?	43
2.1 L'invention brevetée et l'historique administratif auprès de l'OPIC.....	36	4.2.1.1 La production d'éthylène de Nova malgré la contrefaçon du brevet.....	43
2.2 Le Commissaire aux brevets a-t-il appliqué le mauvais test lorsqu'il a interprété les revendications du brevet?	37	4.2.1.2 La production d'éthylène plus facile de Nova	43
2.3 En appliquant la méthode problème-solution, le Commissaire a-t-il commis une erreur en ne concluant pas que les éléments essentiels comportaient un élément informatique?	38	4.2.1.3 La dissidence de la juge Woods.....	43
2.4 Conclusion.....	38	4.2.2 Est-ce que la Cour fédérale a commis une erreur en accordant des « bénéfices tremplins » ?	44
3.0 L'article 53.1 et les communications relatives aux revendications du brevet – <i>Allergan Inc v Sandoz Canada Inc</i> , 2020 FC 1189	38	4.2.3 Est-ce que la Cour fédérale a commis une erreur en choisissant la méthode du coût de revient total pour déduire les coûts lors de la remise des profits?	44
3.1 L'invention brevetée	38	4.2.4 Est-ce que la Cour fédérale a commis une erreur lors de la conversion de la monnaie à la date du jugement?	44
3.2 Les parties impliquées et les faits	39	4.3 Conclusion	45
3.3 Le brevet sera-t-il violé par l'arrivée sur le marché du produit de Sandoz?.....	39	5.0 Propriété d'un brevet – <i>Salt Canada Inc c Baker</i> , 2020 CAF 127	45
3.4 L'article 53.1 peut-il être appliqué de façon à mettre en preuve des discussions entre Kissei et l'OPIC au moment de l'étude de la demande de brevet?.....	39	5.1 L'article 52 de la <i>Loi sur les brevets</i>	45
3.4.1 Le résumé législatif de l'article 53.1 de la <i>Loi</i> .40		5.2 L'interprétation des contrats par une cour fédérale, un empiètement à la compétence des cours provinciales?.....	45
3.4.2 Le licencié, un titulaire du brevet au sens de l'article 2 de la <i>Loi</i>	40	5.3 Application au cas en l'espèce.....	46
3.4.3 L'intervention de l'IPIC devant le Comité permanent Banque et Commerce du Sénat ..40		6.0 L'effet d'une clause de non-contestation de la validité du brevet dans une entente à l'amiable – <i>Loops LLC v Maxill Inc</i> , 2020 ONSC 5438.....	47
3.5 Le brevet est-il invalide pour cause d'évidence?.....	41	6.1 Les parties et les faits	47
4.0 Profits générés par le contrefacteur comme réparation – <i>Nova Chemicals Corporation v Dow Chemicals Company</i> , 2020 FCA 141	41	6.2 L'historique judiciaire.....	47
4.1 Les principes applicables à la réparation lors de la contrefaçon d'un brevet		6.3 La décision de la Cour divisionnaire de la Cour supérieure de l'Ontario.....	48
4.1.1 Les principes généraux de la réparation.....	41	6.3.1 La présence d'une question sérieuse à juger	48
4.1.2 Les principes spécifiques applicables à la restitution des profits	42	6.3.2 Le préjudice irréparable si l'injonction n'est pas accordée	49
4.1.2.1 Seuls les profits réels doivent être remis.....	42	6.3.3 La prépondérance des inconvénients	49
4.1.2.2 Seuls les profits résultant de la contrefaçon du brevet doivent être remis.....	42	7.0 Conclusion	49

1.0 Introduction

Si l'année 2020 nous aura marqués en tant qu'individus, nous pouvons également dire qu'elle aura marqué le domaine du droit des brevets. En effet, en réponse à la pandémie de la COVID-19, le gouvernement fédéral a promulgué la *Loi sur les mesures d'urgence visant la COVID-19*¹. S'en est suivi l'ajout de l'article 19.4 à la *Loi sur les brevets* (ci-après la « *Loi* ») obligeant le Commissaire aux brevets à délivrer des licences obligatoires sur demande du ministre de la Santé².

Autre événement digne de mention en droit des brevets lors de l'année dernière : l'entrée en vigueur de l'*Accord Canada-États-Unis-Mexique* (ACEUM) le 1^{er} juillet³. Le chapitre 20 de cet accord traite de la propriété intellectuelle en instaurant, entre autres, des règles visant à faciliter la coopération entre les trois États et une uniformité au niveau des droits de propriété intellectuelle. En matière de brevets, l'ACEUM prévoit notamment un ajustement de la durée des brevets en raison de retards administratifs considérés comme déraisonnables⁴.

En outre, plusieurs décisions judiciaires ont été rendues en 2020 ayant affecté le droit canadien des brevets. Afin d'illustrer la diversité que représente le droit des brevets, la présente revue de décisions ayant marqué la dernière année traitera de l'interprétation par le Commissaire de revendications dans une demande de brevet, de l'inadmissibilité en preuve de certaines communications au sens de l'article 53.1 de la *Loi*, de la remise des profits en tant que réparation à la contrefaçon, de la compétence de la Cour fédérale pour interpréter un contrat afin de déterminer la propriété d'un brevet et, finalement, de la légitimité d'une clause de non-contestation de la validité d'un brevet dans une entente de règlement.

2.0 L'approche « problème – solution » dans la détermination de la brevetabilité d'une invention – *Choueifaty c Canada (Procureur général)*, 2020 CF 837

2.1 L'invention brevetée et l'historique administratif auprès de l'OPIC

Dans l'affaire *Choueifaty c Canada (Procureur général)*, l'appelant, M Choueifaty, dépose en 2008 une demande de brevet couvrant une invention « qui consiste à mettre en œuvre par ordinateur une nouvelle méthode de sélection et d'évaluation d'éléments d'actif d'un portefeuille de placement qui réduit le plus possible les risques sans avoir d'incidence sur les rendements »⁵. En 2016, un examinateur du Bureau des brevets rejette sa demande au motif que l'objet des revendications n'était pas une invention au sens de l'article 2 de la *Loi sur les brevets*⁶. Le jour même, l'appelant modifie les revendications et les soumet à nouveau pour évaluation (ci-après la « première série de revendications »). Celles-ci seront également considérées, tant par un examinateur que par la Commission d'appel des brevets (ci-après « CAB ») comme ne correspondant pas à la définition d'invention⁷. À nouveau, Choueifaty modifie ses revendications et les soumet pour évaluation (ci-après la « seconde série de revendications »), mais ces revendications ajustées sont également rejetées pour les mêmes raisons⁸.

Un panel de la CAB a par la suite révisé ces décisions en effectuant l'interprétation des revendications du brevet afin de déterminer les éléments essentiels des revendications. Pour ce faire, le panel a eu recours à la méthode problème-solution décrite au Recueil de pratiques du bureau des brevets (ci-après « RPBB ») selon laquelle « les éléments essentiels d'une revendication sont ceux qui

1 *Loi sur les mesures d'urgence visant la COVID-19*, LC 2020, c 5.

2 *Loi sur les brevets*, LRC 1985, c P-4, art 19.4. Le sommaire de la *Loi sur les mesures d'urgence visant la COVID-19*, supra note 1, précise que « La partie 12 modifie la Loi sur les brevets afin notamment de prévoir que le commissaire doit, sur demande du ministre de la Santé, autoriser le gouvernement du Canada et toute personne précisée dans la demande à fabriquer, à construire, à utiliser et à vendre une invention brevetée dans la mesure nécessaire pour répondre à une urgence de santé publique d'intérêt national ». Il est intéressant de noter qu'aucune licence n'avait été accordée par le Commissaire au 30 septembre 2020, date limite où de telles licences obligatoires pouvaient être délivrées.

3 *Accord Canada-États-Unis-Mexique*, 30 novembre 2018, en ligne : <<https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cusma-aceum/text-texte/toc-tdm.aspx?lang=fra>>; Jérôme Labbé, « L'Accord Canada-États-Unis-Mexique entre en vigueur », *Radio-Canada* (1 juillet 2020), en ligne : <<https://ici.radio-canada.ca/nouvelle/1716350/aceum-nouvel-alena-libre-echange-amerique-du-nord>>.

4 *Accord Canada-États-Unis-Mexique*, supra note 3, art 20.44.

5 *Choueifaty c Canada (Procureur général)*, 2020 CF 837 au para 4 [Choueifaty]. De façon plus précise, le Commissaire aux brevets a considéré que la revendication 1 est représentative de toutes celles de la demande de brevet, il s'agit d'une « méthode mise en œuvre par ordinateur générant un portefeuille anti-repère, ladite méthode comprenant : l'acquisition, au moyen d'un système informatique, de données concernant un premier groupe de titres dans un premier portefeuille, où le système informatique comprend un processeur et une mémoire rattachée audit processeur; l'identification, au moyen d'un système informatique, d'un deuxième groupe de titres à inclure dans un deuxième portefeuille fondé sur lesdites données et sur les caractéristiques de risque dudit deuxième groupe de titres; et la génération, au moyen d'un système informatique, des pondérations individuelles pour chaque titre dudit deuxième portefeuille selon une ou plusieurs procédures d'optimisation de portefeuilles qui optimisent le rapport anti-repère pour le deuxième portefeuille où le rapport anti-repère est représenté par le quotient de : un numérateur comprenant un produit interne d'un vecteur ligne d'actions dans ledit deuxième portefeuille et un vecteur colonne d'une caractéristique de risque de retour associée audit actions dans ledit deuxième portefeuille; et un dénominateur comprenant la racine carrée d'un scalaire formé par un produit interne dudit vecteur colonne desdites actions dans ledit deuxième portefeuille et un produit d'une matrice de covariance et d'un vecteur colonne desdites actions dudit deuxième portefeuille. ».

6 *Ibid* au para 6.

7 *Ibid* au para 7 et 8.

8 *Ibid* au para 9 et 11.

sont nécessaires pour réaliser la solution divulguée à un problème relevé »⁹.

En ce qui concerne la première série de revendications, la CAB a conclu que les éléments essentiels visaient un schéma et des règles entourant des calculs. Ceux-ci n'étant que les étapes d'un algorithme abstrait, ils ne peuvent donc être considérés comme une invention¹⁰. La CAB a par la suite interprété la seconde série de revendications avec l'approche problème-solution. En analysant l'argument de l'appelant, à savoir que les revendications couvraient une amélioration du traitement informatique et qu'elles impliquaient ainsi un ordinateur, le panel a admis que lorsqu'un ordinateur est un élément essentiel d'une revendication, on considère généralement que l'objet de la revendication sera conforme à l'article 2 de la *Loi sur les brevets*¹¹. Or, ce n'est pas le cas de la seconde série de revendications puisqu'elle n'est pas mise en œuvre par ordinateur, mais qu'elle constitue plutôt une procédure d'optimisation qui améliore la vitesse de traitement des données¹².

Dans le même ordre d'idées, la CAB a conclu que la seconde série de revendications comprenait les mêmes éléments essentiels que la première et, de ce fait, comportait la même irrégularité¹³. L'appelant Choueifaty fait donc appel de cette décision auprès de la Cour fédérale.

2.2 Le Commissaire aux brevets a-t-il appliqué le mauvais test lorsqu'il a interprété les revendications du brevet?

Comme mentionné précédemment, le Commissaire a appliqué l'approche problème-solution pour interpréter les revendications de la demande de brevet, méthode selon laquelle le RPBB précise que la « détermination des éléments essentiels d'une revendication ne peut pas être effectuée sans avoir correctement déterminé au préalable la solution proposée au problème divulgué »¹⁴. D'un côté, l'intimé, le Procureur général du Canada, prétend que l'approche problème-solution est la bonne méthode pour déterminer les éléments essentiels d'une revendication à la lumière de différents arrêts de principes, notamment les décisions *Free World Trust* et *Whirlpool* qui traitent de l'interprétation des revendications¹⁵. Il met toutefois un bémol, à savoir que lorsque le Commissaire interprète les revendications dans le but d'évaluer une demande de brevet,

il n'effectue pas le même travail d'interprétation que dans un contexte de validité du brevet ou de contrefaçon¹⁶.

En revanche, l'appelant Choueifaty plaide que la démarche applicable est celle établie dans *Free World Trust*. Dans cet arrêt, la Cour suprême a mentionné que les revendications doivent être interprétées d'une manière favorable à l'accomplissement de l'objet de l'inventeur¹⁷. Au surplus, Choueifaty s'appuie sur le principe voulant que les éléments présents dans une revendication sont présumés essentiels à moins d'une mention dans le libellé ou d'une démonstration à l'effet contraire¹⁸. Ce faisant, il prétend que si les examinateurs du Bureau des brevets et la CAB avaient appliqué le bon critère, ils auraient conclu que l'objet des revendications est une invention au sens de la *Loi sur les brevets*¹⁹.

La Cour fédérale donne raison à l'appelant : l'approche problème-solution mène au même résultat que la démarche de l'« essentiel de l'invention » qui a été discréditée par le plus haut tribunal du pays dans *Free World Trust*²⁰.

Le Commissaire et les décideurs de l'Office de la propriété intellectuelle du Canada (OPIC) s'étaient basés sur le Recueil de pratiques du bureau des brevets qui s'appuyait sur la décision *Genencor* de 2008. Dans cette affaire, la Cour fédérale avait laissé entendre que les principes établis par la Cour suprême dans les arrêts *Whirlpool* et *Free World Trust* ne s'appliquent pas dans l'évaluation d'une demande de brevet, mais seulement dans des affaires litigieuses lorsque la cour évalue la validité du brevet²¹. Pour le juge Zinn de la Cour fédérale, ce raisonnement ne peut trouver application puisqu'à son avis, la décision *Genencor* ne fait plus autorité. En effet, il souligne que des décisions importantes rendues par des tribunaux supérieurs sont venues rectifier le tir depuis *Genencor*²². Dans la décision *Amazon* rendue en 2011, la Cour d'appel fédérale a précisé que le Commissaire aux brevets est tenu d'appliquer l'interprétation téléologique des revendications tirée de *Whirlpool* et *Free World Trust* puisque, d'une certaine manière, il détermine la validité d'un brevet, tout comme le juge de procès le ferait²³.

Lorsqu'il faut interpréter une revendication afin de déterminer si un élément est jugé essentiel ou non, le juge Binnie de la Cour suprême explique qu'il faut se poser deux questions distinctes :

1. Serait-il évident aux yeux d'un lecteur averti que le fait de changer un élément particulier n'aurait

9 Ibid au para 13; Office de la propriété intellectuelle du Canada, *Recueil de pratiques du Bureau des brevets* (Gatineau, QC : Innovations, Sciences et Développement économique Canada, 2018) au para 12.02.02e, en ligne : <<https://manuels-manuals.opic-cipo.gc.ca/w/ic/MOPOP-fr>>, bien qu'il s'agissait autrefois du para 13.05.02c.

10 Choueifaty, *supra* note 5 au para 16.

11 Ibid au para 17.

12 Ibid.

13 Ibid au para 18.

14 Ibid au para 24; OPIC, *supra* note 9.

15 Choueifaty, *supra* note 5 au para 26; *Free World Trust c Électro Santé Inc*, 2000 CSC 66 [*Free World Trust*]; *Whirlpool Corp c Camco Inc*, 2000 CSC 67 [*Whirlpool*].

16 Choueifaty, *supra* note 5 au para 26.

17 Ibid aux paras 28, 29.

18 Ibid au para 29; *Distrimedic Inc c Dispill Inc*, 2013 CF 1043 au para 201 [*Distrimedic*].

19 Choueifaty, *supra* note 5 au para 30.

20 Ibid au para 37.

21 *Genencor International, Inc c Canada (Commissaire aux brevets)*, 2008 CF 608 au para 62; Choueifaty, *supra* note 5 aux paras 33, 34.

22 Choueifaty, *supra* note 5 au para 35.

23 *Canada (Procureur général) c Amazon.com, inc*, 2011 CAF 328 aux paras 32–34, 43; Choueifaty, *supra* note 5 aux paras 35, 36.

pas d'effet sur la manière dont l'invention fonctionne? Si le fait de modifier l'élément ou de le remplacer change la manière dont l'invention fonctionne, il s'ensuit que cet élément est essentiel.

2. Est-ce l'intention de l'inventeur, compte tenu du libellé explicite de la revendication, ou cette intention peut-elle être déduite de ce libellé, que l'élément était censé être essentiel? Dans l'affirmative, il s'agit dans ce cas d'un élément essentiel²⁴.

Or, l'approche problème-solution pour interpréter les revendications ne se concentre que sur la seconde question développée dans *Free World Trust* quant à l'intention de l'inventeur, à savoir si un élément est essentiel ou non²⁵. Ce faisant, l'approche problème-solution va à l'encontre de la jurisprudence établie par le plus haut tribunal du pays et doit donc être rejetée. En réponse à la question posée à la Cour, le juge Zinn conclut donc que le Commissaire aux brevets a effectué une erreur en déterminant les éléments essentiels de l'invention selon l'approche problème-solution plutôt que l'approche établie dans les arrêts *Whirlpool* et *Free World Trust*²⁶.

2.3 En appliquant la méthode problème-solution, le Commissaire a-t-il commis une erreur en ne concluant pas que les éléments essentiels comportaient un élément informatique?

Telle était la seconde question posée devant la Cour fédérale, mais en raison de la réponse donnée à la première, le juge Zinn n'y a pas répondu en détail²⁷. Néanmoins, il a précisé que l'appelant a bien fait de soulever la question étant donné qu'un autre objet de l'invention consistait à améliorer le traitement informatique et que le Commissaire n'avait pas discuté correctement de la question dans sa décision²⁸. Il mentionne tout au plus qu'une analyse plus étoffée de cet aspect de l'invention est nécessaire pour pouvoir se prononcer sur le sujet.

2.4 Conclusion

En tout état de cause, la Cour fédérale déclare que la demande de brevet porte bel et bien sur une invention au sens de l'article 2 de la *Loi*, mais renvoie le tout au Commissaire aux brevets afin qu'il procède à un examen de la demande et qu'il délivre ultimement un brevet²⁹. Fait intéressant, le Commissaire aux brevets a rendu sa décision au début de l'année 2021 : il a conclu qu'un brevet pourra

être délivré à condition de supprimer certaines revendications initiales et de les remplacer par celles soumises en octobre 2018, soit la seconde série de revendications³⁰. De cette façon, l'objet des revendications se qualifierait en tant qu'invention au sens de l'article 2 de la *Loi sur les brevets*.

Cette affaire rappelle que ce sont les revendications d'un brevet, interprétées à la lumière de la jurisprudence applicable et non pas l'approche problème-solution, qui permettent de déterminer les éléments essentiels définissant l'invention. *Choueifaty* est ainsi la première décision depuis sept ans à se prononcer et à analyser les démarches de l'Office de la propriété intellectuelle du Canada dans la délivrance des brevets³¹.

À la suite de cette décision, l'OPIC a publié une ligne directrice concernant la position actuelle du Bureau des brevets par rapport à la question de l'objet brevetable, à savoir si l'objet défini par la revendication est une invention, et ce, particulièrement dans un contexte d'inventions mises en œuvre par ordinateur, méthodes de diagnostic médical et utilisations médicales³².

3.0 L'article 53.1 et les communications relatives aux revendications du brevet – *Allergan Inc v Sandoz Canada Inc*, 2020 FC 1189

La décision *Allergan v Sandoz Canada Inc*, bien qu'impliquant des compagnies pharmaceutiques, a été incluse à cette revue des décisions ayant marqué l'année en droit des brevets non pharmaceutiques, car elle traite notamment de l'article 53.1 de la *Loi sur les brevets*, disposition pouvant trouver application « [d]ans toute action ou procédure relative à un brevet », qu'elle concerne un médicament ou non³³.

3.1 L'invention brevetée

Le litige implique le brevet canadien n° 2,507,002 (ci-après le brevet « 002 ») couvrant une capsule médicamenteuse sous forme orale, dont l'ingrédient actif est la silodosine API, et des excipients spécifiques, le tout étant fabriqué de manière à être facilement soluble³⁴. Ce médicament se veut utile dans le traitement de l'hyperplasie prostatique bénigne (ci-après « HPB »), conditions résultant en l'augmentation du nombre de cellules de la prostate et/ou de sa taille³⁵. L'HPB est la tumeur bénigne la plus répandue chez les hommes et elle affecte davantage des patients dans la cinquantaine, leur causant différents problèmes incluant de la douleur au moment d'uriner ou encore de l'incontinence urinaire³⁶.

24 *Free World Trust*, supra note 15 au para 55; *Choueifaty*, supra note 5 au para 38.

25 *Choueifaty*, supra note 5 au para 39.

26 *Ibid* au para 40.

27 *Ibid* aux paras 23, 41.

28 *Ibid* au para 42.

29 *Ibid* au para 43; *Loi sur les brevets*, supra note 2, art 2.

30 *Choueifaty* (Re), 2021 CACB 3 aux paras 37, 39; *Loi sur les brevets*, supra note 2, art 2.

31 Roch J Ripley & Brian G Kingwell, « L'approche "problème-solution" pose problème à la Cour fédérale », *Gowling WLG* (9 septembre 2020), en ligne : <<https://gowlingwlg.com/fr/insights-resources/articles/2020/federal-court-finds-problem-with-problem-solution/>>.

32 Office de la propriété intellectuelle du Canada, « Objet brevetable en vertu de la *Loi sur les brevets* » (3 novembre 2020), en ligne : <<https://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/fra/wr04860.html>>.

33 *Allergan Inc v Sandoz Canada Inc*, 2020 FC 1189 [Allergan]; *Loi sur les brevets*, supra note 2, art 53.1.

34 *Allergan*, supra note 33 au para 19.

35 *Ibid* au para 11.

36 *Ibid* au para 12.

3.2 Les parties impliquées et les faits

Bien que le litige implique les compagnies pharmaceutiques Allergan et Sandoz, le titulaire de ce brevet est l'entreprise japonaise Kissei³⁷. Sans trop s'attarder aux détails relatifs au *Règlement sur les médicaments brevetés (avis de conformité)*, il convient de mentionner qu'Allergan est la première personne qui a obtenu une autorisation de mise en marché lui permettant de fabriquer, commercialiser et vendre le médicament RAPAFLOR³⁸. Ce médicament est couvert par le brevet de Kissei qui a octroyé une licence exclusive en faveur d'Allergan au Canada³⁹. La compagnie de médicaments génériques Sandoz souhaitait pouvoir commercialiser une copie du RAPAFLOR et a donc effectué une présentation abrégée de drogue nouvelle auprès de Santé Canada en envoyant un avis d'allégation à Allergan, le tout en conformité avec la réglementation pharmaceutique applicable puisque le médicament est protégé par brevet⁴⁰. Conséquemment, Allergan a entamé une action en Cour fédérale contre Sandoz, alléguant que l'arrivée sur le marché d'un médicament générique contrefait le brevet n° 002⁴¹. En défense, Sandoz prétend qu'il n'y aurait pas contrefaçon et que le brevet est invalide sur la base du non-respect de l'exigence de fond de non-évidence⁴². En ce qui concerne Kissei, elle est intervenue au litige en ne prenant pas position quant à savoir si le générique de Sandoz contrefait son brevet, mais plaide que sa validité n'a pas à être remise en question et appuie la position d'Allergan à ce sujet⁴³.

La Cour fédérale a identifié trois questions clés pour disposer du litige. Cet article se concentrera davantage sur la seconde, à savoir si les communications effectuées par un licencié (en l'espèce, Allergan) peuvent être admises en preuve en vertu de l'article 53.1 de la *Loi sur les brevets*⁴⁴.

3.3 Le brevet sera-t-il violé par l'arrivée sur le marché du produit de Sandoz?

Pour répondre à cette question, la Cour a évalué si les revendications du brevet sont limitées à l'utilisation d'un processus de granulation humide dans la fabrication des capsules afin de déterminer si le produit de Sandoz, qui n'utilise pas un tel processus, contrefait le brevet⁴⁵. Après une analyse et l'interprétation des revendications du brevet à la lumière des décisions de principes, la Cour fédérale a conclu que le processus de granulation humide était un élément essentiel couvert par le brevet⁴⁶.

Bien que le brevet explique comment arriver au produit à partir d'un processus de fabrication à sec et à granulation humide, cela ne permet pas, comme Allergan le prétend, d'inférer une indication

claire que les inventeurs excluaient que le processus de granulation humide soit essentiel⁴⁷. Qui plus est, une interprétation téléologique des revendications et du brevet en entier permet de conclure que le processus de granulation humide est essentiel. Allergan tente ainsi de jouer avec la formulation des revendications afin d'englober tout ce qui permet d'obtenir le même résultat que ce qui a été effectivement revendiqué. Or, ce n'est pas permis, et ce, tel qu'établi par les décisions de principes en matière d'interprétation des revendications⁴⁸.

Le processus de granulation humide est donc un élément essentiel du brevet et puisque le médicament générique de Sandoz n'est pas fabriqué en utilisant un tel processus, le juge conclut qu'il y aurait absence de contrefaçon du brevet par l'arrivée sur le marché du produit de Sandoz⁴⁹.

3.4 L'article 53.1 peut-il être appliqué de façon à mettre en preuve des discussions entre Kissei et l'OPIC au moment de l'étude de la demande de brevet?

Sandoz souhaitait mettre en preuve des éléments provenant de l'historique administratif du brevet n° 002, notamment des écrits échangés entre Kissei et des employés de l'Office de la propriété intellectuelle du Canada, afin de réfuter l'interprétation qu'Allergan fait des revendications du brevet. Ce type de preuve, aussi connue en tant que *file-wrapper evidence* aux États-Unis en raison du terme employé pour désigner les communications entre le demandeur et l'Office des brevets et des marques des États-Unis (l'équivalent américain de l'OPIC), n'est pas admise au Canada selon les enseignements de la Cour suprême⁵⁰. En effet, dans *Free World Trust*, le juge Binnie a précisé que

l'intention de l'inventeur renvoie à l'expression objective de cette intention dans les revendications du brevet, selon l'interprétation qui en est faite par une personne versée dans l'art, et non à des éléments de preuve extrinsèque comme des déclarations ou des aveux faits pendant l'examen de la demande de brevet [nos soulignements]⁵¹.

Malgré cela, Sandoz prétend que les représentations faites par le demandeur de brevet sont des faits objectifs qui devraient être admis⁵². Le fabricant de génériques s'appuie sur les propos de la Cour fédérale dans *Distrimedic Inc c Dispill Inc* où l'on précise que la modification d'une revendication en réponse à une objection de l'OPIC est un fait objectif duquel des conclusions peuvent être

37 Ibid au para 7; Office de la propriété intellectuelle du Canada, « Sommaire du brevet 2507002 », *Base de données sur les brevets canadiens*, en ligne : <<https://www.ic.gc.ca/opic-cipo/cpd/fra/brevet/2507002/sommaire.html>>.

38 Allergan, *supra* note 33 au para 6; *Règlement sur les médicaments brevetés (avis de conformité)*, DORS/1993-133.

39 Allergan, *supra* note 33 au para 1.

40 Ibid aux paras 8, 9.

41 Ibid aux paras 1, 10.

42 Ibid au para 1.

43 Ibid au para 7. En tant qu'intervenante au litige, Kissei n'a pas comparu au procès.

44 Ibid aux paras 1, 24; *Loi sur les brevets*, *supra* note 2, art 53.1.

45 Allergan, *supra* note 33 au para 22.

46 Ibid au para 65.

47 Ibid aux paras 101, 106.

48 Ibid au para 103; *Free World Trust*, *supra* note 15.

49 Allergan, *supra* note 33 au para 2.

50 Ibid aux paras 114, 115.

51 *Free World Trust*, *supra* note 15 au para 66.

52 Allergan, *supra* note 33 au para 116.

inférées⁵³. Cependant, cette décision établit une limite, à savoir que « les déclarations ou les admissions faites au cours du traitement de la demande de brevet ne peuvent être utilisées pour interpréter une revendication »⁵⁴.

Néanmoins, les enseignements tirés de *Free World Trust* et *Distrimedic* ont été restreints par l'ajout de l'article 53.1 de la *Loi sur les brevets* qui est entré en vigueur en décembre 2018⁵⁵. Cet article stipule que :

53.1 (1) Dans toute action ou procédure relative à un brevet, toute communication écrite ou partie de celle-ci peut être admise en preuve pour réfuter une déclaration faite, dans le cadre de l'action ou de la procédure, par le titulaire du brevet relativement à l'interprétation des revendications se rapportant au brevet si les conditions suivantes sont réunies :

a) elle est produite dans le cadre de la poursuite de la demande du brevet ou, à l'égard de ce brevet, d'une renonciation ou d'une demande ou procédure de réexamen;

b) elle est faite entre, d'une part, le demandeur ou le titulaire du brevet, et d'autre part, le commissaire, un membre du personnel du Bureau des brevets ou un conseiller du conseil de réexamen.

Sandoz prétend donc que l'article 53.1 s'applique à la présente situation, soit aux communications entre Kissei et l'OPIIC, afin de réfuter les représentations du licencié exclusif Allergan quant à l'interprétation des revendications du brevet. Cette argumentation s'articule autour de trois volets.

3.4.1 Le résumé législatif de l'article 53.1 de la Loi

Sandoz s'appuie d'abord sur le résumé législatif du projet de loi C-86 ayant donné lieu à l'article 53.1 de la *Loi* où l'on mentionne que les dispositions « rendent admissibles en preuve, dans le cadre d'un litige relatif à un brevet, les communications écrites

entre le Bureau des brevets et une personne dans le contexte de la demande de brevet de cette dernière » [nos soulignements]⁵⁶. Le fabricant de génériques plaide qu'en précisant qu'il s'agit d'« une personne », le résumé législatif nous informe que l'article 53.1 s'applique non seulement pour réfuter les représentations effectuées par un breveté, mais également un licencié⁵⁷.

3.4.2 Le licencié, un titulaire du brevet au sens de l'article 2 de la Loi

Ensuite, Sandoz plaide qu'employer l'article 53.1 afin de réfuter les propos d'un licencié est compatible avec la définition de « breveté » à l'article 2 de la *Loi* qui mentionne qu'il s'agit du « titulaire ayant pour le moment droit à l'avantage d'un brevet »⁵⁸. Le raisonnement de Sandoz paraît logique, puisqu'en étant le licencié canadien exclusif du brevet, Allergan est la seule personne pouvant bénéficier des avantages du brevet.

La Cour fédérale n'est cependant pas du même avis, cette position ayant été précédemment considérée et rejetée par la Cour suprême, avec pour conséquence que le licencié était considéré plutôt comme une « personne se réclamant » du breveté au sens de l'article 55 de la *Loi*⁵⁹.

3.4.3 L'intervention de l'IPIC devant le Comité permanent Banque et Commerce du Sénat

Finalement, Sandoz met en preuve les représentations de l'Institut de la propriété intellectuelle du Canada (IPIC) devant le Comité permanent Banque et Commerce du Sénat afin de justifier son interprétation de l'article 53.1 de la *Loi*⁶⁰. Dans ses représentations, l'IPIC précisait que la rédaction proposée mènerait à l'introduction d'une preuve similaire à la *file-wrapper evidence* américaine ce qui rendrait le tout accessible aux représentations effectuées aux licenciés et avait donc proposé un amendement permettant directement l'admission en preuve des représentations faites par un licencié⁶¹.

Or, cette recommandation de l'IPIC n'a pas été retenue par le législateur. Le projet de loi C-86 n'a donc pas été amendé en ce sens et l'article 53.1 a ainsi été formulé en étant limité aux représentations effectuées par le titulaire du brevet⁶². Pour ces raisons, la Cour fédérale a rejeté ce point de vue.

53 *Distrimedic*, *supra* note 18 au para 210; *Allergan*, *supra* note 33 aux paras 116–118.

54 *Distrimedic*, *supra* note 18 au para 210; *Allergan*, *supra* note 33 au para 118.

55 *Loi sur les brevets*, *supra* note 2, art 53.1.

56 *Loi n° 2 d'exécution du budget de 2018*, PL C-86 (sanctionnée le 12 décembre 2018), 1^{re} sess, 42^e parl; *Allergan*, *supra* note 33 aux paras 120 et suiv; Parlement du Canada, « Résumé législatif du projet de loi C-86 : Loi n° 2 portant exécution de certaines dispositions du budget déposé au Parlement le 27 février 2018 et mettant en œuvre d'autres mesures », *Bibliothèque du Parlement*, en ligne : <https://lop.parl.ca/sites/PublicWebsite/default/fr_CA/ResearchPublications/LegislativeSummaries/421C86E>: Le résumé législatif complet précise que : « Les articles 187, 191, 197 et 201 du projet de loi rendent admissibles en preuve, dans le cadre d'un litige relatif à un brevet, les communications écrites entre le Bureau des brevets et une personne dans le contexte de la demande de brevet de cette dernière. Auparavant, toute communication entre un titulaire de brevet et le Bureau des brevets effectuée au cours d'une demande de brevet ne pouvait pas être considérée comme un élément de preuve dans un litige ultérieur concernant ce brevet. Par conséquent, les titulaires de brevet n'étaient pas liés, lorsqu'ils faisaient valoir leur brevet, par ce qu'ils avaient dit au Bureau des brevets au sujet de celui-ci, ce qui leur permettait de faire valoir devant les tribunaux une portée plus grande à leur brevet que ce qu'ils avaient initialement affirmé dans leur demande. ».

57 *Allergan*, *supra* note 33 au para 121.

58 *Loi sur les brevets*, *supra* note 2, art 2 « breveté »; *Allergan*, *supra* note 33 au para 122.

59 *Allergan*, *supra* note 33 aux paras 127, 128; *Loi sur les brevets*, *supra* note 2, art 55(1).

60 *Allergan*, *supra* note 33 au para 123.

61 *Ibid* aux paras 123, 131.

62 *Ibid* au para 132.

Malgré ces trois arguments apportés par Sandoz, la Cour fédérale privilégie plutôt une interprétation de l'article 53.1 s'appuyant sur le sens ordinaire des termes employés dans cet article, à savoir qu'il vise les communications effectuées par le breveté et non par un licencié, et ce, à la lumière de la jurisprudence et de la définition de « breveté » dans la *Loi sur les brevets*⁶³.

3.5 Le brevet est-il invalide pour cause d'évidence?

La cour a par la suite tranché l'argument invoqué par Sandoz en ce qui concerne l'invalidité du brevet pour cause d'évidence. Le juge Crampton a appliqué la démarche établie par la Cour suprême dans la décision *Apotex Inc c Sanofi-Synthelabo Canada Inc* pour conclure que les différences entre l'état de l'art et le concept décrit dans le brevet n'étaient pas évidentes pour une personne versée dans l'art au moment du dépôt de la demande de brevet⁶⁴. Ce faisant, le brevet n° 002 respecte les exigences de non-évidence et n'est donc pas invalide⁶⁵.

En somme, la décision *Allergan* aura marqué l'année 2020 en précisant que l'article 53.1 de la *Loi sur les brevets* ne s'applique que pour réfuter les représentations effectuées par le titulaire du brevet et non par le licencié en ce qui concerne l'interprétation des revendications⁶⁶.

4.0 Profits générés par le contrefacteur comme réparation – *Nova Chemicals Corporation v Dow Chemicals Company, 2020 FCA 141*

Dans *Nova Chemicals Corporation v Dow Chemicals Company*, la Cour d'appel fédérale a pu effectuer une revue des principes applicables à la restitution des profits en tant que réparation pour la contrefaçon d'un brevet⁶⁷. La Cour fédérale a trouvé la compagnie Nova en contrefaçon du brevet de Dow sur un métallocène de base densité en polyéthylène en vendant son produit SURPASS en compétition avec le produit ELITE de Dow⁶⁸. Ayant conclu à la contrefaçon, le juge de procès a demandé à Dow de choisir entre la restitution des profits de Nova et des dommages compensatoires à titre de réparation. Dow a choisi la première option⁶⁹.

Ce n'est pas la contrefaçon qui est au cœur même de cet appel, mais plutôt les principes applicables à la restitution des profits et leur application aux faits en l'espèce.

Le juge Stratas, rédigeant l'opinion de la majorité, débute les motifs du jugement en décortiquant les prémisses des réparations à accorder advenant la contrefaçon d'un brevet, pour ensuite détailler les principes spécifiques à la restitution des profits et finalement répondre aux quatre moyens d'appel soulevés par les parties à l'occasion de l'appel et de l'appel incident. Il convient de noter que la juge Woods est dissidente uniquement quant au premier moyen d'appel⁷⁰.

4.1 Les principes applicables à la réparation lors de la contrefaçon d'un brevet

4.1.1 Les principes généraux de la réparation

Il faut d'abord rappeler le fameux « marché » ou contrat social existant entre le titulaire du brevet et le public qui sous-tend l'octroi d'un monopole d'une durée de vingt ans sur l'invention brevetée. En effet, la Cour d'appel fédérale affirme que les réparations auxquelles le breveté a droit à la suite de la contrefaçon de son brevet ne doivent pas miner ce marché notamment en permettant, par de telles réparations, un enrichissement ou un appauvrissement du breveté⁷¹.

En guise de réparation, le tribunal peut octroyer des dommages compensatoires, mais la prudence est de mise dans la détermination du quantum des dommages puisque le breveté pourrait notamment s'enrichir. Par ailleurs, le contrefacteur pourrait obtenir un gain si les dommages octroyés sont inférieurs aux bénéfices et aux avantages qu'il a su tirer de la contrefaçon. Cela pourrait donner lieu à un certain incitatif à contrefaire des brevets, sachant que la pénalité que le tribunal octroie est inférieure aux bénéfices qui peuvent être tirés de la contrefaçon⁷². Afin de pallier ce problème, le contrefacteur peut donc se voir priver des profits en guise de réparation plutôt que de devoir payer des dommages compensant les pertes subies par le titulaire du brevet⁷³.

Ainsi, la restitution des profits ne vise pas à compenser le préjudice du breveté, mais plutôt à soustraire au contrefacteur les bénéfices qu'il a tirés de la contrefaçon. Cette forme de réparation permet de prévenir ou décourager la possible contrefaçon des brevets et d'inciter les entreprises à mettre temps et argent pour trouver une solution à leurs problèmes en toute légalité⁷⁴. Cela permet d'une part, de protéger les titulaires de brevets et, d'autre

63 Ibid aux paras 124, 133, 134; *Loi sur les brevets*, supra note 2, art 2 « breveté ».

64 *Allergan*, supra note 33 aux paras 152, 153, 234; *Apotex Inc c Sanofi-Synthelabo Canada Inc*, 2008 CSC 61.

65 *Allergan*, supra note 33 aux paras 4, 235.

66 *Allergan*, supra note 33; *Loi sur les brevets*, supra note 2, art 53.1.

67 *Nova Chemicals Corporation v Dow Chemicals Company*, 2020 CAF 141 aux paras 4, 6, 10 [*Nova Chemicals v Dow Chemicals*].

68 Ibid aux paras 5, 83. La décision *Dow Chemical Company c NOVA Chemicals Corporation*, 2014 CF 844 détaille l'analyse en ce qui concerne la contrefaçon du brevet de Dow par Nova.

69 *Nova Chemicals v Dow Chemicals*, supra note 67 au para 6. La décision *Dow Chemical Company c Nova Chemicals Corporation*, 2017 CF 350 [*Dow Chemical c Nova Chemicals*] détaille l'analyse de la réparation de Dow, à savoir la comptabilisation des profits du contrefacteur Nova.

70 *Nova Chemicals v Dow Chemicals*, supra note 67 au para 185.

71 Ibid au para 13.

72 Ibid aux paras 16–18.

73 Ibid au para 19.

74 Ibid au para 20.

part, d'assurer un traitement équitable pour les compétiteurs et autres personnes qui font une demande de licence plutôt que de contrefaire le brevet, le tout en conformité avec le contrat social associé aux brevets⁷⁵.

La vigilance demeure de mise dans la restitution des profits : elle ne doit pas agir comme dommage punitif et seuls les profits générés par le contrefacteur en raison de la contrefaçon doivent être remis au breveté⁷⁶. Pour illustrer cette mise en garde, la Cour d'appel fédérale donne l'exemple d'une voiture luxueuse dont une vis sur les essuie-glaces contreferait un brevet. Le brevet ne couvrant que la vis et non l'entièreté de la voiture, les profits doivent être calculés en fonction du fait que seuls les profits qui résultent de la contrefaçon doivent être retirés au contrefacteur en guise de réparation⁷⁷. Il demeure que même si les principes spécifiques sont appliqués correctement et prudemment, la restitution des profits peut impliquer d'importantes sommes d'argent, ce qui peut effrayer certains juges⁷⁸. La somme octroyée pourrait ultimement être biaisée, à tort, par des sentiments et impressions qui varient d'un juge à l'autre, en fonction de ce qui semble juste ou non. La comptabilisation des profits doit plutôt être basée sur une application raisonnée de la doctrine établie selon la preuve⁷⁹.

4.1.2 Les principes spécifiques applicables à la restitution des profits

Le juge Stratas poursuit les motifs de sa décision en élaborant sur les deux règles spécifiques développées par la jurisprudence à l'intention des tribunaux à l'égard de la remise des profits.

4.1.2.1 Seuls les profits réels doivent être remis

La Cour d'appel fédérale débute cette partie de son jugement en indiquant que les tribunaux doivent prendre leur décision d'après les faits présentés devant eux et non pas en se basant sur des hypothèses ou des suppositions parce que le but est de remettre les profits réels. La cour doit donc prendre le contrefacteur tel qu'il est et en fonction de ce qu'il a effectué⁸⁰.

En effet, obliger le contrefacteur à remettre moins que les profits qu'il a générés en raison de l'invention brevetée créerait un incitatif économique à contrefaire un brevet. Inversement, le forcer à remettre plus que les profits réels serait de nature punitive en n'étant pas nécessaire pour assurer la primauté

des monopoles accordés par brevets⁸¹. Cela mènerait à un déséquilibre du pacte relatif aux brevets en faveur du breveté.

Un autre élément important associé aux profits réels est la déduction des coûts d'opportunité dans le calcul des profits à remettre. En effet, ceux-ci n'ont pas lieu dans un contexte de remise des profits puisqu'ils violent la règle des coûts réels et sont trop hypothétiques. Cela pourrait ainsi créer un certain incitatif à contrefaire un brevet⁸². À l'opposé, dans un contexte de dommages compensatoires, le juge peut déduire les coûts d'opportunité et doit même se poser différentes questions hypothétiques afin d'être en mesure de bien déterminer le montant des dommages, notamment à savoir si c'est réellement la contrefaçon du brevet qui a causé dommage au breveté⁸³. Reste que ces méthodes n'ont pas lieu d'être dans le cas de remise des profits puisque seuls les profits réels sont pris en compte.

4.1.2.2 Seuls les profits résultant de la contrefaçon du brevet doivent être remis

Cette seconde règle spécifique applicable à la restitution des profits implique que les profits à restituer doivent avoir un lien de causalité avec l'invention brevetée⁸⁴. Il est important de distinguer les éléments contrefacteurs des autres éléments du produit du défendeur. En reprenant l'exemple de la voiture luxueuse utilisé par la Cour d'appel fédérale, seuls les profits générés grâce aux vis brevetées doivent être remis au titulaire du brevet et non pas les profits générés à l'occasion de la vente de la voiture. En effet, certains profits du contrefacteur ne proviennent pas de l'invention brevetée, mais d'autres sources comme le moteur de la voiture, la notoriété de la marque, ses caractéristiques de sécurité, etc., qui eux ne contrefont pas nécessairement le brevet du demandeur⁸⁵. Ainsi, seuls les profits attribuables de façon causale à l'invention brevetée doivent être restitués⁸⁶.

Cet exercice de répartition des profits, aussi nommée répartition fondée sur la valeur ou approche du profit différentiel⁸⁷, oblige les tribunaux à chercher et identifier précisément le lien entre le brevet et les profits générés par le contrefacteur en se demandant quels profits sont attribuables à la contrefaçon⁸⁸. De son côté, le défendeur doit prouver qu'une partie de ses profits n'est pas attribuable à la contrefaçon, mais plutôt à un autre élément

75 Ibid au para 24.

76 Ibid aux paras 27, 29.

77 Ibid au para 35.

78 Ibid aux paras 30, 32.

79 Ibid au para 30.

80 Ibid aux paras 37, 38.

81 Ibid au para 39.

82 Ibid au para 44.

83 Ibid aux paras 44, 45; *Pfizer Canada Inc c Teva Canada Limited*, 2016 CAF 161 au para 50. De telles questions et expressions pourraient être « aurait eu » et « aurait pu » afin de déterminer si une autre cause que la contrefaçon du brevet a mis les titulaires du brevet dans leur situation.

84 *Nova Chemicals v Dow Chemicals*, supra note 67 au para 46.

85 Ibid au para 47.

86 Ibid aux paras 46, 48; *Monsanto Canada Inc c Schmeiser*, 2004 CSC 34 au para 101.

87 *ADIR c Apotex Inc*, 2015 CF 721 au para 119; *Nova Chemicals v Dow Chemicals*, supra note 67 au para 48.

88 *Nova Chemicals v Dow Chemicals*, supra note 67 au para 50.

qui n'est pas couvert par le brevet⁸⁹. Il convient de noter que la répartition des profits a été appliquée dans de nombreux cas en jurisprudence et qu'elle s'applique même si le produit contrefait correspond à l'intégralité du brevet lui-même en regardant la plus-value ajoutée par l'invention sur le produit⁹⁰.

Un dernier élément important afin de déterminer la portion des profits à restituer est de tracer la ligne entre ce qui contrefait le brevet de ce qui ne crée pas de contrefaçon (*non-infringing baseline*)⁹¹. Ce concept doit être distingué de l'alternative non contrefaisante (*non-infringing alternative*) qui est employée au niveau du calcul des dommages compensatoires. Puisque cette méthode est basée sur des questions hypothétiques, elle ne peut être utilisée dans le cas de restitution des profits⁹².

Ainsi, cette seconde règle spécifique applicable à la restitution des profits peut être résumée de la façon suivante :

"Apportionment" is nothing more than part of the assessment of causation: the exercise of ensuring that benefit not caused by the infringement of the patent is factored out. This assessment is based on the particular facts of a case and it may be informed by expert evidence. In most cases, causation is a factually suffused question of mixed fact and law⁹³.

4.2 Les moyens d'appel

Quatre questions ont été soulevées par les parties à l'occasion de l'appel et de l'appel incident devant la Cour d'appel fédérale. Étant donné que la restitution des profits est une question mixte de droit et de faits, la norme de contrôle est celle de l'erreur manifeste et dominante, une norme difficile à rencontrer selon le juge Stratas⁹⁴.

4.2.1 Est-ce que la Cour fédérale a commis une faute en rejetant la demande de répartition des profits de Nova?

Nova plaide qu'il y a eu erreur lors du calcul de la détermination des profits à remettre. Son argumentation est en deux volets.

4.2.1.1 La production d'éthylène de Nova malgré la contrefaçon du brevet

Nova argumente que son produit SURPASS aurait produit de l'éthylène, une des composantes majoritaires du métallocène de basse densité en polyéthylène, et ce, sans contrefaçon du brevet de Dow; elle demande donc une diminution des profits à restituer⁹⁵.

Les juges majoritaires débute cette partie de leur analyse en déterminant qu'au niveau factuel, cet argument échoue. En effet, Nova n'a jamais démontré à la Cour fédérale qu'il y avait une demande pour son éthylène ni même qu'elle était en mesure d'en vendre à de tierces parties sans contrefaire le brevet de Dow⁹⁶. La Cour d'appel fédérale rappelle qu'elle doit présumer que le juge de première instance a considéré toute la preuve pertinente et ne peut donc pas accepter ces nouveaux faits⁹⁷.

Cet argument de Nova doit aussi échouer en droit puisque sa démonstration qu'elle aurait tout de même eu des profits en vendant de l'éthylène sans contrefaire le brevet est purement hypothétique⁹⁸. Comme mentionné plus tôt, la remise des profits doit se baser sur la réalité plutôt que sur des réflexions hypothétiques. D'ailleurs, les juges majoritaires citent le juge de première instance qui mentionne que « [l]e recouvrement des bénéfices devrait se fonder sur les recettes et les coûts réels » alors que les coûts de fabrication d'éthylène de Nova « se fonde[nt] sur un coût théorique qu'elle n'a pas encouru »⁹⁹. Les juges majoritaires rejettent cet argument de Nova, sauvegardant ainsi le contrat social lié à l'octroi de brevet en n'incitant pas à la contrefaçon et en ne permettant pas la déduction de coûts hypothétiques¹⁰⁰.

4.2.1.2 La production d'éthylène plus facile de Nova

Le second argument de Nova est qu'une portion de ses profits est attribuable à sa capacité de produire de l'éthylène à faibles coûts, ce qu'elle appelle l'« avantage albertain ». Ce faisant, Nova plaide qu'une partie de ses profits ne peut être rattachée par un lien de causalité avec la contrefaçon de Dow, mais plutôt à sa propre efficacité résultant de son « avantage albertain »¹⁰¹. Les juges de la majorité ne sont pas du même avis. Considérant que le brevet de Dow octroie un monopole sur la production de ce type de polyéthylène, le fait que Nova ait produit son propre éthylène afin d'accroître ses profits n'est pas pertinent à la détermination de la remise des profits¹⁰².

89 Ibid au para 53.

90 Ibid aux paras 54–56.

91 Ibid aux paras 73, 77, 79.

92 Ibid aux paras 73–79.

93 Ibid au para 80.

94 Ibid aux paras 80, 81.

95 Ibid au para 90.

96 Ibid au para 92.

97 Ibid aux paras 92, 93.

98 Ibid au para 94.

99 Ibid au para 95; *Dow Chemical c Nova Chemicals*, supra note 69 au para 139.

100 *Nova Chemicals v Dow Chemicals*, supra note 67 au para 96.

101 Ibid au para 98.

102 Ibid aux paras 99, 100.

Dow ayant une exclusivité sur son invention, que le contrefacteur exploite l'invention de façon plus ou moins profitable ou efficace ne change rien au fait qu'il y a contrefaçon. En décider autrement permettrait au contrefacteur de garder une partie de ses profits puisqu'il a été plus efficace ou rentable que le titulaire du brevet dans l'exploitation de son invention, ce qui irait à l'encontre du principe même du monopole issu de la *Loi sur les brevets*¹⁰³.

En Cour fédérale, il fut démontré qu'il y avait bel et bien un lien de causalité entre, d'une part, le succès des ventes de Nova et, d'autre part, les propriétés physiques supérieures du produit, qui étaient les fruits de l'invention de Dow (et non pas l'éthylène moins cher et produit de manière efficace). La Cour d'appel fédérale se limitant à vérifier si le juge de première instance n'a pas commis d'erreur manifeste et dominante et ne pouvant réévaluer le lien de causalité, les juges majoritaires ont donc rejeté cet argument de Nova¹⁰⁴.

4.2.1.3 La dissidence de la juge Woods

À l'opposé, la juge Woods a exprimé une dissidence sur cet argument. Selon elle, si Nova avait acheté l'éthylène afin de produire son produit SURPASS plutôt que de l'avoir produit elle-même, la question de la répartition des profits ne se poserait pas¹⁰⁵. De son point de vue, ce ne sont pas tous les profits de Nova qui doivent être remis à Dow, car une partie n'est pas imputable à la contrefaçon du brevet¹⁰⁶. En effet, le procédé de Nova pour la production d'éthylène n'étant pas un élément contrefacteur, cette dernière devrait avoir le droit de conserver une partie de ses profits¹⁰⁷. La juge Woods distingue ainsi son raisonnement de celui de la majorité en concluant que la Cour fédérale a commis une erreur susceptible de révision en n'examinant pas la question de la « causalité », qui est au cœur du test juridique de la répartition, et que l'opinion de la majorité ne prend pas correctement en compte la valeur que les activités non contrefaisantes ont apportée¹⁰⁸.

4.2.2 Est-ce que la Cour fédérale a commis une erreur en accordant des « bénéfices tremplins »?

En première instance, la question de l'effet de tremplin a fait surface, à savoir si l'arrivée hâtive du produit de Nova sur le marché en raison de la contrefaçon du brevet de Dow entraînait des profits supplémentaires (les bénéfices tremplins) en faveur de Nova, qui devaient par conséquent être remis à Dow. Le juge Fothergill de la Cour fédérale avait ordonné la restitution de ces profits à Dow dans la détermination de la réparation en mentionnant que « les dommages-intérêts au titre de l'effet de tremplin relèvent purement du type de perte devant être démontrée par preuve, et je ne constate aucun motif pour que ce principe soit appliqué différemment aux

gains d'un demandeur dans un contexte de recouvrement des bénéfices »¹⁰⁹. Nova invoque plusieurs arguments en appel, notamment le fait que, selon elle, les bénéfices tremplins ne peuvent pas être restitués en droit canadien¹¹⁰.

Selon Nova, l'octroi des bénéfices tremplins relève d'une question hypothétique et serait donc incohérent avec le principe voulant que seuls les profits réels du contrefacteur doivent être remis au breveté¹¹¹. La Cour d'appel fédérale n'est pas du même avis : les bénéfices tremplins constituent bel et bien des profits qui ont un lien causal avec la contrefaçon effectuée. En effet, sans avoir contrefait le brevet, Nova n'aurait pas pu mettre sur le marché son produit avant l'expiration du brevet de Dow. Puisque Nova a bénéficié d'une certaine période pour tirer des profits de sa contrefaçon, il s'agit de profits réels, non pas hypothétiques, qui doivent donc être restitués à Dow¹¹².

4.2.3 Est-ce que la Cour fédérale a commis une erreur en choisissant la méthode du coût de revient total pour déduire les coûts lors de la remise des profits?

Afin de déduire les coûts pour déterminer les profits réels de Nova, la Cour fédérale a adopté la méthode du coût de revient total, méthode dont Dow conteste l'utilisation. Selon la Cour d'appel fédérale, le juge de première instance est arrivé au bon résultat, mais il a choisi cette méthode sur une base erronée. En effet, ce dernier s'est appuyé sur la décision *Dart Industries* provenant de l'Australie et a mentionné que la méthode du coût de revient total peut être adoptée tant et aussi longtemps que le contrefacteur produisait la marchandise au maximum de sa capacité et était en mesure de démontrer un coût d'opportunité¹¹³.

Or, la méthode en question doit être privilégiée dans la déduction des coûts en l'absence de circonstances exceptionnelles et impérieuses ou de preuves d'expert convaincantes dans un cas particulier et devrait toujours être disponible pour le contrefacteur afin d'être en mesure d'identifier ses bénéfices réels¹¹⁴.

Ainsi, bien que la Cour fédérale ait commis une erreur en basant son raisonnement sur la décision *Dart Industries*, elle a correctement déduit les coûts afin de déterminer les profits que Nova doit remettre à Dow¹¹⁵.

4.2.4 Est-ce que la Cour fédérale a commis une erreur lors de la conversion de la monnaie à la date du jugement?

La Cour d'appel fédérale répond à cette dernière question

103 Ibid aux paras 109, 110.

104 Ibid au para 117.

105 Ibid au para 195.

106 Ibid au para 187.

107 Ibid au para 200.

108 Ibid aux paras 185, 201.

109 Ibid aux paras 121, 122; *Dow Chemical c Nova Chemicals*, supra note 69 au para 124.

110 *Nova Chemicals v Dow Chemicals*, supra note 67 au para 123.

111 Ibid au para 130.

112 Ibid aux paras 126, 130, 141.

113 Ibid au para 145; *Dart Industries Inc c Decor Corporation Pty Ltd*, [1993] 179 CLR 101 (HCA).

114 *Nova Chemicals v Dow Chemicals*, supra note 67 au para 145.

115 Ibid aux paras 154, 164.

par la négative. En effet, les tribunaux doivent rendre leurs jugements en dollars canadiens, ce à quoi la restitution des profits dans un contexte de contrefaçon de brevet ne fait pas exception¹¹⁶.

L'enjeu est de déterminer l'impact de l'augmentation de la valeur du dollar américain sur la valeur des profits de Nova au moment où la Cour fédérale a rendu son jugement. Pour la Cour d'appel fédérale, il n'y a pas de problème à ce niveau puisqu'à partir du moment où les profits du contrefacteur ont été identifiés et restitués, le contrat social lié au droit des brevets est à nouveau protégé, et ce, sans égard à la somme précise que le breveté reçoit¹¹⁷. Qui plus est, la Cour fédérale avait soigneusement étudié la question des profits générés par les profits de Nova (les « bénéfices sur les bénéfices ») afin de prendre en compte la valeur sur la devise étrangère¹¹⁸.

4.3 Conclusion

En somme, la décision *Nova Chemicals v Dow Chemicals* aura marqué l'année dans le monde des brevets puisque la Cour d'appel fédérale a pu consolider les principes relatifs à la restitution des profits et clarifier leur application, et ce, dans un cas impliquant l'octroi du montant le plus important accordé à ce jour par un tribunal canadien pour violation de brevet.

5.0 Propriété d'un brevet – *Salt Canada Inc c Baker*, 2020 CAF 127

La décision *Salt Canada Inc c Baker* traite de la compétence des cours fédérales en ce qui concerne l'interprétation d'une entente contractuelle afin de déterminer la propriété d'un brevet.

En première instance, la Cour fédérale a refusé la demande de Salt Canada Inc (ci-après « Salt Canada ») de modifier le dossier du bureau des brevets afin de refléter le bon propriétaire du brevet canadien n° 2,222,058 portant sur un procédé d'extraction amélioré de matières d'une décharge¹¹⁹. Ce refus du juge Boswell est fondé sur une absence de compétence de la Cour fédérale, parce qu'il s'agit, selon lui, d'une dispute contractuelle, relevant de la compétence des cours supérieures provinciales¹²⁰.

Salt Canada fait appel de cette décision, à l'issue duquel les juges de la Cour d'appel fédérale concluent à l'unanimité que la Cour fédérale a la compétence expresse de rendre l'ordonnance recherchée puisque cela concerne la propriété des brevets et

la surveillance du Bureau des brevets¹²¹. L'interprétation des contrats et ententes commerciales doit donc être considérée comme faisant partie intégrante de sa compétence, sans pour autant porter atteinte aux pouvoirs des cours provinciales. Les juges d'appel détaillent leur décision sur l'interprétation de l'article 52 de la *Loi sur les brevets* et répondent à l'argument de Baker selon lequel l'interprétation d'ententes est du ressort exclusif des cours supérieures provinciales.

5.1 L'article 52 de la *Loi sur les brevets*

Simplement sur la base de cet article, la Cour d'appel conclut que l'appel doit être accueilli¹²². En effet, l'article 52 de la *Loi sur les brevets* stipule que « La Cour fédérale est compétente, sur la demande du commissaire ou de toute personne intéressée, pour ordonner que toute inscription dans les registres du Bureau des brevets concernant le titre à un brevet soit modifiée ou radiée »¹²³. Le sens ordinaire des termes de cet article de loi est clair : son objet est de conférer le pouvoir de modifier et radier le titre d'un brevet au registre à la Cour fédérale¹²⁴.

La Cour d'appel ajoute que le Parlement a conféré ce pouvoir non pas au Bureau des brevets, ce qui aurait été un pouvoir administratif, mais plutôt à la Cour fédérale, afin qu'elle ait le pouvoir judiciaire de trancher les différends et les questions relatifs à la propriété d'un brevet¹²⁵. Afin de bien exercer ce pouvoir, il lui est nécessaire d'interpréter des contrats et autres ententes contractuelles. D'ailleurs, la Cour d'appel fédérale s'appuie également sur l'analyse de l'article 52 de la *Loi sur les brevets* que la Cour suprême du Canada a effectuée dans la décision *Clopay Corp v Metalix Ltd*, à savoir que les pouvoirs conférés par l'article sont larges¹²⁶. Ainsi, la Cour fédérale, peut se prononcer sur la propriété des brevets et pour ce faire, elle est en mesure d'interpréter les contrats, l'un des moyens à sa disposition afin d'exercer ce pouvoir.

5.2 L'interprétation des contrats par une cour fédérale, un empiètement à la compétence des cours provinciales?

L'intimé Baker soutient que l'application de l'article 52 de la *Loi sur les brevets* d'une telle façon empièterait sur une compétence exclusive des cours provinciales en matière des contrats¹²⁷. Cet argument est rapidement rejeté par les juges d'appel. En effet, ce n'est pas parce que les cours supérieures provinciales ont compétence pour interpréter des contrats que la Cour fédérale ne le peut pas¹²⁸. D'ailleurs, dans plusieurs décisions portant sur des domaines

116 *Loi sur la monnaie*, LRC 1985, c C-52, art 12; *Alliedsignal Inc v Dupont Canada Inc*, 1999 CanLII 7409 (CAF); *Nova Chemicals v Dow Chemicals*, *supra* note 67 au para 166.

117 *Nova Chemicals v Dow Chemicals*, *supra* note 67 au para 173.

118 *Ibid* au para 174.

119 *Salt Canada Inc c Baker*, 2020 CAF 127 au para 1 [*Salt Canada*]; Office de la propriété intellectuelle du Canada, « Sommaire du brevet 2222058 », *Base de données sur les brevets canadiens*, en ligne : <https://www.ic.gc.ca/opic-cipo/cpd/fra/brevet/2222058/sommaire.html?type=number_search&tabs1Index=tabs1_1>.

120 *Salt Canada*, *supra* note 119 au para 2.

121 *Ibid* au para 3.

122 *Ibid* au para 5. Suivant la Cour d'appel fédérale, la Cour fédérale a compétence en vertu de la *Loi sur les Cours fédérales*, LRC 1985, c F-7, art 26 qui stipule que « La Cour fédérale a compétence, en première instance, pour toute question ressortissant aux termes d'une loi fédérale [...] à la Cour fédérale » ce qui fait donc renvoi à l'article 52 de la *Loi sur les brevets*.

123 *Loi sur les brevets*, *supra* note 2, art 52.

124 *Salt Canada*, *supra* note 119 au para 8.

125 *Ibid* aux paras 9, 10.

126 *Ibid* au para 11; *Clopay Corp v Metalix Ltd*, 1960 CarswellNat 20 au para 10 (C de l'É), conf par 1961 CarswellNat 10 (CSC).

127 *Salt Canada*, *supra* note 119 au para 13.

128 *Ibid* au para 14.

variés, la Cour fédérale a eu à interpréter des contrats afin d'être en mesure d'accomplir son travail. Le juge Stratas recense de nombreux exemples tirés de la jurisprudence où la Cour fédérale eût à interpréter des contrats, notamment en matière fiscale, de droit maritime, d'entente de règlement à l'amiable, de contrat de travail, de contrat d'approvisionnement¹²⁹. La propriété intellectuelle n'y fait pas exception : des contrats de licence de droits d'auteur, mais également en matière de brevet où des ententes de transfert de prix ont été interprétées pour déterminer les dommages-intérêts ou encore lorsque le défendeur invoque que le demandeur n'est pas titulaire en raison d'une entente contractuelle quelconque sont quelques situations où il a été nécessaire que la Cour fédérale interprète des contrats¹³⁰. Ce dernier cas de figure se rapproche de la situation à l'égard de laquelle les parties se confrontent.

En première instance, le juge s'est notamment appuyé sur *Lawther v 424470 BC Ltd* pour déclinier la compétence de la Cour fédérale¹³¹. Dans cette affaire, la Cour fédérale avait refusé compétence puisqu'il s'agissait surtout d'une affaire de droit des contrats où ces derniers allaient déterminer la propriété des brevets¹³². Or, se baser sur cette décision créerait un lien de dépendance entre les cours fédérales et les cours provinciales et obligerait systématiquement les parties à se présenter devant les deux types de tribunaux afin de trancher complètement leur différend¹³³. Cette approche est jugée contraire à l'objet de l'article 52 de la *Loi sur les brevets*, comme analysé par les juges¹³⁴.

En outre, cette décision de la Cour fédérale n'a pas force de chose jugée pour les juges d'appel, qui ont plutôt appuyé leurs motifs sur la décision *Kellogg Company v Kellogg* de la Cour suprême¹³⁵. Dans cette affaire, l'appelante s'est basée sur un contrat d'emploi afin de démontrer que l'intimé n'est pas propriétaire du brevet en question¹³⁶. Cette décision établit une règle simple et claire : « la Cour de l'Échiquier (maintenant la Cour fédérale) peut interpréter des contrats entre particuliers pour autant que cette interprétation soit faite dans l'exercice d'une compétence fédérale valide conférée à la Cour fédérale »¹³⁷. Un de ces cas de figure a fixé quelques limites aux compétences de la Cour en cette matière,

notamment à savoir que la Cour est compétente non pas lorsqu'il est question de la validité du contrat ou de savoir s'il y a eu violation du contrat, mais lorsqu'il est question de l'interprétation dudit contrat¹³⁸.

Ainsi, les juges concluent que de trancher une question relative à la propriété d'un brevet relève bel et bien de la compétence de la Cour fédérale, à plus forte raison lorsque, comme dans le cas présenté devant eux, la demande est effectuée en vertu de l'article 52 de la *Loi sur les brevets*¹³⁹.

5.3 Application au cas en l'espèce

Ayant conclu à la compétence de la Cour fédérale pour interpréter un contrat afin, notamment, de déterminer qui est le propriétaire d'un brevet, les juges d'appel ont interprété le contrat et l'ont appliqué à la lumière des faits afin de déterminer si l'appelante, Salt Canada, était bel et bien la propriétaire du brevet¹⁴⁰.

L'inventeur original du brevet en question, le Dr Markels a, en 2010, signé avec M Baker un contrat conférant à ce dernier la propriété du brevet à condition notamment qu'il effectue le paiement continu de redevances¹⁴¹. M Baker a cependant arrêté de payer ces sommes en 2011. Conformément à l'entente, le Dr Markels pouvait donc, après le 1^{er} janvier 2012, réclamer que lui soit cédé le brevet¹⁴². C'est en 2015 qu'il le fait, malgré le mécontentement et le refus de M Baker de céder le brevet.

Entre-temps, le Dr Markels a signé une entente avec l'appelante, Salt Canada, afin que lui soient cédés tous ses droits dans le brevet¹⁴³. Le Dr Markels ayant effectué réclamation du brevet auprès de M Baker et ses droits dans le brevet étant cédés à Salt Canada, la Cour d'appel fédérale a conclu que le Dr Markels avait obtenu propriété du brevet qui fut par la suite transférée à Salt Canada¹⁴⁴. Le registre du Bureau des brevets doit donc être modifié en conséquence afin que Salt Canada soit le propriétaire du brevet canadien n° 2,222,058¹⁴⁵.

En somme, la décision *Salt Canada* illustre que la Cour fédérale est clairement compétente pour interpréter un

129 Ibid aux paras 15–19.

130 Ibid aux paras 17–20.

131 Ibid au para 27; *Lawther v 424470 BC Ltd*, 1995 CarswellNat 1867 (CF 1^{ère} inst) [*Lawther*].

132 *Salt Canada*, supra note 119 au para 28; *Lawther*, supra note 131 au para 6.

133 *Salt Canada*, supra note 119 au para 32.

134 Ibid.

135 *Kellogg Company v Kellogg*, [1941] SCR 242 [*Kellogg Company*].

136 *Salt Canada*, supra note 119 au para 22; *Kellogg Company*, supra note 135 à la p 249.

137 *Salt Canada*, supra note 119 aux paras 24, 26. En effet, la Cour d'appel fédérale cite une dizaine de décisions où le principe établit dans *Kellogg Company* a été suivi.

138 Il s'agit de la décision *Titan Linkabit Corp v SEE See Electronic Engineering Inc*, 1992 CarswellNat 699 (CF 1^{ère} inst); *Salt Canada*, supra note 119 au para 25.

139 *Salt Canada*, supra note 119 aux paras 23, 48.

140 La Cour d'appel fédérale a choisi d'elle-même appliquer les faits présence au contrat plutôt que de remettre l'affaire à la Cour fédérale et ce, en vertu de *Loi sur les Cours fédérales*, supra note 122, art 52(b)(i); *Salt Canada*, supra note 119 au para 51.

141 *Salt Canada*, supra note 119 aux paras 53, 54.

142 Ibid au para 55.

143 Ibid au para 56.

144 Ibid au para 57.

145 Ibid aux paras 57, 58.

contrat dans l'exercice de ses pouvoirs, notamment, comme ce fût le cas en l'espèce, au terme de l'article 52 de la *Loi*. Il convient de mentionner que la décision a été suivie par après. Dans l'affaire *Mud Engineering Inc c Secure Energy Services Inc*, la Cour fédérale a appliqué le précédent établi par *Salt Canada* et a conclu que « Notre Cour [la Cour fédérale] est compétente pour trancher la question de la propriété des brevets en litige »¹⁴⁶.

6.0 L'effet d'une clause de non-contestation de la validité du brevet dans une entente à l'amiable – *Loops LLC v Maxill Inc*, 2020 ONSC 5438

Pour terminer cette revue de l'année 2020 en droit de brevets, les lecteurs sont invités à sortir un peu des sentiers battus issus de l'application de la *Loi sur les brevets* pour plutôt s'intéresser aux ententes de règlement pouvant être conclues entre le titulaire du brevet et un potentiel contrefacteur. La décision *Loops LLC v Maxill Inc* de la Cour divisionnaire de la Cour supérieure de justice de l'Ontario traite du sujet et confirme que les clauses de non-contestation de la validité d'un brevet sont acceptables en droit canadien¹⁴⁷.

6.1 Les parties et les faits

Loops LLC (ci-après « Loops ») est détenteur d'un brevet canadien (Can Brevet n° 2,577,109) et américain (É-U Brevet n° 8,448,285). Elle a entrepris en décembre 2012 une poursuite en Cour fédérale contre une société constituée en vertu de la loi de l'Ontario, Maxill Inc (Maxill), alléguant que sa brosse à dents « Supermaxx » contrefait le brevet de Loops¹⁴⁸. En défense, Maxill invoque l'absence de contrefaçon par son produit et l'invalidité du brevet de Loops.

L'affaire s'est finalement réglée par médiation où une entente de règlement confidentielle a été signée par les parties, puis entérinée par la Cour fédérale¹⁴⁹. Cette entente stipule que Maxill ne doit pas importer, exporter, fabriquer, vendre ou offrir de vendre sa brosse à dents Supermaxx à quel qu'endroit que ce soit dans le monde¹⁵⁰. Cette entente est également assortie d'une clause de non-contestation de la validité des brevets, qui est au cœur même du litige (ci-après la « clause de non-contestation »). Celle-ci stipule que

Maxill Canada and Shaw agree not to directly or indirectly assist any person in attacking the validity of:

as set out in Schedule B hereto¹⁵¹.

Cette annexe B fait référence à divers brevets dont celui que Loops possède aux États-Unis, ce qui démontre l'applicabilité de cette entente de règlement confidentielle aux États-Unis¹⁵². S'en sont suivies l'action au Canada dont il est question dans le présent article et deux actions connexes aux États-Unis.

6.2 L'historique judiciaire

En 2015, Loops intente l'action canadienne devant la Cour supérieure de justice de l'Ontario contre Maxill pour violation de l'entente de règlement confidentielle. Loops allègue que Maxill aurait vendu des brosses à dents en contravention avec l'entente de règlement confidentielle. En 2018, Loops modifie sa requête pour y ajouter que Maxill aurait aussi violé ses obligations relatives à la confidentialité de l'entente et également celles concernant la clause de non-contestation¹⁵³. Mais pourquoi avoir attendu trois ans pour effectuer cet amendement à sa requête?

Pour répondre à cette question, il faut savoir qu'en septembre 2017, Loops a intenté un recours dans l'Utah notamment contre Maxill pour contrefaçon de son brevet¹⁵⁴. En outre, en décembre 2017, une autre action a été intentée par Loops dans l'État de Washington, cette fois-ci contre Maxill Ohio, une filiale de Maxill incorporée en Ohio. Dans cette affaire, Maxill Ohio invoque comme moyen de défense l'invalidité du brevet américain de Loops en plus de l'absence de contrefaçon du brevet¹⁵⁵. Loops a souhaité joindre ces deux recours américains dans l'État de Washington, mais cela lui fut refusé aux motifs que

The settlement agreement at issue was between Loops and Maxill Inc., a Canadian corporation ("Maxill-Canada"); Maxill Inc., an Ohio corporation ("Maxill-Ohio") was not a party to the settlement agreement. [...] Thus, even if the settlement agreement precludes Maxill-Canada from "attacking the validity" of United States Patent No. 8,448,285 (the "'285 Patent"), it does not prevent Maxill-Ohio from doing so. Moreover, the "no-challenge" clause contained in the settlement agreement is unenforceable in this patent litigation with regard to the '285 Patent. [...] The Canadian lawsuit that culminated in the settlement agreement and a consent judgment involved only Canadian Patent No. 2,577,109, and the validity of the '285 Patent was not at issue in the prior proceedings¹⁵⁶.

146 *Mud Engineering Inc v Secure Energy Services Inc*, 2020 CF 1049 au para 31.

147 *Loops LLC v Maxill Inc*, 2020 ONSC 5438 au para 64 [*Loops LLC*].

148 *Ibid* au para 3.

149 *Ibid* aux paras 3, 6.

150 *Ibid* au para 3.

151 *Ibid* au para 4.

152 *Ibid* au para 5.

153 *Ibid* aux paras 7, 8.

154 *Ibid* au para 9.

155 *Ibid* au para 10.

156 *Ibid* au para 11.

Suite à ce refus, Loop a demandé une injonction interlocutoire visant à interdire Maxill de contester la validité de son brevet américain, et ce, sur la base de la clause de non-contestation¹⁵⁷. La juge des requêtes a analysé la position des parties sur la base de l'arrêt *RJR-Macdonald Inc c Canada (Procureur général)* pour finalement refuser d'émettre l'injonction¹⁵⁸. Loops fait appel de cette décision devant la Cour divisionnaire de la Cour supérieure de justice de l'Ontario.

6.3 La décision de la Cour divisionnaire de la Cour supérieure de l'Ontario

Les juges d'appel ont analysé en détail la démarche de la juge saisie de la requête, à savoir s'il fallait ou non octroyer une injonction en faveur de Loops.

6.3.1 La présence d'une question sérieuse à juger

Sur cet élément, la juge saisie de la requête n'était pas satisfaite qu'il y avait eu violation de l'entente de confidentialité. Selon elle, la contestation de la validité du brevet américain de Loops avait été effectuée par Maxill Ohio, une entité distincte de Maxill qui, pour sa part, est partie à l'entente de règlement à l'amiable confidentielle¹⁵⁹. Cela constitue cependant une erreur, l'analyse devant plutôt déterminer si Maxill a *prima facie* contrevenu à l'entente de règlement, ce qui est le cas¹⁶⁰. En effet, dans l'action intentée dans l'Utah, Maxill a bel et bien invoqué l'invalidité du brevet américain de Loops et la preuve démontre que les deux entités, tant Maxill que Maxill Ohio ont invoqué comme moyen de défense la non-contrefaçon du brevet et son invalidité¹⁶¹.

Quant à la portée de la clause de non-contestation, la position des parties n'est pas la même : un différend existe quant à savoir si la clause est absolue ou si elle permet d'attaquer la validité du brevet en défense¹⁶². D'un côté, Maxill prétend que la clause lui interdit d'invoquer directement l'invalidité du brevet de Loops, mais que cela ne l'empêche pas de l'invoquer comme moyen de défense.

De l'autre, Loops plaide que l'entente de règlement interdit à Maxill d'attaquer la validité du brevet, et ce, tant directement qu'indirectement¹⁶³.

Pour la Cour divisionnaire, la clause de non-contestation n'est pas ambiguë : « by the restrictive covenant the Maxill interests have agreed not to challenge the validity of the U.S. Patent and in breach of that agreement Maxill Canada has been a party to pleadings in the action in Washington asserting that the U.S. Patent is invalid »¹⁶⁴. Les trois juges d'appel concluent donc à la présence d'une question sérieuse à juger et considèrent que la juge saisie de la requête a commis une erreur, notamment en déterminant qu'une clause de non-contestation n'est pas raisonnable dans l'intérêt public¹⁶⁵.

En effet, ce raisonnement était basé sur des décisions américaines qui concluaient que les clauses de non-contestation étaient contraires à la bonne administration de la justice et n'étaient donc pas exécutoires¹⁶⁶. Or, ces décisions ne constituent pas des précédents contraignants vis-à-vis la présente situation puisqu'elles ne proviennent pas du Canada. D'ailleurs, elles ont été examinées et rejetées par des tribunaux du Québec et de l'Ontario¹⁶⁷. Dans l'affaire *Asturiana de Zinc v Canadian Electrolytic Zinc Ltd*, la Haute Cour de Justice de l'Ontario avait déjà reconnu la validité des clauses de non-contestation et même mentionné que le raisonnement applicable aux États-Unis n'avait pas à être nécessairement suivi au Canada¹⁶⁸. Qui plus est, rien n'a été avancé en preuve pour démontrer, comme l'a prétendu la juge saisie de la requête, que le prix de telles clauses est trop élevé ou encore qu'elles représentent une menace pour la confiance du public envers l'administration de la justice¹⁶⁹. De plus, l'acceptation de la clause de non-contestation dans le contexte du règlement d'un litige portant sur la violation présumée d'un brevet peut être maintenue parce qu'elle confère une prédominance à la politique en faveur de la protection des ententes de règlement¹⁷⁰.

En raison de ces arguments, de la preuve présentée et à la lumière de la jurisprudence applicable, les juges d'appel de

157 *Ibid* au para 13.

158 *RJR-Macdonald Inc c Canada (Procureur général)*, [1994] 1 RCS 311. Les trois critères donnant lieu à une injonction interlocutoire étant 1) la présence d'une question sérieuse à juger; 2) le préjudice irréparable si une injonction n'est pas accordée; et 3) la prépondérance des inconvénients, à savoir si elle milite en faveur ou non d'accorder l'injonction.

159 *Loops LLC*, *supra* note 147 aux paras 17, 22.

160 *Ibid* aux paras 22, 39 : « The evidence and the wording of the agreement demonstrate that the motion judge erred in finding that there was not a strong *prima facie* case of breach of the terms of the settlement agreement. »

161 *Ibid* aux paras 26, 29, 30.

162 *Ibid* au para 42.

163 *Ibid* au para 37.

164 *Ibid* au para 45.

165 *Ibid* aux paras 45, 48, 49. En effet, la juge de première instance mentionne dans *Loops v Maxill Inc*, 2020 ONSC 971 aux paras 70, 71 que « [70] In a contract that includes a "No Challenge Clause", the price to pay by one party is access to a potentially valid legal position that has potential to affect the public at large. In my view, that price is simply too high if public trust and confidence in the administration of justice are to be maintained. [71] For these reasons and the public policy reasons cited by the American courts above with which I concur, I find that the restrictive covenant in the Agreement is not reasonable in the public interest. »

166 *Loops LLC*, *supra* note 147 aux paras 56, 57.

167 *Ibid* au para 58.

168 *Asturiana de Zinc v Canadian Electrolytic Zinc Ltd*, 1979 CarswellOnt 1555 (H Ct J) aux paras 6, 8; *Loops LLC*, *supra* note 147 aux paras 63, 64.

169 *Loops LLC*, *supra* note 147 au para 64.

170 *Ibid* au para 70.

la Cour divisionnaire ont conclu à la présence d'une question sérieuse à juger et qu'ainsi, la clause de non-contestation devait être appliquée¹⁷¹.

6.3.2 Le préjudice irréparable si l'injonction n'est pas accordée

La juge saisie de la requête n'a pas conclu à un préjudice irréparable pour Loops si l'injonction n'était pas accordée. En effet, si Maxill était en mesure de présenter comme défense à la contrefaçon du brevet américain de Loops l'invalidité de celui-ci, le litige ne serait pas pour autant définitivement réglé¹⁷². Cela ne permettrait au tribunal américain que de recevoir de la preuve et des plaidoyers et ne causerait pas un préjudice irréparable, mais plutôt un préjudice spéculatif, tel qu'avait avancé Maxill¹⁷³.

Cela n'est toutefois pas le point de vue des juges siégeant en appel. En effet, ceux-ci déterminent que « [t]he loss of Loops' ability to hold Maxill to its bargain [la clause de non-contestation présente dans l'entente de règlement] and prohibit Maxill from attacking the validity of the U.S. patent is an irreparable harm. It will change the nature of the case that goes forward »¹⁷⁴. En effet, les procès aux États-Unis seront complètement différents si les moyens de défense allégués ne sont pas les mêmes. Par ailleurs, le préjudice causé par l'impossibilité pour Loops de pouvoir compter sur la clause de non-contestation, un droit conféré par l'entente de règlement, ne pourra être réparé par voie de dommages-intérêts¹⁷⁵.

6.3.3 La prépondérance des inconvénients

Devant la Cour supérieure, la juge saisie de la requête a déterminé que la prépondérance des inconvénients était en faveur de Maxill. Selon elle, une fois l'injonction accordée, Maxill ne pourrait invoquer que le brevet américain de Loops est invalide et serait donc à risque de devoir payer des dommages pour contrefaçon¹⁷⁶.

Les juges d'appel précisent toutefois que la prépondérance des inconvénients et le préjudice irréparable sont parfois interreliés, ce qui est le cas en l'espèce. En l'absence de l'injonction, le brevet américain de Loops pourrait être jugé invalide. Si tel était le cas et qu'il était subséquemment déterminé que Maxill n'aurait pas dû être en mesure d'invoquer cette invalidité, rectifier la situation serait très difficile¹⁷⁷. Cela a donc fait pencher la prépondérance des inconvénients en faveur de l'appelant Loops¹⁷⁸.

Ce faisant, l'appel a été accueilli, la décision de la juge saisie de la requête renversée et Loops a pu bénéficier d'une injonction interdisant à Maxill de contester la validité du brevet américain de Loops et ce, tant directement qu'indirectement¹⁷⁹.

En conclusion, la décision *Loops LLC* est intéressante puisqu'elle confirme que les clauses de non-contestation de la validité d'un brevet ne sont pas contraires à l'ordre public et qu'elles sont donc valides, notamment dans le cadre d'une entente de règlement à l'amiable. Notons qu'une telle clause pourrait aussi être présente dans un contrat de licence.

7.0 Conclusion

Pour conclure, l'année 2020 a été remplie de décisions diversifiées relatives au droit des brevets non pharmaceutiques. La Cour fédérale dans *Choueifaty* a analysé et s'est prononcé pour une première fois en sept ans sur les démarches de l'OPIIC où elle a conclu que l'approche « problème-solution » n'était pas la méthode à suivre pour analyser les revendications du brevet, mais qu'il fallait plutôt interpréter les revendications à la lumière de la jurisprudence applicable. Le même tribunal a eu l'opportunité d'analyser l'article 53.1 de la *Loi sur les brevets* dans la décision *Allergan*. Le juge en chef Crampton a conclu que seules les communications effectuées par le breveté, et non par le licencié, et l'OPIIC pouvaient être admises en preuve afin d'interpréter les revendications du brevet.

De son côté, la Cour d'appel fédérale a également eu l'opportunité de rendre deux décisions fort intéressantes. D'abord, l'affaire *Nova Chemicals v Dow Chemicals* a permis de réitérer et clarifier l'application des principes relatifs à la restitution des profits à la suite de la contrefaçon d'un brevet. Ensuite dans *Salt Canada*, la cour a analysé l'historique de la jurisprudence des cours fédérales pour conclure que la Cour fédérale a compétence, alors qu'elle exerce ses pouvoirs, pour interpréter une entente contractuelle.

Finalement, la Cour supérieure de justice de l'Ontario a rendu une décision très pertinente dans le domaine des ententes de règlement. En effet la décision *Loops LLC* a confirmé qu'une clause de non-contestation de la validité d'un brevet n'était pas contraire à l'ordre public et pouvaient donc être appliquée, notamment en raison de la primauté que nous devons accorder à la protection des ententes de règlement.

171 Ibid aux paras 72, 73.

172 Ibid au para 75.

173 Ibid aux paras 75, 76.

174 Ibid au para 77.

175 Ibid.

176 Ibid au para 78.

177 Ibid au para 79.

178 Ibid au para 80.

179 Ibid au para 83.



Mitchell Folk

More Problem Than Solution? Patent Subject-Matter Eligibility Following *Choueifaty* and CIPO's 2020 Practice Notice*

Mitchell Folk**

Abstract

The Canadian Intellectual Property Office's (CIPO's) use of a problem-solution approach unfairly denied patents to inventors of business methods, diagnostic methods, and computer-implemented inventions by failing to consider the inventor's intentions when determining the essential elements of the invention. With important and practical elements excluded from consideration, the remaining elements were left vulnerable to being found patent-ineligible "abstract" subject matter. In *Choueifaty*, the Federal Court reiterated the Supreme Court of Canada's holding in *Free World Trust* that an element is essential if the inventor intends it to be. Following *Choueifaty*, CIPO issued an updated practice notice. This article argues that CIPO has incorporated its previous error into its updated practice notice by recycling the problem-solution approach and establishing a physicality requirement. Thus, despite *Choueifaty*, patent applications that describe atypical, non-physical subject matter are nonetheless likely to experience the same fate as under the previous regime.

Résumé

L'Office de la propriété intellectuelle du Canada (OPIC) utilise un processus de résolution de problèmes en vertu duquel l'Office refuse injustement d'octroyer des brevets aux inventeurs de méthodes commerciales, de méthodes de diagnostic et d'inventions mises en œuvre par ordinateur, en omettant de prendre en compte les intentions de l'inventeur lors de sa détermination des éléments essentiels de l'invention. En excluant de prendre en compte certains éléments importants et concrets, les éléments restants se sont retrouvés en situation de vulnérabilité de devenir des objets « abstraits » inadmissibles à la brevetabilité. Dans l'affaire *Choueifaty c. Procureur général du Canada*, la Cour fédérale a réaffirmé les conclusions de la Cour suprême du Canada dans l'affaire *Free World Trust c. Électro Santé Inc.*, en précisant qu'un élément est essentiel si l'inventeur a manifestement voulu qu'il le soit. À la suite du jugement rendu dans l'affaire *Choueifaty*, l'OPIC a publié une version mise à jour de son énoncé de pratique. Cet article prétend que l'OPIC a incorporé son erreur précédente dans l'énoncé de pratique mis à jour en recyclant le processus de résolution de problèmes et en établissant une exigence en matière de physicalité. Par conséquent, malgré la décision rendue dans l'affaire *Choueifaty*, les demandes de brevets qui décrivent un objet atypique et non physique seront néanmoins susceptibles de connaître le même sort qu'en vertu du régime antérieur.

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Contents

1.0	Introduction	51
2.0	Choueifaty v Canada (Attorney General)	51
2.1	The Decision of the Commissioner of Patents	51
2.2	The Decision of the Federal Court	52
3.0	The Decision in Choueifaty Is Consistent with the Jurisprudence	53
4.0	Significant Barriers Remain for the Patenting of Certain Subject Matter Despite <i>Choueifaty</i>	53
4.1	The “Actual Invention” Approach Recycles the Disclaimed Problem-Solution Approach	54
4.2	CIPO Physicality Requirement Is Inconsistent with Case Law and Confused with the Prohibition Against Abstract Subject Matter	55
4.3	The Collective Impact of the “Actual Invention” Test and Physicality Requirement Is a Dead Blow to Inventors	56
5.0	Conclusion	57

1.0 Introduction

The Canadian Intellectual Property Office’s (CIPO’s) interpretation of the *Patent Act* requirement that “no patent shall be granted for any mere scientific principle or abstract theorem” has dogged inventors of certain business methods, diagnostic methods, and computer-implemented inventions (referred to throughout as “atypical inventions”).¹ In prosecuting claims for such atypical inventions, CIPO has commonly used the prohibition on abstract subject matter to deny otherwise valid claims by substituting the inventor’s characterization of the invention with its own characterization (that is, that the inventor had *really* only invented an abstract idea, like an algorithm, and therefore claimed non-patentable subject matter). With its “problem-solution approach,” CIPO effectively enacted a moratorium on patenting atypical subject matter. On August 21, 2020, the Federal Court released its decision in *Choueifaty v Canada (Attorney General)*.² The decision of Zinn J is brief and cogent and confirms that the inventor’s intention is paramount to the proper construction of a patent claim. Yet, despite a barrier to inventors being lifted, another was created: CIPO’s updated practice notice. CIPO’s retention of its problem-solution approach and its interpretation of the law in respect of physicality may continue to challenge inventors of atypical subject matter.

2.0 Choueifaty v Canada (Attorney General)

2.1 The Decision of the Commissioner of Patents

On June 19, 2008, inventor Yves Choueifaty, president and chief investment officer of investment management firm TOBAM SAS, sought a patent for a “method and system for provision of an anti-benchmark portfolio.” The invention, which would use a computer to execute a method of weighing and selecting assets for an investment portfolio in a manner that would minimize risk without impacting returns, was denied a patent for failing to disclose an invention under section 2 of the *Patent Act*. Mr Choueifaty filed a revised claim with his appeal to the Patent Appeal Board, which characterized the invention as an optimization procedure that would allow a computer to solve an anti-benchmark equation significantly faster and with less processing power. The revised claim also included an affidavit of Tristan Froidure, head of research at TOBAM, attesting that a person skilled in the relevant art would readily recognize the significant increase in computer functionality that would arise by using the invention, known as the Choueifaty Synthetic Asset Transformation, to transform the diversification ratio from a quasi-concave problem to a convex problem.

In rejecting the appeal, the board applied the guidance of CIPO’s *Manual of Patent Office Practice*,³ which requires that a “problem-solution” approach be used to determine

¹ *Patent Act*, RSC 1985, c P-4, s 27(8).

² 2020 FC 837 [*Choueifaty*].

³ Canadian Intellectual Property Office, *Manual of Patent Office Practice* (June 2015), online: <http://www.ic.gc.ca/eic/site/cipointer-net-internetopic.nsf/eng/h_wr00720.html> [MOPOP].

the essential elements of the invention.⁴ The problem-solution approach identifies the essential elements of the claim by asking whether a person skilled in the art, applying their common general knowledge, would consider an element necessary to solving the disclosed problem using the proposed solution.⁵ The board found that the problem addressed by the invention was “a financial portfolio engineering and investing problem to reduce the volatility of an investor’s portfolio in comparison to the market and return to risk ratio.”⁶ The disclosed solution, according to the board, was “the construction of an anti-benchmark portfolio, wherein the weighting of each security within the portfolio is calculated according to an anti-benchmark ratio such that the portfolio of securities maximizes diversification using a scalable long-only approach within a given universe of securities.”⁷ The board concluded that the essential elements of the invention were “directed to a scheme or rules involving mere calculations used to construct the anti-benchmark portfolio” and “[a]ccording to PN 2013-03, such schemes or rules are not patentable subject matter.”⁸ Put simply, the board determined that the problem was a business problem and the solution was a business method. The applicant asserted that the computer-related elements were essential as the revised claim described an improvement in computer technology.⁹ While the board noted that “where a computer is found to be an essential element ... the claim will generally be statutory,” it disagreed that a person skilled in the relevant art would view the computer elements as essential to the claim, finding that the problem remained “a need to reduce the volatility of an investor’s portfolio in comparison to the market and return to risk ratio.”¹⁰ The board was silent on whether Mr Choueifaty’s intention as the inventor rendered a computer an element essential, either alone or by directing the problem and solution to a computer technology improvement. The commissioner of patents affirmed the decision of the board in February 2019.

2.2 The Decision of the Federal Court

Two issues were submitted for consideration by Zinn J. The appellant claimed that the commissioner had erred by applying the wrong legal test in the problem-solution approach and in not finding the computer to be an essential element. The first issue, as a matter of statutory interpretation, was reviewable on a correctness standard, while the second, as a question of mixed fact and law, was subject to a test of palpable and overriding error.¹¹

The appellant and the respondent agreed that a purposive construction of the claim was required.¹² The respondent

submitted that the problem-solution approach as described by MOPOP is a logical derivation of purposive claim construction and is consistent with leading case law. The appellant submitted that the problem-solution approach ignores the instruction of the Supreme Court of Canada in *Free World Trust* that an element is essential where the inventor intends that it be such.¹³

Binnie J, writing for the Supreme Court, provided the leading direction on patent construction in *Free World Trust*, a case about patent validity, and *Whirlpool*,¹⁴ a case about patent infringement. Binnie J noted in *Whirlpool* that the “[t]he key to purposive construction is therefore the identification by the court, with the assistance of the skilled reader, of the particular words or phrases in the claims that describe what the inventor considered to be the ‘essential’ elements of his invention.”¹⁵ Binnie J framed this principle negatively at para 55 in *Free World Trust*, saying that “[f]or an element to be considered non-essential and thus substitutable, it must be shown either (i) that on a purposive construction of the words of the claim it was clearly not intended to be essential, or (ii) that at the date of publication of the patent, the skilled addressees would have appreciated that a particular element could be substituted without affecting the working of the invention.”¹⁶ Furthermore, “[t]he words chosen by the inventor will be read in the sense the inventor is presumed to have intended, and in a way that is sympathetic to accomplishment of the inventor’s purpose expressed or implicit in the text of the claims.”¹⁷

Zinn J’s analysis in *Choueifaty* dispensed with the problem-solution approach in two ways. First, he confirmed that *Free World Trust* and *Whirlpool* apply to the patent examiners, and therefore the inventor’s intention must be considered in interpreting the claim. Second, he reasoned that the methodology of the problem-solution approach is excluded by *Free World Trust*.

Zinn J began by examining the instruction provided by MOPOP, finding that although section 13.05 of MOPOP references *Free World Trust* and *Whirlpool*, “[i]t is evident on a reading of the MOPOP that the Commissioner ... does not intend or direct patent examiners to follow [their] teachings.” Instead, the commissioner distinguished those cases by relying on *Genencor International Inc v Canada (Commissioner of Patents)*,¹⁸ which says:

4 MOPOP s 13.05.02Cc; *Choueifaty*, *supra* note 2 at appendix A.

5 *Commissioner’s Decision No 1478* (27 February 2019), online: Canadian Intellectual Property Office <<https://brevets-decisions-patents.opic-cipo.gc.ca/pab-cab/p/en/item/467998/index.do?q=2%2C635%2C393>> at para 15.

6 *Ibid* at para 40.

7 *Ibid*.

8 *Ibid* at para 54, citing Canadian Intellectual Property Office, Practice Notice, “Examination Practice Respecting Computer-Implemented Inventions” (8 March 2013) [PN 2013-3].

9 *Ibid* at paras 43, 64.

10 *Ibid* at para 24.

11 *Canada (Minister of Citizenship and Immigration) v Vavilov*, 2019 SCC 65 at para 37.

12 *Choueifaty*, *supra* note 2 at paras 27–28.

13 *Free World Trust v Electro Santé Inc*, 2000 SCC 66 [*Free World Trust*].

14 *Whirlpool Corp v Camco Inc*, 2000 SCC 67 [*Whirlpool*].

15 *Ibid* at para 45.

16 *Supra* note 13 at para 55.

17 *Ibid* at para 51.

18 2008 FC 608 [*Genencor*].

Whirlpool was, of course, an impeachment proceeding. It was not a re-examination proceeding and I am satisfied that the foregoing, in all its implications, was directed to trial judges and to judges of courts of appeal and not to patent examiners in the course of examinations to determine whether applications for patents should be granted or in the course of re-examinations as here.¹⁹

Zinn J concluded that *Genencor* is neither binding on him nor is it good law in light of *Amazon.com, Inc.*²⁰ *Amazon*, also an appeal of the commissioner's refusal to grant a patent, explicitly and impliedly overruled *Genencor*. Sharlow JA, writing for the court, stated that "the jurisprudence of the Supreme Court of Canada, in particular *Free World Trust* and *Whirlpool*, requires the Commissioner's identification of the actual invention to be grounded in a purposive construction of the patent claims."²¹ *Free World Trust* also applies (and therefore *Genencor* does not) because the commissioner, like a trial judge, is determining patent validity when assessing an application. Sharlow JA found that, in prosecuting a patent claim, "the Commissioner is essentially determining whether, if the patent application is granted for the patent claims as set out in the patent application, the resulting patent would be valid."²²

In *Choueifaty*, Zinn J also found the problem-solution approach to be conceptually similar to the "substance of the invention" approach prohibited in *Free World Trust* and thus concluded that it should be rejected, although Zinn J provided no reasons for such. The "substance of the invention" approach held that a patent claim was to be considered abstractly for its essence or substance in addition to the literal words of the claim.²³ However, when "the inquiry is no longer anchored in the language of the claims, the Court may be heading into unknown waters without a chart."²⁴

Because the first issue was dispositive of the appeal, the second issue was not addressed by Zinn J, except to note that the commissioner failed to provide reasons for excluding the appellant's second characterization of problem and solution and to say that the second claim requires closer examination.

Zinn J ordered the commissioner to set aside her refusal and reconsider the application.

3.0 The Decision in *Choueifaty* Is Consistent with the Jurisprudence

Zinn J's interpretation of *Free World Trust* and *Whirlpool* accords with the jurisprudence of the Federal Court and Court of Appeal.²⁵ In *Mediatube Corp.*, Locke J wrote: "The claims language will, on a purposive construction, show that some elements of the claimed invention are essential while others are non-essential ... according to the intent of the inventor, expressed or inferred from the claims, that a particular element is essential irrespective of its practical effect."²⁶ Likewise, in *Tearlab Corporation*, the Federal Court of Appeal, speaking through DeMontigny JA, found that the court, in undertaking a purposive construction, ought to identify "the particular words or phrases in the claims that describe what the inventor considered the 'essential elements' of the invention and to give the legal protection to which the holder of a valid patent is entitled only to the essential elements."²⁷ Zinn J was right to hold that the commissioner is bound to consider the intention of the inventor in determining the essential elements of a claim.

4.0 Significant Barriers Remain for the Patenting of Certain Subject Matter Despite *Choueifaty*

CIPPO has, according to Siebrasse, enacted a prohibition on the patent of atypical subject matter through *PN 2013-03* and *MOPOP*.²⁸ However, there is no legal bar to business method patents in Canada per se, a point recognized by the board in its rejection of *Choueifaty*'s appeal.²⁹ Siebrasse argues that the prohibition occurs when patent examiners change the lens through which they view claims during prosecution. To prohibit subject matter, examiners narrow their focus to the essence (or substance, as it was described in *Free World Trust*) of the invention to conclude that the "inventive idea" is abstract and therefore not patentable per section 27(8) of the *Patent Act*. To permit subject matter, examiners emphasize the full and proper wording of the claim.³⁰ That adjustment is perhaps what Zinn J contemplated when he noted the similarity of the problem-solution approach and substance of the invention approach.³¹

19 *Ibid* at para 62.

20 *Canada (Attorney General) v. Amazon.com, Inc*, 2011 FCA 328 [*Amazon*].

21 *Ibid* at para 43.

22 *Ibid* at para 33.

23 *Free World Trust*, *supra* note 13 at para 39.

24 *Ibid* at para 46.

25 See also *Flatwork Technologies, LLC (Powerblanket) v Brierley*, 2020 FC 997 at para 47; *Janssen Inc v Teva Canada Ltd*, 2020 FC 593 at para 96; *NuWave Industries Inc v Trennen Industries Ltd*, 2020 FC 867 at para 23; *Bauer Hockey Corp v Easton Sports Canada Inc*, 2010 FC 361 at para 110, *aff'd* 2011 FCA 83; *Eli Lilly & Co v Apotex Inc*, 2009 FC 991 at para 87, *aff'd* 2010 FCA 240, leave to appeal to SCC refused, 33946 (22 November 2010).

26 *Mediatube Corp v Bell Canada*, 2017 FC 6 at para 32, *aff'd* 2019 FCA 176, leave to appeal to SCC refused, 38797 (19 March 2020) [*Mediatube Corp*].

27 *Tearlab Corporation v I-MED Pharma Inc*, 2019 FCA 179 at para 31 [*Tearlab Corporation*].

28 See Norman Siebrasse, "CIPO's Approach to Patentability of Computer-Implemented Inventions" (11 September 2020), online (blog): *Sufficient Description* <<http://www.sufficientdescription.com/2020/09/cipos-approach-to-patentability-of.html#more>> [Siebrasse, "CIPO's Approach"]; Norman Siebrasse, "The Structure of the Law of Patentable Subject Matter" (2011) 23:2 IPJ 169 [Siebrasse, "Structure of the Law of Patentable Subject Matter"].

29 *Supra* note 2 at para 53.

30 Siebrasse, "CIPO's Approach," *supra* note 28 at para 13.

31 *Choueifaty*, *supra* note 2 at para 37.

Indeed, a review of the commissioner's decisions shows a penchant for denying patents to atypical subject matter. In the year preceding the Federal Court's decision in *Choueifaty*, the commissioner received 43 appeals related to computer-implemented inventions and business methods, and each was refused (save for one file where a conditional refusal was issued). Many of those decisions held that "the claims on file do not define statutory subject-matter and thus do not comply with section 2 of the *Patent Act*."³² In one instance, when confronted with the principle that elements are presumed to be essential, the board responded that "the claim language chosen by the inventor cannot override all other considerations during purposive construction of the claims" because "a patent claim may be expressed in language that is deliberately or inadvertently deceptive."³³ To inventors, it appears that their intention rarely overrode any considerations of the board.

Following *Choueifaty*, patent professionals across Canada expressed optimism that *Choueifaty* would improve access to patents for their clients—and for good reason. At first blush, it seemed that inventors would find the ease and frequency of a successful application improved by the incorporation of their intentions in patent claim construction. However, such optimism may be premature. In response to *Choueifaty*, CIPO elected not to appeal the decision, which would risk elevating and entrenching its precedential value, and instead published a practice notice (PN-2020) that purports to update MOPOP in light of the direction from the Federal Court.³⁴

PN-2020 instructs examiners to follow a three-step process. First, the claim must receive a purposive construction to determine where a person skilled in the art would understand the inventor to have placed the fences of their claimed monopoly, acknowledging that elements are presumed to be essential unless stated otherwise, and to determine the nature of the invention.³⁵ This purposive construction determines the subject matter of the claim. Second, the subject matter is assessed for compliance with the *Patent Act*. The subject matter, composed of the essential elements, must be a new or improved art, process, machine, manufacture, or composition of matter, and must not be a mere scientific principle or abstract theorem.³⁶ Third, the "actual invention" is assessed to ensure that it has a "physical existence or manifests a discernible physical effect or change and relates to the manual or productive arts, meaning those arts involving or concerned with applied and industrial sciences as distinguished in

particular from the fine arts or works of art that are inventive only in an artistic or aesthetic sense."³⁷ The actual invention is the elements of the claim that provide a solution to a problem and includes the inventive aspect of the solution as it would appear to a person skilled in the art.³⁸ The subject matter will necessarily be the same as or less than the actual invention.³⁹

4.1 The "Actual Invention" Approach Recycles the Disclaimed Problem-Solution Approach

Courts have implored those tasked with determining validity "to capture the scope of the actual invention, rather than strictly limit the scope of claims to disclosed embodiments or allow the claim language to become divorced from what the specification conveys is the invention."⁴⁰ Yet, on inspection, it appears that CIPO's "actual invention" approach does precisely that—it divorces the invention from the specification. CIPO has seemingly revised its assessment process to limit the impact of *Choueifaty* by retaining the ultimate control of the final characterization of the "actual invention." The problem-solution approach was problematic because it unfairly excluded the inventor from describing what it invented in its own words. The final determination was instead left to "a person skilled in the art," whose sensibilities often appeared indistinguishable from those of the patent examiner. The overarching principle affirmed by *Choueifaty* is that the inventor does, in fact, get a say in what it invented. After all, would the inventor not also be a person skilled in the art considering it is the inventor's skill that conceived of the invention?

However, the updated practice note confines the application of the inventor's intention to the determination of the subject matter only. In fact, the inventor's intention is specifically disclaimed in respect to the examiner's consideration of the "actual invention." In CIPO's view, the "actual invention" cannot be beholden to the essential elements because an element might be essential only because the inventor "intended it to be essential" and not because it has any "material effect on the working of the invention."⁴¹ Instead, the "actual invention" is composed of the elements that collectively provide the "solution to a problem."⁴² Once more it seems that "the Commissioner, notwithstanding stating that the patent claims are to be construed in a purposive manner, does not intend or direct patent examiners to follow the teachings of *Free World Trust* and *Whirlpool*."⁴³

32 *Amazon Technologies, Inc (Re)*, 2020 CACP 28 at para 47 [*Amazon (2020)*]. See also *The Strategic Coach (Re)*, 2020 CACP 30; *Transcon Securities Pty Ltd (Re)*, 2020 CACP 29; *Intercontinental Exchange Holdings Inc (Re)*, 2020 CACP 27; *ExxonMobil Upstream Research Company (Re)*, 2020 CACP 25; *Waterleaf Limited (Re)*, 2020 CACP 24.

33 *Amazon (2020)*, *supra* note 32 at para 41.

34 See Canadian Intellectual Property Office, *Practice Notice*, "Patentable Subject-Matter Under the Patent Act" (3 November 2020) [PN-2020], online: <<http://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/wr04860.html>>.

35 *Ibid* at para 6.

36 *Patent Act*, *supra* note 1, ss 2, 27(8).

37 PN-2020, *supra* note 34 at para 10.

38 *Ibid* at para 12 and n 16.

39 *Ibid* at nn 13, 16.

40 *OrthoArm Inc v GAC International, LLC*, 2017 ONCA 418 at para 25 [*OrthoArm*], citing *Retractable Techs Inc v Becton, Dickinson Co*, 653 F (3d) 1296 at 1305 (Fed Cir 2011).

41 PN-2020, *supra* note 34 at para 14.

42 *Ibid* at para 12.

43 *Choueifaty*, *supra* note 2 at para 31.

In effect, CIPO has created a workaround for the direction of the Federal Court with its introduction of the “actual invention” approach, a reincarnation of the problem-solution approach that is patently inconsistent with *Free World Trust* and *Whirlpool*. The inventor’s intention can again be rendered irrelevant when its intention applies only to determining patent subject matter, and that subject matter is subordinate to the examiner-determined “actual invention.” Thus, we return to the circumstances that culminated in the *Choueifaty* decision: the inquiry ends with CIPO describing the invention to the inventor, and not the other way around. While patent applicants would be right to be concerned with this test alone, the physicality requirement is also a formidable barrier for applicants.

CIPO draws support for its position that a patent examiner must retain the final characterization of an invention because a patent claim may be “deliberately or inadvertently deceptive.”⁴⁴ However, deceptive drafting may well be a consequence of a system that unfairly bars atypical patent claims. Inventors have cast their claims in language designed to appeal to patent examiners and to limit examiners’ uneasiness with atypical subject matter. Inventors would have no reason to frame their intentions in artificial and potentially misleading ways if they knew that the validity of their claim rested solely on their description of the invention and the application of the *Patent Act* to such.

4.2 CIPO Physicality Requirement Is Inconsistent with Case Law and Confused with the Prohibition Against Abstract Subject Matter

PN-2020 discusses the physicality requirement as follows:

An actual invention that includes a disembodied idea, a scientific principle or an abstract theorem is not patentable unless the disembodied idea, scientific principle or abstract theorem is part of a combination of elements that cooperate together and that combination has physical existence or manifests a discernible physical effect or change and relates to the manual or productive arts.⁴⁵

CIPO cites *Shell Oil* and Sharlow JA’s endorsement in *Amazon* of part of Phelan J’s treatment of *Shell Oil*.⁴⁶ Interestingly, CIPO has added a single word to an otherwise direct quotation from *Amazon*: “physical.” The text of *Amazon* reads: “physical existence, or something that

manifests a discernible effect or change”; whereas CIPO’s version requires an invention to have a “physical existence or [manifest] a discernible *physical* effect or change.” In fairness to CIPO, Sharlow JA later in her decision wrote that the physicality requirement cannot be met solely on the basis of a claimed invention having a practical application, such as the execution of mathematical formula by a computer in *Schlumberger*.⁴⁷ The appellants in *Schlumberger* invented a “process whereby the measurements obtained in the [oil and gas] boreholes are recorded on magnetic tapes, transmitted to a computer programmed according to the mathematical formulae set out in the specifications and converted by the computer into useful information produced in human readable form (e.g., charts, graphs or tables of figures).”⁴⁸ The Federal Court found that “[w]hat the appellant claims as an invention here is merely the discovery that by making certain calculations according to certain formulae, useful information could be extracted from certain measurements” and ruled, although without reference to case law, that such is not an invention within the meaning of the *Patent Act*.⁴⁹

However, *Schlumberger* rests on tenuous footing for two reasons. First, this abstraction would violate the Supreme Court’s direction in *Free World Trust* not to use a “substance of the invention” approach and to incorporate the essential elements as intended by the inventor if made today. The inventor did not *only* claim that a formula could yield useful information. Rather, it discovered that this *specific* formula applied to this *specific* industrial circumstance created a commercially useful product. Second, as Siebrasse has noted, *Schlumberger* is incongruent with the Supreme Court’s holding in *Shell Oil* that “a disembodied idea is not *per se* patentable ... but will be patentable if it has a method of practical application.”⁵⁰ In fact, the Federal Court of Appeal, citing the English Court of Appeal, has found that an abstract idea can form the basis of a patent when it is coupled with a practical application:

“[I]nvention may lie in the idea, and it may lie in the way in which it is carried out, and it may lie in the combination of the two; but if there is invention in the idea plus the way of carrying it out, *then it is good subject-matter for Letters Patent*. ...

No doubt you cannot patent an idea, which you have simply conceived, and have suggested no way of carrying out, *but the invention consists in thinking of or conceiving something and suggesting a way of doing it*.⁵¹

44 PN-2020, *supra* note 34 at n 20.

45 *Ibid* at para 13.

46 *Shell Oil Co of Canada v Canada (Commissioner of Patents)*, [1982] 2 SCR 536 [*Shell Oil*]; *Amazon*, *supra* note 20 at para 66.

47 *Amazon*, *supra* note 20 at para 69, citing *Schlumberger Ltd v Canada (Commissioner of Patents)* (1981), [1982] 1 FC 845 at para 6, 38 NR 299 [*Schlumberger*].

48 *Schlumberger*, *supra* note 47 at para 1.

49 *Ibid* at para 6.

50 *Shell Oil*, *supra* note 46 at 554. See Norman Siebrasse, “The Rule Against Abstract Claims: History and Principles” (2011) 26:2 CIPR 205 at 207 [Siebrasse, “Rule Against Abstract Claims”]; Siebrasse, “CIPO’s Approach,” *supra* note 28; Siebrasse, “Structure of the Law of Patentable Subject Matter,” *supra* note 28.

51 *Hickton’s Patent Syndicate v Patents and Machine Improvements Co* (1909), 26 RPC 339 at 348 (CA) [*Hickton’s Patent*] [emphasis added], cited with approval in *Shell Oil*, *supra* note 46 at para 32; quoted with approval in *Tye-Sil Corp Ltd v Diversified Products*

Further, a practicality requirement as described in *Shell Oil* (that is, that a patent claim for a specific practical application of an idea or principle) is consistent with the law of other common-law nations, which have ruled that the physicality requirement is incorrect because it revives Moulton J's discredited vendible products rule.⁵² That rule was held not to be good law by the High Court of Australia in *NRDC*, a case later relied on by courts in the United Kingdom and New Zealand to strike down a vendible product rule in their jurisdictions.⁵³ The case is often cited for the principle that "vendible" should be treated as "requiring utility in practical affairs" and "product" be treated as "covering every end, result, outcome, or effect produced."⁵⁴ In *NRDC*, the inventor discovered a new application for known chemicals as selective herbicides. In *Shell Oil*, known chemicals were combined to create a new fertilizer. Siebrasse argues that, in Canada, *Shell Oil* therefore stands for the same principle as *NRDC*, that it is practicality and not physicality that is required, because the cases are strikingly similar on their facts, reasoning, and result.⁵⁵

CIPO's insistence on a physicality requirement appears to be pragmatic. On one hand, in virtually all cases, a practical benefit manifests in a physical effect, in which case physicality becomes an analytical shortcut to identifying a practicality in a claimed invention. In Siebrasse's view, the recurrence of a physicality test is explained by this intuitive aspect of the physicality requirement.⁵⁶ Indeed, in *Amazon*, the commissioner endorsed similar reasoning in her rejection of Amazon's appeal, finding that "[a] practical application of knowledge necessarily implies an act or series of acts resulting in a change of character or condition of a physical object."⁵⁷ On the other hand, the requirement for physicality may also arise from an underlying tacit institutional concern of an overreaching commoditization of patent law, where the boundaries of potential property rights become unworkably broad.⁵⁸ This concern is made especially tangible when the inventor's characterization of the invention is held to be paramount, and inventions are increasingly non-physical in the Information Age.

However, irrespective of the underlying reason, CIPO's physicality requirement rests on a misunderstanding of why patents are granted. A patent is not granted for the thing described in the patent, but instead for the ideas that underlie that thing. It is the inventor's disclosure of its novel coupling of an abstract idea with a practical application that warrants the reward of a patent.

As Dickson J, as he then was, wrote for the Supreme Court in *Consolboard Inc*, it is "[t]he description of the invention therein provided for is the *quid pro quo* for which the inventor is given a monopoly for a limited term of years on the invention."⁵⁹ Fletcher-Moulton LJ recognized the same in *Hickton's Patent* over 100 years ago:

I think you are losing grasp of the substance and seizing the shadow when you say that *the invention is the manufacture as distinguished from the idea*. It is much more true to say that *the Patent is for the idea as distinguished from the thing manufactured* [emphasis added].

Practicality, not physicality, properly delineates the boundary between abstract and patentable subject matter. A physical manifestation or indication is better viewed merely as a clue that subject matter *could* be patentable rather than a dispositive factor in finding that it is not.⁶⁰ As a result, CIPO's use of *Schlumberger* to ground a physicality requirement is, at best, undeserved and, at worst, in error.

4.3 The Collective Impact of the "Actual Invention" Test and Physicality Requirement Is a Dead Blow to Inventors

The "actual invention" test and physicality requirement, together, permit CIPO to continue its policy of selectively denying patents claiming atypical subject matter. The "actual invention" test gives CIPO the unilateral ability to make a subjective and final determination of the nature of an invention. The physicality requirement provides the basis on which to deny an invention a patent. At base, it is the same methodology as the previous approach: divorce the inventor's intention from the invention and then rule that the invention is non-compliant with the *Patent Act* according to CIPO's revised characterization. It is a proven one-two punch to patent applicants, though now predicated on shakier ground.

More abstractly, by grounding the physicality requirement contained in *PN-2020* in the prohibition against claims, CIPO continues to promulgate a doctrinal conflation of the rule against abstract claims and subject-matter (or field-specific) exclusions. After all, it is not that business methods, for example, suffer from abstraction—they are clearly concrete and practical; it is that they

Corp, [1991] FCJ No 124, 35 CPR (3d) 350 at 364 (FCA).

52 *Re GEC's Application* (1942), 60 RPC 1 at 4, cited by *Lawson v Commissioner of Patents*, [1970] Ex CJ No 13, 62 CPR 101 at para 32.

53 *National Research Development Corporation v Commissioner of Patents*, [1959] HCA 67, 102 CLR 252 [NRDC]. For UK application, see *Swift's Application*, [1962] 2 QB 647 at 657. For New Zealand application, see *Swift & Co v Commissioner of Patents*, [1960] NZLR 775. In the United States, *In Re Bilski*, 545 F (3d) 943, *aff'd Bilski v Kappos*, 561 US 593, served a substantially similar purpose to *NRDC*. See also Ben McEniery, "Is There a Physicality Requirement at Common Law? A Survey of the Pre-NRDC Cases Discussing 'Manufacture'" (2011) 32:1 *Adel L Rev* 109 for further discussion of the correctness of a practicality requirement over a physicality requirement in Australia.

54 *Apotex Pty Ltd v Sanofi-Aventis Australia Pty Ltd*, [2013] HCA 50 at 84–85.

55 Siebrasse, "Rule Against Abstract Claims," *supra* note 50 at 226. Siebrasse notes that the vendible products rule was likely not addressed in *Shell Oil* because it was not argued.

56 Siebrasse, "Structure of the Law of Patentable Subject Matter," *supra* note 28 at 198.

57 *Commissioner's Decision No 1290* (4 March 2009), online: Canadian Intellectual Property Office <<https://brevets-decisions-patents.opic-cipo.gc.ca/pab-cab/p/en/item/467812/index.do?q=1290>> at para 137.

58 Ben McEniery, "Physicality and the Information Age: A Normative Perspective on the Patent Eligibility of Non-Physical Methods" (2010) 10 *Chi-Kent J Intell Prop* 127.

59 *Consolboard Inc v MacMillan Bloedel (Sask) Ltd*, [1981] 1 SCR 504 at 517, 112 DLR (3d) 203 [*Consolboard Inc*].

60 See McEniery, *supra* note 53 at 167.

are treated unfairly owing to their non-physicality. The prohibition on abstract claims and prohibitions on specific subject matter are fundamentally different and have different reasons for being. The prohibition of abstract claims prevents a patentee from being rewarded where the public could not properly recognize a patentee's property claim (that is, where the fences of the patentee's monopoly reside). Subject-matter restrictions bar otherwise compliant claims from receiving protection for policy reasons (for example, higher life forms).⁶¹ "[I]t should not be a radical thesis to argue that field-specific exclusions and the rule against abstract claims are distinct doctrines, as they are codified in separate sections of the *Patent Act*," according to Siebrasse.⁶² Indeed, the Supreme Court recognized as much in *Tennessee Eastman*, in which a method of surgical treatment was excluded from patentability even though it was "clearly in the field of practical application," and in *Harvard Mouse*, in which a patent for creating an oncogenic mouse was withheld.⁶³

CIPO may continue to enforce a subject matter exclusion against atypical subject matter through a physicality requirement instead of a prohibition on abstract claims. In that respect, the experience of patent applicants may remain the same as before *Choueifat*. Although the Federal Court of Appeal in *Amazon* was called on to decide whether business methods are patentable, its response, in five paragraphs, was a familiar and lawyerly "it depends."⁶⁴ Thus, an open policy question remains about whether and to what extent business methods, diagnostic methods, and computer-implemented inventions are patentable, especially where the physicality of the invention is not apparent. If CIPO is of the view that non-physical subject matter should not be patentable (or, phrased positively, that only *objects* or *things* should be patentable), then it ought to make that case known to Parliament. After all, Parliament, at least according to the Supreme Court in *Harvard Mouse*, is the correct forum for striking a balance between patent inclusion and exclusion when the distinction is a matter of policy.⁶⁵ But in the likely absence of such a policy statement, the least that CIPO could do for inventors and the public is to prosecute claims consistently with the case law, in its entirety, and be bold enough to call its methods what they are: a subject-matter prohibition. Perhaps it might then find inventors' claims become less "deceptive."

5.0 Conclusion

The Federal Court's decision in *Choueifat* is unquestionably a win for patent applicants insofar as it corrects a jurisprudential misinterpretation by CIPO regarding claim construction, and for Yves Choueifat, who has since been granted a patent for his invention on the basis that "computer and the algorithm together form a single actual invention that has physicality and solves a problem related to the manual or productive arts."⁶⁶ However, the impact of *Choueifat* may nonetheless be dampened by the problem-solution approach retained within the "actual invention" test and the physicality requirement. Together, these two aspects of *PN-2020* allow CIPO to continue a selective prohibition on the patenting of certain atypical business methods, diagnostic methods, and computer-implemented inventions. Applicants for patents that describe atypical subject matter can continue to expect that they will find their claims "do not define physical subject-matter and thus do not comply with section 2 of the *Patent Act*" without apparent physicality. This is unlikely to change without a clear statement by Parliament or the courts that moves CIPO from its position. While patent applicants would be right to revel in their victory in *Choueifat*, it is certainly not the last time that an applicant will attend the Federal Court to seek fairness and predictability in the determination of patentable subject matter.

⁶¹ See *Harvard College v Canada (Commissioner of Patents)*, 2002 SCC 76 [*Harvard Mouse*].

⁶² Siebrasse, "Structure of the Law of Patentable Subject Matter," *supra* note 28 at 170.

⁶³ *Tennessee Eastman Co v Canada (Commissioner of Patents)*, [1974] SCR 111 at 117, 33 DLR (3d) 459 [*Tennessee Eastman*].

⁶⁴ *Amazon*, *supra* note 20 at paras 59–63.

⁶⁵ *Harvard Mouse*, *supra* note 61.

⁶⁶ *Commissioner's Decision No 1556*, (11 January 2021) online: Canadian Intellectual Property Office <<https://brevets-decisions-patents.opic-cipo.gc.ca/pab-cab/p/en/item/492141/index.do?q=1556>> at para 34.



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Protection Against Infringement of Patents in Canada*

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Abstract

In this article the authors review the patent law relating to claim construction and infringement in Canada, the United Kingdom, and the United States and explain why the law in Canada should be reformed to make it less difficult to prove infringement of a patent at trial. The opinions expressed in this article are those of the authors based on their combined experience in the prosecution and litigation of patents in Canada and are presented, in part, with the hope of starting a serious conversation about the need for reforming the law of patent protection in Canada.

Résumé

Dans cet article, les auteurs examinent certains éléments du droit des brevets, notamment la structure des revendications et l'utilisation frauduleuse des brevets, au Canada, au Royaume-Uni et aux États-Unis, en plus d'expliquer pourquoi la législation canadienne devrait faire l'objet d'une réforme pour faciliter la démonstration de l'utilisation frauduleuse d'un brevet dans le cadre d'un procès. Les opinions exprimées dans le présent article sont celles des auteurs, sur la base de leurs expériences combinées en matière de poursuites et contentieux des brevets au Canada, et elles sont présentées, en partie, dans l'espoir d'amorcer une conversation sérieuse sur la nécessité de réformer la législation canadienne sur la protection des brevets.

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Contents

1.0 Introduction.....	59	5.0 United Kingdom.....	67
2.0 Patent Infringement.....	60	5.1 Purposive Construction and the Doctrine of Equivalents....	67
3.0 Historical Perspective	60	5.2 File Wrapper Estoppel.....	69
3.1 Literal and Substantive Infringement.....	60	6.0 United States.....	70
4.0 The Current Approach	61	6.1 The Current Approach to Claim Construction and Patent Infringement.....	70
4.1 Purposive Construction	61	6.2 File Wrapper Estoppel.....	72
4.2 Purposive Construction in Patent Prosecution.....	64	7.0 What Can Be Done with Purposive Construction?	73
4.2.1 Use a Fair, Balanced, and Informed Approach.....	64	7.1 In the Patent Office.....	73
4.2.2 Identify the “Problem” and the “Solution”	64	7.2 In the Federal Court	74
4.2.3 View the Entire Specification as Context to Claim Construction	64	7.2.1 Re-Engaging with Essentiality	74
4.2.4 Determine Which Elements of the Claim Solve the Identified Problem	65	7.2.2 Use of the Disclosure	75
4.2.5 Focus on One Solution to a Problem	65	7.3 In the Supreme Court of Canada or in Parliament	77
4.3 File Wrapper Estoppel.....	66	8.0 Appendix A.....	77
		9.0 Appendix B	78

1.0 Introduction

“Why is an engine cradle essential to the invention?” That question¹ led us to write this article and ultimately to ask this question: “Why, since the turn of the millennium, have there been fewer findings in favour of patentees in Canadian patent trials than ever before?” The numbers speak for themselves: in the 30 years before 2000, patentees were successful about 58 percent of the time at trial; since then, they have been successful only about 40 percent of the time.²

The litigation process is designed so that not all cases need go to trial to resolve a dispute. In patent litigation in Canada, with few exceptions over the last 50 years, no more than half a dozen cases go to trial each year.³ To succeed at trial, a patentee must prove infringement of at least one valid claim of a patent. A satisfactorily functioning patent system presumably requires a minimum success rate for patentees at trial, but such a rate may not be quantifiable. Nonetheless, over time, the level of success would be expected to stabilize and not swing widely up or down, absent some deliberate policy decision by Parliament or some legal interpretation by the Supreme Court of Canada that “rebalances” the system one way or the other.

This article seeks to identify the reasons in the Canadian patent system for this apparent swing away from success for patentees from 58 percent to 40 percent. Could the swing be merely a

matter of randomness without any statistical significance, or is there something else at play? If it is the latter, what might it be? It does not appear to be validity; the level of success on the issue of the validity of at least one asserted claim has not changed very much from an average of about 67 percent over the last half century. Perhaps the way in which infringement is determined could account for the drop in the patentee success rate, with outcomes on the issue of infringement dropping from about 79 percent in favour of patentees in the 30 years before 2000 to 55 percent since then.

Although there are challenges in comparing success rates and outcomes in patent cases between jurisdictions, patentee success rates at trial in Canada since 2000 appear to be significantly out of step with those in other jurisdictions. According to one recent study covering roughly the same period (1998–2017), patentees were successful at trial in the United States over 60 percent of the time, compared with only 40 percent in Canada since 2000.⁴

The hypothesis of this article is that infringement has become far more difficult to establish in the Canadian patent system in the 21st century as a result of a combination of the following factors: (1) purposive construction has displaced the law of literal and substantive infringement; (2) in the application of purposive construction, scant attention is paid to the need to separate and

1 See appendix A to this article.

2 See appendix B to this article.

3 See appendix B. In only five years since 1971 have there been more than six patent trials reported in a single year.

4 PWC, “2018 Patent Litigation Study” (May 2018), online: PWC US <www.pwc.com/us/en/forensic-services/publications/assets/2018-pwc-patent-litigation-study.pdf>.

distinguish “essential”⁵ from “non-essential” elements in a claim; (3) purposive construction has often reverted to narrow and literal construction; (4) there is no “doctrine of equivalents”; and (5) many patents are drafted primarily with a view to patentability and not with a view to issues of infringement. These factors and ways in which the situation may be improved are explored in this article.

2.0 Patent Infringement

The *Patent Act* grants the patentee the monopoly or exclusive right of making, constructing, or using the invention and selling it to others, for the term of the patent.⁶ Patent infringement occurs when any person interferes with this exclusive right, including depriving the patentee of the advantage of the patented invention through making, using, and selling the invention. In the patent system, before a remedy for infringement can be given, it must first be determined whether there is infringement. Infringement is determined by asking a question of law of claim construction (what is the full scope of the claims), and then a question of fact (whether the allegedly infringing activity is within that scope).

3.0 Historical Perspective

3.1 Literal and Substantive Infringement

For most of the 20th century, Canadian courts followed a two-step approach in determining whether a patent was infringed. In the first step, the court construed the claims and determined whether the allegedly infringing act had literally taken the invention (literal or textual infringement). If it had not, the court proceeded to the second step of asking whether “in substance” the invention was wrongfully appropriated (substantive infringement).⁷

Literal infringement protected the *form* of the invention. Under this approach, the scope of patent protection was defined by the language of the patent claims, which were viewed as “fences” that an inventor had set up to demarcate the boundaries of its monopoly.⁸ A finding of literal infringement required that the alleged infringer appropriate the very text of the patent claims. Even a minor and inconsequential variation of a claim element was considered non-infringing because it fell outside the inventor’s expressed monopoly.

Whereas literal infringement considered the form of the invention, substantive infringement focused on its *substance*. The “substance” of an invention has also been referred to as

the “pith and marrow” or the “spirit.”⁹ Under the substantive infringement step, a person may be held liable for taking the substance of an invention where the accused device omitted or substituted a non-essential feature.¹⁰ As stated by the Exchequer Court of Canada in *Lightning Fastener Co v Colonial Fastener Co* and approved by Justice Mahoney of the Federal Court (as he then was) in *Globe-Union Inc v Varta Batteries Ltd*, the principle to be applied was as follows:

In each case the substance, or principle, of the invention and not the mere form is to be looked to. It has been stated in many cases that if an infringer takes the principle and alters the details, and yet it is obvious that he has taken the substance of the idea which is the subject matter of the invention, and has simply altered the details, the Court is justified in looking through the variation of details and see that the substance of the invention has been infringed and consequently can protect the inventor. And the question is not whether the substantial part of the machine or method has been taken from the specification, but the very different one, whether what is done by the alleged infringer takes from the patentee the substance of his invention.¹¹

Since substantive infringement protects the substance of an invention, the scope of patent protection under this approach can be considerably broader than literal infringement because it is not necessarily limited by the precise language of the patent claims. In the Supreme Court of Canada decision in *Dominion Manufacturers*, Justice Rinfret appeared to have tied his finding of substantive infringement to the language of the *specification* rather than to the invention in general:

[A]ccording to any fair interpretation of the language of the specification, he has taken, in substance, the pith and marrow of the invention, with all its essential and characteristic features, except in details which could be varied without detriment to the successful working of it. There is no difference in the main elements of the two structures. There is no difference in the operation. Both perform the same function in the same way. Above all, “the spirit of the invention” was infringed.¹²

5 Some noted scholars prefer “non-substitutable” to “essential.”

6 *Patent Act*, RSC 1985, c P-4, s 42.

7 *Free World Trust v Électro Santé Inc*, 2000 SCC 66 at para 46 [*Free World Trust*].

8 *Minerals Separation North American Corp v Noranda Mines Ltd*, [1947] Ex CR 306 at 352, Thorson J, rev’d 1949 CarswellNat 19 (WL Can) (SCC), aff’d 1952 CarswellNat 2 (WL Can) (PC).

9 *Electrolier Manufacturing Co v Dominion Manufacturers Ltd*, [1934] SCR 436 at 444 [*Dominion Manufacturers*].

10 *McPhar Engineering Co v Sharpe Instruments Ltd* (1960), [1956–60] Ex CR 467, 21 Fox Pat C 1 at para 128 (Ex Ct Can).

11 *Globe-Union Inc v Varta Batteries Ltd* (1981), 57 CPR (2d) 132 at 146 (FC), aff’d (1984), 80 CPR (2d) 1 (FCA), leave to appeal to SCC refused, citing *Lightning Fastener Co v Colonial Fastener Co*, [1932] Ex CR 89 at para 9, rev’d [1933] SCR 363, rev’d [1934] 51 RPC 349 (PC).

12 *Dominion Manufacturers*, supra note 9 at 444.

As inconsistent as these two approaches to patent infringement were with each other, the Canadian jurisprudence recognized and supported both. Each approach was also favoured for different policy reasons. Literal infringement promoted fairness and predictability by having the claims serve as a public notice function in defining the scope of the monopoly. However, literal infringement was criticized for being inflexible in allowing a person who has made minor and inconsequential variations to an invention to stay just outside the monopoly in order to escape liability.

In contrast, substantive infringement was lauded for its flexibility in providing a remedy for inventors in circumstances where the claimed invention was appropriated but for minor and inconsequential variations. In effect, infringement by taking the substance of an invention was the equivalent of stripping away all of the non-essential elements in the claim and reducing the claim to its essentials. However, critics have argued that an overly broad interpretation of the substance of an invention could risk conferring on a patentee the benefits of inventions that it had not in fact made but that could be deemed with hindsight to be substantially equivalent to what in fact was invented. In a system that is based on a quid pro quo bargain between the inventor and the state, this would be unfair to the public and to competitors.

This two-step approach to deciding patent infringement began to lose its footing in Canada in 1982 in *Procter & Gamble Co v Beecham Canada Ltd*,¹³ when the Federal Court of Appeal cited with approval the just-released UK House of Lords decision in *Catnic Components Ltd v Hill & Smith Ltd*.¹⁴ The *Catnic* approach focused on the primacy of the claim language and distinguished the essential features of a claim from the non-essential features.¹⁵ The approach in *Catnic* also aimed to collapse the two former approaches to patent infringement into a “single cause of action” as a way to minimize confusion.¹⁶

During the next two decades, judges at trial and on appeal struggled with how to apply the principles in *Catnic* to the Canadian law of claim construction and infringement. In *Eli Lilly & Co v O’Hara Manufacturing Ltd*, the Federal Court of Appeal applied *Catnic* to reverse a finding of infringement at trial.¹⁷ The claims at issue were for a tablet-coating machine and included the element that an exhaust inlet be “flexibly biased” against a drum. The trial judge found that O’Hara’s machines were copies of the patented machine, with the

only difference being that the exhaust inlet was mounted in a fixed, rather than a flexibly biased, position relative to the drum, which was of no real consequence. Reversing the trial judge’s finding of infringement, the Federal Court of Appeal held that since O’Hara’s machines lacked the requisite “flexibly biased” claim element, they were non-infringing. Moreover, the court stated that it must adhere to the language of the claims as drafted by the inventor:

A court must interpret the claims; it cannot redraft them. When an inventor has clearly stated in the claims that he considered a requirement as essential to his invention, a Court cannot decide otherwise for the sole reason that he was mistaken.¹⁸

The Federal Court of Appeal gave a less strict application of *Catnic* in two later cases: *Computalog Ltd v Comtech Logging Ltd* and *Imperial Oil Ltd v Lubrizol Corp*.¹⁹ It is noteworthy that the Court of Appeal was still referring to “pith and substance” infringement as the law in Canada. Several years later, however, the Supreme Court of Canada made it clear that “pith and substance” infringement was no longer the law.

4.0 The Current Approach

4.1 Purposive Construction

In two back-to-back decisions released on December 15, 2000, the Supreme Court of Canada settled the law on claim construction in Canada and, with it, the proper approach to determining patent infringement. Instead of endorsing one of the two existing approaches, the court landed somewhere between them, stating that the proper approach is based on a “purposive construction” of the claims, followed by the assessment of infringement.

Purposive construction was said to promote fairness to the patentee by interpreting claims in an informed and purposive way (as opposed to a literal interpretation), and, in doing so, also promoted fairness to the public by disciplining the scope of “substantive” claim construction and thus preventing the patentee from being granted a larger monopoly than what was bargained for.²⁰

Although Canadian courts had, since *P&G*, variously applied purposive construction as formulated by the House of Lords in

13 *Procter & Gamble Co v Beecham Canada Ltd* (1982), 61 CPR (2d) 1 (FCA) [P&G]. In that case, although a claim called for a “web” substrate, the Court of Appeal concluded that a web was not “essential” to the invention in the manner outlined in *Catnic*. Rather, any suitable substrate would do. Infringement would not be avoided by the mere substitution of another type of suitable substrate for a “web”).

14 *Catnic Components Ltd v Hill & Smith Ltd*, [1982] RPC 183 at 243 (HL (Eng)), Diplock L [*Catnic*].

15 *Ibid* at 243.

16 *Ibid* at 242.

17 *Eli Lilly & Co v O’Hara Manufacturing Ltd* (1989), 26 CPR (3d) 1 (FCA) [O’Hara].

18 *Ibid* at 7.

19 *Computalog Ltd v Comtech Logging Ltd* (1992), 44 CPR (3d) 77, 142 NR 216 (FCA); *Imperial Oil Ltd v Lubrizol Corp* (1992), 45 CPR (3d) 449, 98 DLR (4th) 1, 150 NR 207 (FCA).

20 *Free World Trust*, *supra* note 7 at paras 43, 50.

the *Catnic* case, the Supreme Court of Canada's endorsement of *Catnic* in *Free World Trust* and *Whirlpool Corp v Camco Inc*²¹ was intended to help settle much uncertainty surrounding the proper approach to patent infringement that previously existed in Canada. As the Supreme Court stated, the scope of patent protection must be both reasonably predictable and fair.²² And yet, as will be explored, the application of purposive construction to protect against infringement is not always fair.

As explained by the Supreme Court, purposive construction involves reading the claims in an "informed and purposive way" with a mind willing to understand, rather than in a purely literal sense.²³ It is from the perspective of a person skilled in the art with the common general knowledge that the patent claims should be construed. An informed and purposive construction of the words of the claims involves reading them in the context of the specification and with the sense of what the inventor is understood to have intended.²⁴

The Supreme Court also explained that it will be apparent that some elements of the claimed invention are essential (elements that cannot be substituted without affecting the way in which the invention works), while others are non-essential.²⁵ In this way, the court attempted to clarify that a purposive construction is not merely a literal reading of the claims and that infringement cannot be avoided by the mere switching of "bells and whistles":

It would be unfair to allow a patent monopoly to be breached with impunity by a copycat device that simply switched bells and whistles, to escape the literal claims of the patent. Thus the elements of the invention are identified as either essential elements (where substitution of another element or omission takes the device outside the monopoly), or non-essential elements (where substitution or omission is not necessarily fatal to an allegation of infringement).²⁶

Under purposive construction, the essentiality of a claim element is highly significant to the determination whether patent infringement has occurred. There is no infringement if an essential element is substituted for or omitted from the allegedly infringing activity or device. However, infringement may still occur with the substitution or omission of non-essential elements.²⁷ In other words, infringement of a patent

claim requires that all of its essential elements be found in the infringing activity or device, but not necessarily any of its non-essential elements.

The Supreme Court also stipulated that the onus is on the patentee to show that a claim element is non-essential and therefore substitutable. Unless the patentee establishes otherwise, claim elements are presumed to be essential.²⁸ In *Free World Trust*, Justice Binnie of the Supreme Court held that for an element to be considered non-essential, it must be shown either

(i) that on a purposive construction of the words of the claim it was clearly *not* intended to be essential, or (ii) that at the date of publication of the patent, the skilled addressees would have appreciated that a particular element could be substituted without affecting the working of the invention, i.e., had the skilled worker at that time been told of both the element specified in the claim and the variant and "asked whether the variant would obviously work in the same way", the answer would be yes.²⁹

There has been speculation that Justice Binnie intended his two-part test for essentiality to be conjunctive rather than disjunctive (that is, requiring that both questions be answered in the affirmative before the element can be found to be non-essential).³⁰ This uncertainty arises from the fact that Justice Binnie, in the same paragraph in *Free World Trust* in which he proposed the two-part test, reformulated a similar test from the United Kingdom that is conjunctive. Specifically, Justice Binnie approved of the questions ("the Improver questions") set out in *Improver Corp v Remington Consumer Products Ltd*:

(i) Does the variant have a material effect upon the way the invention works? If yes, the variant is outside the claim [that is, not caught by the monopoly of the patent]. If no:—

(ii) Would this (i.e.: that the variant had no material effect) have been obvious at the date of publication of the patent to a reader skilled in the art? If no, the variant is outside the claim. If yes:—

21 *Whirlpool Corp v Camco Inc*, 2000 SCC 67 [*Whirlpool*].

22 *Free World Trust*, *supra* note 7 at para 41.

23 *Ibid* at paras 31(c), 44, 50.

24 *Ibid* at para 51.

25 *Ibid* at para 31(e).

26 *Ibid* at para 55.

27 *Ibid* at para 31(f).

28 *Ibid* at para 57; *Pollard Banknote Ltd v BABN Technologies Corp*, 2016 FC 883 at para 74 [*Pollard*].

29 *Free World Trust*, *supra* note 7 at para 55 [emphasis in original].

30 See *Shire Canada Inc v Apotex Inc*, 2016 FC 382 at paras 137–38; but see *Halford v Seed Hawk Inc*, 2006 FCA 275 at para 13, where an element is considered essential "on the basis of the intent of the inventor as expressed or inferred from the claims, or on the basis of evidence as to whether it would have been obvious to a skilled worker at the time the patent was published that a variant of a particular element would make a difference to the way in which the invention works."

(iii) Would the reader skilled in the art nevertheless have understood from the language of the claim that the patentee intended that strict compliance with the primary meaning was an essential requirement of the invention? If yes, the variant is outside the claim.³¹

For infringement to be found for the variant in question, the answer to questions (i) and (iii) must be no and to question (ii) it must be yes.

Regardless of whether the test for essentiality is conjunctive or disjunctive, in practice patent trial counsel and judges often concede that all the elements of a claim are essential to the working of the invention or appear to skip that analytical step altogether.³² Consequently, even the slightest variation of an element that should otherwise be considered non-essential has led to a finding of non-infringement. Few cases report any attempt or resultant success to characterize a claim element as non-essential. Of the 43 patent trial cases reported since 2011, only 9 show clear attempts to argue that a claim element is non-essential, which suggests that essentiality is not often contested at trial.³³

The appellants in *Whirlpool* also attempted to argue that the principle of purposive construction should apply only to the issue of infringement and not to the issue of validity. In rejecting this argument, the Supreme Court made it clear that purposive construction applies to both infringement and validity: “the claims receive one and the same interpretation for all purposes.”³⁴ Importantly, the court also stated that “[a] patent must not of course be construed with an eye on the allegedly infringing device in respect of infringement or with an eye to the prior art in respect of validity to avoid its effect.”³⁵ Claim construction was not to be a “results-oriented” exercise. In other cases, in reiterating that the same construction applies to all issues, Canadian courts have stated that a patent cannot be

“read up” for one purpose (such as validity) and “read down” for another (such as infringement).³⁶

It is undoubtedly advantageous to a patentee on the issue of validity to have all elements of a claim be considered essential. Indeed, it is well settled that to prove that an invention has been anticipated requires that there be a single prior art reference that discloses all the essential elements of the invention at issue.³⁷ Similarly, a claim will be found to be overbroad and invalid where it fails to claim an essential element of the invention made or disclosed.³⁸ Conversely, there is an advantage to an alleged infringer on the issue of infringement to leave all elements in a claim as essential. That tension—between trying to have a claim read as broadly as possible and at the same time not exposing the claim to an attack on its validity—appears to explain some of the apparent reluctance that Canadian trial counsel have had in trying to render a claim element non-essential.

This tension is well illustrated by a recent decision of the Federal Court in *Tensar*³⁹ relating to geogrid products used in the construction industry to reinforce, contain, and filter particulate matter, and methods for making those products.

In *Tensar*, the parties simply agreed that all elements of the claims in suit were essential, and no detailed analysis of essentiality was performed by the Federal Court.⁴⁰ Instead, the court’s analysis focused on the meaning of the claim element “continuous orientation.” The patentee was apparently motivated to accept all claim elements as essential to avoid a piece of prior art that disclosed all claim elements except for the “continuous orientation” element, while the defendant was apparently motivated to accept all claim elements as essential because its defence to infringement was centred on its device’s alleged omission of the “continuous orientation” element.

In adopting the purposive construction approach in *Free World Trust*, the Supreme Court affirmed the primacy of the claim language for construing the scope of patent protection,

31 *Free World Trust*, *supra* note 7 at para 55, citing *Improver Corp v Remington Consumer Products Ltd*, [1990] FSR 181 at 182 (ChD Pat Ct) [*Improver*].

32 See, for example, *Valence Technology, Inc v Phostech Lithium Inc*, 2011 FC 174 at paras 104, 131, 151; *Dow Chemicals Co v NOVA Chemicals Corp*, 2014 FC 844 at para 34; *Georgetown Rail Equipment Company v Rail Radar Inc*, 2018 FC 70 at para 158; *Tensar Technologies, Limited v Enviro-Pro Geosynthetics Ltd*, 2019 FC 277 at para 95 [*Tensar*]; *Bessette v Quebec (Attorney General)*, 2019 FC 393 at para 108; *Seedlings Life Science Ventures, LLC v Pfizer Company ULC*, 2020 FC 1 at para 99; *ViiV Healthcare Company v Gilead Sciences Canada, Inc*, 2020 FC 486 at para 4 [*ViiV*]; *Bauer Hockey Ltd v Sport Mask, Inc (CCM Hockey)*, 2020 FC 624 at para 73 [*Bauer Hockey*].

33 See, for example, *Hollick Solar Systems Ltd v Matrix Energy Inc*, 2011 FC 1213 at para 57; *Eurocopter v Bell Helicopter Textron Canada Limitée*, 2012 FC 113 at para 246; *ABB Technology AG v Hyundai Heavy Industries Co, Ltd*, 2013 FC 947 at paras 73, 81; *Cascade Corporation v Kinshofer GmbH*, 2016 FC 1117 at para 78 [*Cascade*]; *Excalibre Oil Tools Ltd v Advantage Products Inc*, 2016 FC 1279 at paras 219, 229; *Mediatube Corp v Bell Canada*, 2017 FC 6 at para 73; *MIPS AB v Bauer Hockey Ltd*, 2018 FC 485 at paras 170–71 [*MIPS*]; *Safe Gaming System v Atlantic Lottery Corporation*, 2018 FC 542 at para 85; *Eli Lilly Canada Inc v Apotex Inc*, 2020 FC 814 at para 163.

34 *Whirlpool*, *supra* note 21 at para 49(b).

35 *Ibid* at para 49(a).

36 *Hoffmann-La Roche Limited v Apotex Inc*, 2011 FC 875 at para 22.

37 See, for example, *Eli Lilly and Company v Apotex Inc*, 2009 FC 991 at para 410, *aff’d* 2010 FCA 240, leave to appeal to SCC refused.

38 See, for example, *MIPS*, *supra* note 33 at para 247.

39 *Tensar*, *supra* note 32.

40 *Ibid* at para 95.

and it expressly rejected any vague notion of the “spirit of the invention” to expand it further.⁴¹ By adhering to the language of the claims, purposive construction was said to further the public interest of promoting predictability:

the greater the level of discretion left to courts to peer below the language of the claims in a search for “the spirit of the invention,” the less the claims can perform their public notice function, and the greater the resulting level of unwelcome uncertainty and unpredictability.⁴²

In particular, the Supreme Court expressed concerns about how a patent system that was uncertain could “chill” competition by creating fear in competitors wanting to work in areas that are not in fact protected by a patent.⁴³

It must be noted that the blatant taking of a patented invention is rarely an issue for infringement at trial. A trial about blatant infringement would usually be about the validity of the patent, not its infringement. Trials about issues of infringement are almost always about how well the defendant has concealed its taking of the invention by straying from the words in the claims. The apparent failing of purposive construction to protect against infringement is that too often the claim element is found to be essential (with either no attempt to rebut the presumption of essentiality or a finding that the onus not satisfied) and/or is given a literal rather than a purposive meaning.

What appears not to have been foreseeable by the Supreme Court was that patent counsel would so readily concede questions of claim element essentiality (and that the courts would so readily accept essentiality). Consequently, few cases reveal the parties contesting the essentiality of a claim element; instead, analytical battles are fought almost exclusively on the “purposive meaning” of elements. The effect is that the essentiality analysis (recognized by the Supreme Court in *Free World Trust* as being an important analytical step to prevent an infringer from breaching a patent monopoly with impunity by switching “bells and whistles”) has become an afterthought. As a result, it is suggested that purposive construction has failed to provide the degree of protection against infringement intended by the Supreme Court.

The Supreme Court also expressly considered the doctrine of equivalents, used in the US patent system to overcome the limited patent protection that is accorded to a patentee under literal infringement. The Supreme Court of Canada chose not to import the doctrine into Canadian law, having concluded that purposive construction does the trick.⁴⁴ To be consistent, the Supreme Court rejected “file wrapper estoppel,” the law developed in the United States to prescribe limits on how a patentee can construe claims, in light of arguments or concessions made during prosecution.⁴⁵

4.2 Purposive Construction in Patent Prosecution

As described above, claims are to receive “one and the same interpretation for all purposes.” Consistent with this, during examination of a patent application, the Commissioner of Patents is required to identify the actual invention on the basis of a purposive construction of the claims.⁴⁶ The Patent Office takes the position that claim construction during examination “requires an examiner to interpret each claim” based on a set of practice guidelines,⁴⁷ summarized below:

4.2.1 Use a Fair, Balanced, and Informed Approach

A “fair, balanced, and informed” approach is effectively a purposive approach and involves reading the specification as a whole through the eyes and mind of a person who is skilled in the art and who possesses the common general knowledge in the relevant field of the invention at the time of publication of the application. By purposively construing the meaning of the terms in the claims, the examiner can ascertain the nature of the invention.

4.2.2 Identify the “Problem” and the “Solution”

Since the patentability of an invention is based on a determination that it provides an inventive solution to a practical problem, the examiner, to identify the problem and the solution sought by the inventors, should be guided by the description in the patent application and not by the closest prior art.

41 *Free World Trust*, *supra* note 7 at para 31(d).

42 *Ibid* at para 50.

43 *Ibid* at paras 41–42.

44 *Ibid* at paras 37–40.

45 *Ibid* at para 66.

46 *Canada (Attorney General) v Amazon.com, Inc*, 2011 FCA 328 at para 43 [Amazon].

47 Canadian Intellectual Property Office, “Examination Practice Respecting Purposive Construction—PN2013-02” (8 March 2013), online (pdf): CIPO <[https://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/vwapj/PN2013-02-eng.pdf/\\$file/PN2013-02-eng.pdf](https://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/vwapj/PN2013-02-eng.pdf/$file/PN2013-02-eng.pdf)> [PN2013-02]; Canadian Intellectual Property Office, “Examination Practice Respecting Computer-Implemented Inventions—PN 2013-03” (8 March 2013), online (pdf): CIPO <[https://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/vwapj/PN2013-03-eng.pdf/\\$file/PN2013-03-eng.pdf](https://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/vwapj/PN2013-03-eng.pdf/$file/PN2013-03-eng.pdf)>; Canadian Intellectual Property Office, “Patent Notice: Revised Examination Practice Respecting Medical Uses—PN 2015-01” (18 March 2015), online: CIPO <www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/wr03916.html>; Canadian Intellectual Property Office, “Patent Notice: Examination Practice Respecting Medical Diagnostic Methods—PN 2015-02” (29 June 2015), online: CIPO <www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/wr03945.html>.

4.2.3 View the Entire Specification as Context to Claim Construction

The Patent Office emphasizes its reliance on *Amazon*⁴⁸ in taking the position that an informed purposive construction must consider the entire specification rather than simply a literal reading of the claims.

4.2.4 Determine Which Elements of the Claim Solve the Identified Problem

The Patent Office reiterates its view that only after the problem and the solution have been identified can the essential elements be identified. When defining a “non-essential element,” the Patent Office provides the following guidelines:

- 1) Rely on the test for a “non-essential element” from *Free World Trust*: “at the date of publication of the patent, the skilled addressees would have appreciated that a particular element could be substituted without affecting the working of the invention.”⁴⁹
- 2) Consider whether the element is superfluous (and thus non-essential) specifically with relevance to the solution to a given problem. Superfluous (non-essential) elements are not relevant to the determination of a claim’s patentability during examination.

Notably, the Patent Office indicates that the identification of the solution should be done with a view of the elements that provide the inventive solution (that is, the essential elements), while considering that some elements may exist as part of the operating environment but do not contribute to the solution being addressed (that is, the non-essential elements). Only the claimed elements that contribute to the patentable nature of the invention, and in effect bring the claim over the threshold into allowance, should be considered essential.

4.2.5 Focus on One Solution to a Problem

The Patent Office states that purposive construction should in effect determine a single solution to a problem, with consideration given to the description and the emphasis placed by the inventors. Specifically, the initial choice of solution should be based on “the solution given the greatest emphasis by the inventors.”

The Patent Office has also stated that the purposive construction of claims by an examiner is informed by the applicant’s submissions, the knowledge of an appropriately experienced

examiner, the identification of the problem and solution provided by the invention, and the application as a whole.⁵⁰

This problem–solution approach is in line with the decision in *Wenzel Downhole Tools Ltd v National-Oilwell Canada Ltd*:

To give a purposive construction to the claims of a patent, it seems to me that one should understand the purpose of the invention and the problem that the invention sought to address. For the most part, inventors come to their patentable inventions in order to solve a problem. What was the problem that the “630 Patent was intended to address?”⁵¹

An example of the Patent Appeal Board (PAB) applying the Canadian Intellectual Property Office’s (CIPO’s) practice notice on purposive construction can be seen in decision number 1373.⁵² In this decision, the PAB concluded that the subject matter of the independent claims “pertains to an abstract scheme or set of rules for providing financial advice, which fails to manifest a discernible effect or change,”⁵³ and therefore are not directed to patentable subject matter.

The PAB further stated:

While purposive construction is anchored in the language of the claims, the analysis cannot be based solely on a literal reading of the claims (see *Amazon*, para. 43); an element is not automatically considered essential by its mere presence in the language of the claim as drafted by the inventor. Instead, as the practice notice in our view correctly indicates, it must be determined whether or not an element is essential because it cannot be varied or omitted without a material effect on the invention.⁵⁴

CIPO’s problem–solution approach to the examination of Canadian patents was recently rejected by the Federal Court on the basis that it is inconsistent with the purposive construction approach in *Whirlpool* and *Free World Trust*. In *Choueifaty v Canada (Attorney General)*,⁵⁵ the inventor appealed the Commissioner of Patents’ refusal of a patent application relating to a computer-implemented method for providing an anti-benchmark portfolio. The Commissioner applied a problem–solution approach to the claims and concluded that the essential elements of the claims were “directed to a scheme or rules involving mere calculations,” and therefore outside the definition of an “invention.”⁵⁶

48 *Amazon*, *supra* note 46 at para 43.

49 *Free World Trust*, *supra* note 7 at para 55.

50 *PN2013-02*, *supra* note 47.

51 *Wenzel Downhole Tools Ltd v National-Oilwell Canada Ltd*, 2011 FC 1323 at para 61, Snider J, *aff’d* 2012 FCA 333.

52 *Re Application No 2,312,726* (10 October 2014), Decision 1373, online: Commissioner of Patents, <<https://brevets-decisions-patents.opic-cipo.gc.ca/pab-cab/p/en/item/467884/index.do?q=1373>>.

53 *Ibid* at para 60.

54 *Ibid* at para 30.

55 *Choueifaty v Canada (Attorney General)*, 2020 FC 837 [*Choueifaty*].

56 *Ibid* at para 16.

In rejecting the problem–solution approach adopted by CIPO, Justice Zinn in *Choueifaty* compared the approach to the “substance of the invention” approach discredited by the Supreme Court of Canada in *Free World Trust*.⁵⁷ Justice Zinn further noted that the problem–solution approach also fails to take into consideration the inventor’s intention, which, as set out in *Free World Trust*, is relevant to determining whether a claim element is essential or non-essential.⁵⁸ To reinforce the notion that CIPO is bound by the purposive construction test set out by the Supreme Court of Canada, Justice Zinn reiterated the findings of the Federal Court of Appeal in *Amazon* imposing this requirement on the Commissioner.⁵⁹

The repercussions of *Choueifaty* remain to be seen in the long term. CIPO has recently responded to this decision by updating practice guidelines on purposive construction to suggest that all claimed elements are presumed to be essential unless established otherwise or contrary to language used in the claim.⁶⁰ Returning to the *Choueifaty* decision, examination of Canadian patent applications must now be based on purposive construction consistent with the teachings in *Free World Trust* and *Whirlpool* and notably with consideration to the inventor’s intention. If due consideration must be given to the inventor’s intention, one might expect that there may be more allowances of patent applications, particularly those that may have been previously objected to as non-statutory subject matter, because the inclusion of a claim element may be considered an expressed intent by the inventor that the element is essential to the invention. In respect of infringement, the repercussions of *Choueifaty* may similarly mean that each and every claimed element may be considered essential on a purposive construction (subject to language indicating that any of the elements is optional or to the language used in the claim), and thus any single element may be varied to avoid infringement.

4.3 File Wrapper Estoppel

A recent development in the Canadian approach to claim construction is the treatment of file wrapper estoppel in Canadian law. In jurisdictions where it is applied, the concept of file wrapper (or prosecution history) estoppel prevents patentees from asserting a position regarding claim construction during litigation that is inconsistent with the patentee’s statements made to the patent office during prosecution. Specifically, a patentee who argues during prosecution for a limited construction of a claim in order to avoid prior art is prevented from arguing for a wider scope of the claim when asserting the patent in infringement proceedings.

Historically, Canadian patent law had rejected the concept of file wrapper estoppel. In *Free World Trust*, Justice Binnie expressly rejected the use of extrinsic evidence including the patent

prosecution history for the purposes of unveiling the inventor’s intention. The court’s reasoning for not “opening the Pandora’s box of file wrapper estoppel” was that doing so would “undermine the public notice function of the claims and increase uncertainty as well as fuelling the already overheated engines of patent litigation.”⁶¹

Be that as it may, the risk associated with disallowing the use of the prosecution history to construe patent claims was made apparent in *Pollard*.⁶² There, the patentee attempted to take a position on the construction of a claim that was different from what was represented to the Canadian Patent Office to overcome a prior art citation during examination. As Justice Locke (as he then was) noted, excluding the use of the patent prosecution history has the potential risk of giving a very different interpretation of what the inventor had intended, thereby giving the inventor more than what he had bargained for:

[I]t is breathtaking to see SG [one of the defendants] now attempt not just to take a different position on the construction of claim 1, but also to argue that, by doing so, it does not reintroduce the problem of obviousness in light of the Camarato Application that it had previously argued was avoided applying its first position.

I would expect that SG’s argument would never have made it to a trial in the US where the principle of file wrapper estoppel applies. There, SG would likely not have been allowed to argue a claim construction that attempts to recapture ground conceded during prosecution of the patent application to avoid prior art.

This case highlights a potential risk in taking a simpler approach to claim construction by ignoring extrinsic evidence, such as the prosecution history of the patent in suit. As revealed in my analysis above, excluding such extrinsic evidence resulted in a very different construction of the phrase “a removable continuous scratch-off coating covering both the printed indicia in said play area and the bar code” than would otherwise have been the case.⁶³

The common-law ban against the use of the extrinsic evidence of the patent prosecution history for the purposes of claim construction was overturned by a legislative change to the *Patent Act* in December 2018. Canadian law now recognizes a form of file wrapper estoppel. Pursuant to newly added section 53.1 of the *Patent Act*, written communications between the patentee

57 *Ibid* at para 37.

58 *Ibid* at para 39.

59 *Ibid* at para 35.

60 Canadian Intellectual Property Office, “Patentable Subject-Matter Under the *Patent Act*” (3 November 2020), online: CIPO <<http://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/wr04860.html>>.

61 *Free World Trust*, *supra* note 7 at para 66.

62 *Pollard*, *supra* note 28.

63 *Ibid* at paras 237–39.

and the Canadian Patent Office in respect of the prosecution of a patent are admissible as evidence to rebut any representation made by the patentee as to the construction of a claim in the patent.⁶⁴

While the language of section 53.1 is limited to communications between the patentee and the Canadian Patent Office, Justice Manson of the Federal Court in *Canmar Foods Ltd v TA Foods Ltd* held that, in extraordinary circumstances, the prosecution histories from foreign applications may also be admissible.⁶⁵ However, Justice Lafrenière in *Gemak v Jempak* arrived at a different conclusion, ruling that foreign prosecution history is inadmissible.⁶⁶ Both decisions have been appealed to the Federal Court of Appeal.

The Canadian approach to claim construction and patent infringement has settled on purposive construction with a unique version of file wrapper estoppel that remains unsettled. What is missing from the Canadian approach, however, may be a necessary counterbalance to purposive construction and file wrapper estoppel, namely, the doctrine of equivalents, which has long been the law in the United States and now is the law in the United Kingdom.

5.0 United Kingdom

As noted above, Canada's adoption of purposive claim construction was largely influenced by the UK common law and the opinion of Lord Diplock in *Catnic*. The principles set out in *Catnic* had been the prevailing approach to claim construction and patent infringement in the United Kingdom for decades, but this has since fundamentally changed following the UK Supreme Court's judgment in *Actavis UK Limited v Eli Lilly and Company*, discussed later in this article.

5.1 Purposive Construction and the Doctrine of Equivalents

In *Catnic*, Lord Diplock rejected the notion that there were two types of patent infringement, literal and substantive infringement, and instead held that there was only one cause of action.⁶⁷ His endorsement of the purposive construction approach has become a well-known passage:

A patent specification should be given a purposive construction rather than a purely literal one derived from applying to it the kind of meticulous verbal analysis in which lawyers are too often tempted by training to indulge.⁶⁸

On a purposive construction approach, Lord Diplock recognized that there may be variants embodied in an allegedly infringing

device that would fall outside the words of the claims but had no material effect on the way the invention worked. Lord Diplock's approach to determining whether such a variant was nonetheless within the scope of patent protection can be summarized by the Improver questions formulated by Lord Hoffman in *Improver*. As discussed earlier, the Improver questions were subsequently reformulated when incorporated into Canadian law in *Free World Trust*.⁶⁹

Legislative context is important to understanding how the UK approach to claim construction and patent infringement has developed since *Catnic*. Article 69 of the *European Patent Convention* (EPC) specifies the extent of patent protection:

The extent of the protection conferred by a European patent or a European patent application shall be determined by the claims. Nevertheless, the description and drawings shall be used to interpret the claims.⁷⁰

Guidance on the interpretation of article 69 of the EPC is set out in the *Protocol on the Interpretation of Article 69 EPC*, which states:

Article 1: General principles

Article 69 should not be interpreted as meaning that the extent of the protection conferred by a European patent is to be understood as that defined by the strict, literal meaning of the wording used in the claims, the description and drawings being employed only for the purpose of resolving an ambiguity found in the claims. Nor should it be taken to mean that the claims serve only as a guideline and that the actual protection conferred may extend to what, from a consideration of the description and drawings by a person skilled in the art, the patent proprietor has contemplated. On the contrary, it is to be interpreted as defining a position between these extremes which combines a fair protection for the patent proprietor with a reasonable degree of legal certainty for third parties.

Article 2: Equivalents

For the purpose of determining the extent of protection conferred by a European patent, due account shall be taken of any element which is equivalent to an element specified in the claims.⁷¹

⁶⁴ Patent Act, RSC 1985, c P-4, s 53.1.

⁶⁵ *Canmar Foods Ltd v TA Foods Ltd*, 2019 FC 1233 at paras 73–74, appeal to FCA pending (court file no A-408-19).

⁶⁶ *Gemak v Jempak*, 2020 FC 644 at para 86, appeal to FCA pending (court file no A-158-20).

⁶⁷ *Catnic*, *supra* note 14 at 242.

⁶⁸ *Ibid* at 243.

⁶⁹ *Free World Trust*, *supra* note 7 at para 55.

⁷⁰ *European Patent Convention*, 5 October 1973, art 69 (as revised by the Act revising Article 63 EPC of 17 December 1991 and the Act revising the EPC of 29 November 2000) [EPC].

⁷¹ *Protocol on the Interpretation of Article 69 EPC*, 5 October 1973, arts 1, 2 (as revised by the Act revising the EPC of 29 November 2000) [Protocol].

Accordingly, the scope of protection for a European patent is defined by the words of the claims, which are not to be construed literally or viewed as mere guidelines. The monopoly may also include equivalents of a claim element. As a guiding principle, domestic courts of all contracting states of the EPC, which include the United Kingdom, are to determine the extent of patent protection that gives effect to “a fair protection for the patent proprietor with a reasonable degree of legal certainty for third parties.”⁷²

In *Kirin-Amgen Inc v Hoechst Marion Roussel Ltd*, Lord Hoffman noted that while the Protocol sets out the protocol for the construction of article 69, it does not expressly lay down any principles for the construction of claims.⁷³ He held that the principle of purposive construction as set out in *Catnic* gives effect to the requirements of the Protocol, and that the Improver questions encapsulate the guidelines for applying that principle to equivalents.⁷⁴ Lord Hoffman concluded that determining the scope of patent protection as per article 69 of the EPC ultimately requires one to construe the claims:

The determination of the extent of protection conferred by a European patent is an examination in which there is only one compulsory question, namely that set by article 69 and its Protocol: what would a person skilled in the art have understood the patentee to have used the language of the claim to mean? Everything else, including the [Improver questions], is only guidance to a judge trying to answer that question. But there is no point in going through the motions of answering the [Improver questions] when you cannot sensibly do so until you have construed the claim.⁷⁵

In reference to the doctrine of equivalents, Lord Hoffman held that article 69 “firmly shuts the door on any doctrine which extends protection outside the claims.”⁷⁶ After a review of the US jurisprudence on the doctrine of equivalents, he noted that whereas the United States developed this doctrine to overcome the issues with literalism, the United Kingdom instead adopted the “pith and marrow” approach to infringement (which was subsequently abandoned in favour of purposive construction):

It seems to me that both the doctrine of equivalents in the United States and the pith and marrow doctrine in the United Kingdom

were born of despair. The courts felt unable to escape from interpretation which “unsparing logic” appeared to require and which prevented them from according the patentee the full extent of the monopoly which the person skilled in the art would reasonably have thought that he was claiming. The background was the tendency to literalism which then characterised the approach of the courts to the interpretation of documents generally and the fact that patents are likely to attract skills of lawyers seeking to exploit literalism to find loopholes in the monopoly they create.⁷⁷

Lord Hoffman is understood to have decided against the introduction of the doctrine of equivalents into UK law because purposive construction not only gives effect to article 2 of the Protocol but also to the doctrine of equivalents. This was not the view of everyone. Sir Hugh Laddie, after he retired from the bench, wrote, “*Catnic* is better regarded as the penultimate step on the road to the adoption of a narrow, unforgiving approach to the determination of the scope of protection. It is suggested that the ultimate step is [*Kirin-Amgen*] itself.”⁷⁸

However, in a landmark decision by the UK Supreme Court in *Actavis*, Lord Neuberger rejected Lord Hoffman’s attempt to reconcile the existing common-law approach to claim construction and infringement with the legislative context of article 69.⁷⁹ It should be noted that Lord Neuberger was the trial judge, whose finding of infringement had been reversed on appeal by Lord Hoffman, in *Kirin-Amgen*.

In *Actavis*, Lord Neuberger held that, notwithstanding *Catnic* and *Kirin-Amgen*, infringement is best approached by addressing two issues, each of which is considered through the eyes and mind of the skilled person:

- (i) does the variant infringe any of the claims as a matter of normal interpretation; and if not,
- (ii) does the variant nonetheless infringe because it varies from the invention in a way or ways which is or are immaterial?

If the answer to either issue is “yes,” there is an infringement; otherwise there is not.⁸⁰

72 *Ibid*, art 1.

73 *Kirin-Amgen Inc & Ors v Hoechst Marion Roussel Ltd & Ors*, [2004] UKHL 46 at para 47, Hoffman L [*Kirin-Amgen*].

74 *Ibid* at para 52.

75 *Ibid* at para 69.

76 *Ibid* at para 44.

77 *Ibid* at para 41.

78 Hugh Laddie, “*Kirin-Amgen—The End of Equivalents in England?*” (2009) 40:1 Intl Rev IP & Comp L 3 at para 51. This is an excellent commentary on the law of claim construction and patent infringement in the United Kingdom.

79 Gordon Harris, “*Actavis v Eli Lilly—Should We Have Seen It Coming?*” Briefing Note, (2017), online: Gowling WLG, <<https://gowlingwg.com/getmedia/713a5810-6df8-4499-8b39-52c7da1fd616/170914-actavis-v-eli-lilly-should-we-have-seen-it-coming.pdf.xml>>.

80 *Actavis UK Limited et al v Eli Lilly and Company*, [2017] UKSC 48 at para 54, Neuberger L [*Actavis*].

To the extent that Lord Hoffman conflated the two infringement issues into a single question of interpretation, Lord Neuberger held that this was wrong in principle.⁸¹

While Lord Neuberger stated that issue (i) involves “normal interpretation,” subsequent case law has interpreted “normal interpretation” to mean “purposive interpretation.”⁸² However, he noted that issue (ii) “involves not merely identifying what the words of a claim would mean in their content to the notional addressee, but also considering the extent to which the scope of protection afforded by the claim should extend beyond that meaning.”⁸³ Issue (ii) squarely raised the question of equivalents as set out in article 2 of the Protocol, and in doing so introduced the doctrine of equivalents into UK law.

For determining whether infringement had been established under issue (ii) (that is, under the doctrine of equivalents), Lord Neuberger considered and reformulated the Improver questions as follows:

i) Notwithstanding that it is not within the literal meaning of the relevant claim(s) of the patent, does the variant achieve substantially the same result in substantially the same way as the invention, i.e. the inventive concept revealed by the patent?

ii) Would it be obvious to the person skilled in the art, reading the patent at the priority date, but knowing that the variant achieves substantially the same result as the invention, that it does so in substantially the same way as the invention?

iii) Would such a reader of the patent have concluded that the patentee nonetheless intended that strict compliance with the literal meaning of the relevant claim(s) of the patent was an essential requirement of the invention?

In order to establish infringement in a case where there is no literal infringement, a patentee would have to establish that the answer to the first two questions was “yes” and that the answer to the third question was “no.”⁸⁴

In *Actavis*, the patentee claimed the use of “pemetrexed disodium” in the manufacture of a medication for use in combination with vitamin B12 for the treatment of cancer. Rather than pemetrexed disodium, the defendants used other pemetrexed compounds, namely, pemetrexed diacid, pemetrexed ditromethamine, or pemetrexed dipotassium.

Applying the reformulated Improver questions to the facts in *Actavis*, Lord Neuberger concluded that the infringing products work in the same way as the invention (question 1), that this would be appreciated by a person skilled in the art (question 2), and that this notional person would not likely have concluded that the patentee intended to exclude other pemetrexed compounds from the scope of protection (question 3).⁸⁵ On that basis, the *Actavis* products were found to be infringing under the doctrine of equivalents.⁸⁶

Would a Canadian patent claim, corresponding to one at issue in *Actavis*, be infringed under current Canadian patent law? Maybe not. A purposive construction of the *Actavis* patent claims might lead to the conclusion that “pemetrexed disodium” was an essential element and thus, absent this specific compound in the infringing product, there would be no infringement.

Lord Neuberger’s two-pronged approach to infringement and the recognition that a patent may be infringed even where there is no infringement after the claim is construed is a significant departure from Lord Diplock’s “single cause of action” approach to infringement based on purposive construction. It looks like a return to a modified “two-step” approach that existed in Canadian law before *Whirlpool* and *Free World Trust*.

5.2 File Wrapper Estoppel

Actavis also overturned the previous common-law ban on the use of a patent’s prosecution history for the purposes of interpretation or infringement. Notably, in *Kirin-Amgen*, Lord Hoffman stated that there were good reasons for this prohibition—namely, that “the meaning of the patent should not change according to whether or not the person skilled in the art has access to the file and in any case life is too short for the limited assistance which it can provide.”⁸⁷

However, in *Actavis*, Lord Neuberger revisited this issue and held that, under appropriate circumstances, the contents of a patent’s prosecution file may be referred to when questions of interpretation or infringement are being considered:

In my judgment, it is appropriate for the UK courts to adopt a sceptical, but not absolutist, attitude to a suggestion that the contents of the prosecution file of a patent should be referred to when considering a question of interpretation or infringement, along substantially the same lines as the German and Dutch courts. It is tempting to exclude the file on the basis that anyone concerned about, or affected by, a patent should be entitled to rely on its contents without searching other records such as the prosecution file, as a matter of both principle

81 *Ibid* at para 55.

82 *Icescape Ltd v Ice-World International BV & Ors*, [2018] EWCA Civ 2219 at para 60, Kitchin L, and para 96, Floyd L.

83 *Actavis*, *supra* note 80 at paras 56, 58.

84 *Ibid* at para 66.

85 *Ibid* at paras 68–74.

86 *Ibid* at para 75.

87 *Kirin-Amgen*, *supra* note 73 at para 35.

and practicality. However, given that the contents of the file are publicly available (by virtue of article 128 EPC 2000) and (at least according to what we were told) are unlikely to be extensive, there will be occasions when justice may fairly be said to require reference to be made to the contents of the file. However, not least in the light of the wording of article 69 EPC 2000, which is discussed above, the circumstances in which a court can rely on the prosecution history to determine the extent of protection or scope of a patent must be limited.⁸⁸

Lord Neuberger then identified two non-exhaustive circumstances where reference to a patent's prosecution history may be appropriate:

(i) the point at issue is truly unclear if one confines oneself to the specification and claims of the patent, and the contents of the file unambiguously resolve the point, or

(ii) it would be contrary to the public interest for the contents of the file to be ignored such as in the case where the patentee had made it clear to the EPO that he was not seeking to contend that his patent, if granted, would extend its scope to the sort of variant which he now claims infringes.⁸⁹

The limited circumstances in which a patent's prosecution history may be used also limits the circumstances in which file wrapper estoppel may apply. In *Actavis*, the prosecution history of the asserted patent showed that the patentee had first filed for a broader set of claims involving antifolate (a class of chemicals that includes pemetrexed), which was subsequently limited to pemetrexed, and then further limited to the final issued claims involving pemetrexed disodium. Despite the clear abandonment of the broader set of claims, Lord Neuberger found that this had no bearing on the question whether any pemetrexed salts other than pemetrexed disodium should be within the scope of the patent pursuant to the doctrine of equivalents. According to Lord Neuberger, "[t]he whole point of the doctrine [of equivalents] is that it entitles the patentee to contend that the scope of protection afforded by the patent extends beyond the ambit of its claims as construed according to normal principles of interpretation."⁹⁰

The defendants were ultimately found liable for infringement under the doctrine of equivalents. Overall, the United Kingdom

has had a long history of applying purposive construction to the issue of infringement, but this has since changed following *Actavis*. The current approach to infringement in the United Kingdom is now more akin to the US approach, where there are two prongs: literal infringement and infringement under the doctrine of equivalents. Another significant development in UK patent law is the use of the file history of a patent, which is now permitted in appropriate circumstances.

6.0 United States

6.1 The Current Approach to Claim Construction and Patent Infringement

Much as in Canada and the United Kingdom, a "bedrock principle" of patent law in the United States is that "the claims of a patent define the invention to which the patentee is entitled the right to exclude."⁹¹ Claim construction involves giving claim terms an ordinary and customary meaning from the perspective of a person of ordinary skill in the art at the time of the invention—namely, the effective filing date of the patent application.⁹² In *Phillips v AWH Corp*, the Federal Circuit summarized the evidentiary sources that may be used for claim construction.⁹³ Importantly, claims are not to be read in a vacuum but must be construed in the context of intrinsic evidence, including the entire patent (including the other claims and the disclosure) and prosecution history.⁹⁴ Although considered less reliable than intrinsic evidence, extrinsic evidence such as expert and inventor testimonies, dictionaries, and learned treatises may also be used to help construe the patent claims.⁹⁵

Once the claims have been construed, a patent may be found to be literally infringed. If it is not, the United States has long recognized an alternative approach to infringement under the doctrine of equivalents. Under this doctrine, "a product or process that does not literally infringe upon the express terms of a patent claim may nonetheless be found to infringe if there is "equivalence" between the elements of the accused product or process and the claimed elements of the patented invention."⁹⁶

Early jurisprudence on the doctrine of equivalents described it in much the same way as the substantive infringement approach applied in prior Canadian law. For example, Justice Jackson of the Supreme Court of the United States (SCOTUS) in *Graver Tank & Mfg Co v Linde Air Products Co* stated:

The essence of the doctrine is that one may not practice a fraud on a patent. Originating almost a century ago in the case of *Winans v. Denmead*, 15 How. 330, 14 L.Ed. 717, it has been consistently applied by this Court

⁸⁸ *Actavis*, *supra* note 80 at para 87.

⁸⁹ *Ibid* at para 88.

⁹⁰ *Ibid* at para 89.

⁹¹ *Phillips v AWH Corp*, 415 F (3d) 1303 at 1312 (Fed Cir 2005), Bryson J.

⁹² *Ibid* at 1313.

⁹³ *Ibid*.

⁹⁴ *Ibid* at 1314–17.

⁹⁵ *Ibid* at 1317–19.

⁹⁶ *Warner-Jenkinson Co Inc v Hilton Davis Chemical Co*, 520 US 17 at 21 (1997), Thomas J [Warner-Jenkinson].

and the lower federal courts and continues today ready and available for utilization when the proper circumstances for its application arise. "To temper unsparing logic and prevent an infringer from stealing the benefit of the invention" a patentee may invoke this doctrine to proceed against the producer of a device "*if it performs substantially the same function in substantially the same way to obtain the same result.*" *Sanitary Refrigerator Co. v. Winters*, 280 U.S. 30, 42, 50 S.Ct. 9, 13, 74 L.Ed. 147. The theory on which it is founded is that "*if two devices do the same work in substantially the same way, and accomplish substantially the same result, they are the same, even though they differ in name, form or shape.*" *Union Paper-Bag Machine Co. v. Murphy*, 97 U.S. 120, 125, 24 L.Ed. 935.⁹⁷ [Emphasis added.]

While the doctrine of equivalents and substantive infringement may both represent alternatives to literal infringement, the two are also distinct. As discussed earlier, substantive infringement focuses on elusive concepts such as the "spirit" or the "pith and marrow" of the invention, which may be infringed even where an element of a claim has been omitted. The doctrine of equivalents, on the other hand, deems each element of a claim to be material, thus requiring that each claim element or an "equivalent" be identified in the allegedly infringing product or process to find infringement. As Justice Thomas of the SCOTUS stated in *Warner-Jenkinson*:

Each element contained in a patent claim is deemed material to defining the scope of the patented invention, and thus the doctrine of equivalents must be applied to individual elements of the claim, not to the invention as a whole.⁹⁸

The scope of patent protection under the doctrine of equivalents will largely depend on what are considered "equivalents." The proper time for evaluating equivalency is at the time of infringement.⁹⁹ Generally, this inquiry involves analyzing the role played by each element in the context of the specific patent claim and determining whether a substituted element matches the function, way, and result of the claimed element.¹⁰⁰ As one can appreciate, the approach to determining what is equivalent is highly contextual.

Like substantive infringement, the doctrine of equivalents was endorsed with a view to overcoming the very limited patent protection that a patentee had under literal infringement. The

doctrine of equivalents helps to deter and provide relief against copiers of an invention who make minor variations to escape liability, as Justice Jackson stated in *Graver Tank*:

Courts have also recognized that to permit imitation of a patented invention which does not copy every literal detail would be to convert the protection of the patent grant into a hollow and useless thing. Such a limitation would leave room for—indeed encourage—the unscrupulous copyist to make unimportant and insubstantial changes and substitutions in the patent which, though adding nothing, would be enough to take the copied matter outside the claim, and hence outside the reach of law. One who seeks to pirate an invention, like one who seeks to pirate a copyrighted book or play, may be expected to introduce minor variations to conceal and shelter the piracy. Outright and forthright duplication is a dull and very rare type of infringement. To prohibit no other would place the inventor at the mercy of verbalism and would be subordinating substance to form. It would deprive him of the benefit of his invention and would foster concealment rather than disclosure of inventions, which is one of the primary purposes of the patent system.¹⁰¹

Requiring that the infringing product or process fall within the literal terms of the claim also has the potential effect of greatly diminishing the value of a patent. Thus, while a literal interpretation of a patent offers predictability and conservation of judicial resources, Justice Kennedy of the SCOTUS in *Festo Corp v Shoketsu Kinzoku Kogyo Kabushiki* was of the view that it is not necessarily the most efficient rule.¹⁰² Instead, the scope of a patent must encompass both the literal terms and all equivalents to the claims described in order to avoid defeating a patent and its value by virtue of unimportant and insubstantial substitutions.¹⁰³

As one might expect, the policy concerns with respect to substantive infringement similarly apply to the doctrine of equivalents. In particular, the doctrine of equivalents conflicts with the definitional and public notice function of patent claims.¹⁰⁴ This leads to a lack of certainty in determining the scope of a patent because the equivalency of a particular element may not be readily ascertained. Despite these concerns, US courts have repeatedly affirmed the doctrine of equivalents, accepting that this uncertainty is the price of ensuring that innovators are given an appropriate incentive to innovate:

97 *Graver Tank & Mfg Co v Linde Air Products Co*, 339 US 605 at 608 (1950), Jackson J [*Graver Tank*].

98 *Warner-Jenkinson*, *supra* note 96 at 29.

99 *Ibid* at 37.

100 *Ibid* at 40.

101 *Graver Tank*, *supra* note 97 at 607.

102 *Festo Corp v Shoketsu Kinzoku Kogyo Kabushiki Co, Ltd*, 535 US 722 at 731–32 (2002), Kennedy J [*Festo*].

103 *Ibid* at 731–32.

104 *Warner-Jenkinson*, *supra* note 96 at 29.

It is true that the doctrine of equivalents renders the scope of patents less certain. It may be difficult to determine what is, or is not, an equivalent to a particular element of an invention. If competitors cannot be certain about a patent's extent, they may be deterred from engaging in legitimate manufactures outside its limits, or they may invest by mistake in competing products that the patent secures. In addition, the uncertainty may lead to wasteful litigation between competitors, suits that a rule of literalism might avoid. These concerns with the doctrine of equivalents, however, are not new. Each time the Court has considered the doctrine, it has acknowledged this uncertainty as the price of ensuring the appropriate incentives for innovation, and it has affirmed the doctrine over dissents that urged a more certain rule.¹⁰⁵

Opponents of the doctrine of equivalents argue that an overly broad application of the doctrine has the potential to grant exclusivity to the patentee over subject matters that belong to the public. For example, in *Graver Tank*, Justice Douglas, in dissent, identified a "strange anomaly" in ensnaring manganese within the scope of the patent at issue even though it was not an alkaline earth metal, as claimed.¹⁰⁶ Because manganese silicate had been the subject of expired patents, Justice Douglas opined that the majority's application of the doctrine of equivalents effectively extended the patentee's monopoly to include an unpatented and unpatentable composition.¹⁰⁷

6.2 File Wrapper Estoppel

As discussed earlier, the prosecution history of a US patent may be used as evidence to help construe the issued claims, but it also has significant implications in the application of the doctrine of equivalents. File wrapper estoppel bars a patentee from adopting a claim construction that is contrary to the position taken during prosecution. It may also bar a patentee from asserting equivalents that were given up by way of a narrowing amendment made during the examination process. Such an application of file wrapper estoppel is not necessarily limited to a narrowing amendment made for reasons of overcoming prior art; file wrapper estoppel may also apply to narrowing amendments made to comply with 35 USC § 112.¹⁰⁸

Since the SCOTUS has stated that the underlying purpose of the doctrine of equivalents is to capture the essence of the invention where such may be difficult to clearly define, it follows that a patentee should not be permitted to claw back subject matter ceded in a narrowing amendment, because the patentee would have clearly had no difficulty defining the invention in the broader claim. Thus, prosecution file wrapper estoppel ensures

that the doctrine of equivalents remains tied to its underlying purpose by barring the patentee from claiming previously claimed but surrendered subject matter.¹⁰⁹

While a narrowing amendment may limit the equivalents that a patentee may assert, it does not necessarily preclude the patentee from asserting any equivalents. The narrowed claims may still fail to precisely capture the claimed invention. In *Festo*, Justice Kennedy justified the continued availability of the doctrine of equivalents where an amended claim was narrowed during prosecution. He stated:

By amending the application, the inventor is deemed to concede that the patent does not extend as far as the original claim. It does not follow, however, that the amended claim becomes so perfect in its description that no one could devise an equivalent. After amendment, as before, language remains an imperfect fit for invention. The narrowing amendment may demonstrate what the claim is not; but it may still fail to capture precisely what the claim is. There is no reason why a narrowing amendment should be deemed to relinquish equivalents unforeseeable at the time of the amendment and beyond a fair interpretation of what was surrendered. Nor is there any call to foreclose claims of equivalence for aspects of the invention that have only a peripheral relation to the reason the amendment was submitted. The amendment does not show that the inventor suddenly had more foresight in the drafting of claims than an inventor whose application was granted without amendments having been submitted. It shows only that he was familiar with the broader text and with the difference between the two. As a result, there is no more reason for holding the patentee to the literal terms of an amended claim than there is for abolishing the doctrine of equivalents altogether and holding every patentee to the literal terms of the patent.¹¹⁰

This passage suggests that a patentee may still assert an equivalent if it was unforeseeable at the time of the amendment and beyond a fair interpretation of what was surrendered, or if it has only a peripheral relation to the reason the amendment was submitted. Whether or not the reason for an amendment is sufficient to overcome file wrapper estoppel as a bar to the application of the doctrine of equivalents is ultimately determined by the court. In the absence of any reasons for a narrowing amendment, courts may presume that the patentee surrendered all subject matter between the broader and the narrower language of the claim and that the territory

¹⁰⁵ *Festo*, *supra* note 102 at 732.

¹⁰⁶ *Graver Tank*, *supra* note 97 at 618, Douglas J, dissenting.

¹⁰⁷ *Ibid* at 618, Douglas J, dissenting.

¹⁰⁸ *Festo*, *supra* note 102 at 736–37.

¹⁰⁹ *Ibid* at 734–35.

¹¹⁰ *Ibid* at 738.

surrendered is not an equivalent of the territory claimed. In those circumstances, a patentee may still rebut the presumption that estoppel bars a claim of equivalence.¹¹¹

Accordingly, the patentee bears the burden of establishing the reason for making an amendment during patent prosecution.¹¹² The patentee also bears the burden of proving that the amendment does not surrender the particular equivalent in question.¹¹³ This would involve showing that “at the time of the amendment one skilled in the art could not reasonably be expected to have drafted a claim that would have literally encompassed the alleged equivalent.”¹¹⁴

Overall, patent infringement in the United States is determined using a two-pronged approach. Literal infringement remains available as a remedy against an alleged infringer, but a patentee may also rely on the doctrine of equivalents for a broader scope of protection. This broader scope of protection is tempered and balanced against file wrapper estoppel, which serves to limit the equivalents that a patentee may assert based on the history of amendments made for issuance.

7.0 What Can Be Done with Purposive Construction?

What can be done to make it less difficult to prove patent infringement? We offer some suggestions in this section.

7.1 In the Patent Office

In light of all the examination guidelines regarding the Patent Office’s view of “purposive construction,” and thereby the determination of essential versus non-essential elements, it is clear that in the original patent application, and during prosecution, certain tactics may be helpful in establishing that key claim elements that are important for patentability are considered essential during prosecution. At the same time, however, there should be no superfluous elements in a claim that could be considered essential but that may be altered or avoided altogether and that would lead to a finding of non-infringement. To use the words of Justice Binnie in *Free World Trust*, a superfluous element may be considered a “self-inflicted wound” because it creates “an unnecessary or troublesome limitations in the claims.”¹¹⁵

The patentee and its representative should decide in advance the claim elements that should be considered essential, and then should set out the application and claims in such a way that the key claim elements that contribute to patentability are considered essential and superfluous elements are not. At the same time, the patentee and its agent should recognize that other considerations apply when the patent is being evaluated in terms of infringement. Accordingly, in drafting a patent application, one should not focus solely on the short-term benefit of having a patent issued; one should also aim for the issuance of a patent that brings long-term value by adequately protecting against infringers.

The following are some of our drafting and prosecution tips for overcoming the patentability threshold and ensuring that the patent claims are considered valid during litigation, while widening the scope of such claims to increase the likelihood of a finding of infringement. The list is not exhaustive; rather, it serves as general guidance for patent prosecutors for whom any particular tip may be more applicable to some inventions than to others, depending on the field of the invention and the nature of the known prior art.

- 1) Clearly identify the problem faced by the inventor in the description, and correspondingly its solution addressed by the claimed invention. This will help to identify the claim elements that should be considered essential, while avoiding claimed elements that simply define a context or an environment for the claimed invention from being considered essential and thereby necessary to a finding of infringement.
- 2) Describe the claim elements that are desired to be essential (that is, required for patentability—novelty, obviousness, utility, etc.) as a solution to the problem identified, with a “significant level of detail” describing technically how the claim elements contribute to solving the problem.
- 3) Describe each and every one of the claim elements that are desired to be essential (that is, required for overcoming the patentability threshold) with flow charts, diagrams, and experimental results tied to the solution and the problem discussed. Describe the elements in such a way that a skilled person or examiner would be led to understand that each element is required to reach the described solution, and at the same time show that non-essential elements of the claim may be part of the working environment of the claimed element and may be omitted, substitutable, and/or varied.
- 4) Emphasize how the claim elements that are key to the patentability of the invention work together to address and overcome the challenges or deficiencies of prior inventions, thereby clearly tying the claimed elements to the consideration of patentability.
- 5) Ensure that the elements which are key to the invention (and which the patentee would not want infringed) are clearly present in the claims. Put another way, all the elements required for providing the solution need to be encompassed by the claim.
- 6) Describe specific advantages (such as improved efficiency or improved accuracy of operation) to using each of the claimed features that are desired to be essential in such a way that the essential elements that overcome the prior art are clearly defined for the purpose of patentability and finding of validity.

111 *Ibid* at 740–41.

112 *Warner-Jenkinson*, *supra* note 96 at 33.

113 *Festo*, *supra* note 102 at 740.

114 *Ibid* at 741.

115 *Free World Trust*, *supra* note 7 at para 51.

- 7) During examination, be consistent in discussing the “key features” of the claims that provide the desired solution and overcome the prior art—for example, any patentability objections such as lack of novelty or obviousness—and those features that are required for subject matter eligibility. Avoid relying upon non-essential elements that are superfluous and that may define the environment of the claim in the patentability arguments used during prosecution. Representations made to the Canadian Patent Office must be carefully assessed for their potential to be used to the benefit of infringers in the construction of an issued claim.
- 8) Consider drafting one Jepson-type claim¹¹⁶ that sets out “wherein the improvement comprises ...” and define the key elements of the claim thereafter. This approach potentially limits the claim elements considered essential during purposive construction to those that are recited after “the improvement comprises.” This avoids an extraneous or superfluous element from being considered essential and therefore required for a finding of infringement. Care should be given, however, to the preamble in the Jepson-style claim, because it could be negatively construed as an admission of prior art and misread by an examiner beyond the scope defined.
- 9) Consider a minimal set of claim elements in at least one claim so that only those claim elements are considered essential in the claim when considering the question of infringement. Importantly, however, care must be taken to ensure that the minimum essential elements are claimed, because failure to claim an essential element can render the claim invalid for overbreadth.¹¹⁷ Note that claim elements may be construed as being essential by their mere existence in a claim as part of considering the “inventor’s intention,” if the recent *Choueifaty* decision is applied. Therefore, choose the recited claim elements wisely to increase the likelihood of a finding of infringement.
- 10) Consider drafting claims from different perspectives of actions performed—for example, a claim directed to a receiver, a claim directed to a transmitter, and a claim directed to the overall system—so that an infringer may be caught in at least one of those actions requiring a subset of the overall claim elements. Also consider including innovative dependent claims, to cover various non-trivial variants of the invention and to use as a backup position in case more relevant prior art is located during litigation that challenges the validity of the broader claims.

The drafting of claim elements must strike a balance between, on the one hand, ensuring that certain elements are considered essential (during either prosecution or litigation) so as to overcome the threshold for validity during litigation or

patentability during prosecution, and, on the other hand, ensuring that additional elements that may not necessarily be infringed are not considered essential and thus necessary to the finding of infringement. The patentee must give clear technical details about and support for the elements that are desirable to be found essential in a claim, and clearly tie those elements to the problem solved by the invention. At the same time, the patentee must clarify that other elements whose inclusion in a claim is unavoidable, but are not necessary for infringement, could be substituted by providing possible variations in the description or using alternate claiming techniques such as a Jepson-style claim.

7.2 In the Federal Court

7.2.1 Re-Engaging with Essentiality

For the most part, patent trial counsel and judges pay scant attention to the need to separate and distinguish “essential” from “non-essential” elements in a claim during purposive construction. Such inattention contributes to some of the difficulty a patentee encounters in trying to prove infringement. There are ways to overcome this difficulty.

First, in *Free World Trust*, the Supreme Court held, following the approaches set out in *Catnic* and *O’Hara*, that the patentee bears the onus of establishing known and obvious substitutability at the date of publication of the patent. According to the Supreme Court, “if the patentee fails to discharge that onus, the descriptive word or expression in the claim is to be considered essential unless the context of the claim language otherwise dictates.”¹¹⁸

The onus of proving substitutability appears to have had, in part, a chilling effect on patentees, seemingly preventing them from even attempting to argue that claim elements are non-essential.

It is not clear whether the “onus” described by the Supreme Court was intended to be an evidentiary onus, a legal onus, or both. A merely evidentiary onus, once discharged, puts the question of essentiality into play and requires the alleged infringer to rebut the evidence or risk an adverse determination on the issue. This is very different from a legal onus that imposes an unshifting legal (or ultimate) onus on the patentee to show substitutability on a balance of probabilities.

We suggest that, instead of onuses and burdens, the patent system may be better served by an approach in which questions of essentiality, like other questions of construction, such as the meaning given to claim terms, are always in play and are live issues to be determined by the court. Such an approach would require parties and the court to meaningfully engage in an analysis of essentiality rather than concede or bypass those issues.

¹¹⁶ This type of claim is named after the US Assistant Commissioner of Patent’s decision in *Ex Parte Jepson*, 1917 CD 62, 243 OG 525 (*Ass’t Comm’r Pat*).

¹¹⁷ *MIPS*, *supra* note 33 at para 247.

¹¹⁸ *Free World Trust*, *supra* note 7 at para 57.

Second, and perhaps more important, to the extent that the *Free World Trust* one-step purposive construction approach remains viable and is applied in Canadian law, there needs to be an attitudinal shift on the part of patentees and their counsel toward the embrace of arguments in favour of the non-essentiality of claim elements as a means of capturing more infringing activities.

Since the decision in *Free World Trust* and the imposition of a one-size-fits-all purposive construction, patentees have been rightly concerned about ensuring that a claim is read as broadly as possible for infringement purposes while, at the same time, avoiding invalidity attacks. By conceding that all claim elements are essential, patentees are afforded a stronger defence to invalidity attacks, but at the potential cost of limiting their chances of success on infringement.

Greater consideration needs to be given to whether it is more advantageous to the patentee for all claims of the patent to survive litigation (so that they may continue to serve as a deterrent for other would-be infringers), or whether it is better to sacrifice some more doubtful claims in order to secure a finding of infringement on even just one or two claims against the present infringer. This type of determination needs to be made on a case-by-case basis in accordance with a patentee's larger strategic and business objectives. That said, it appears that at this time patentees are uniformly erring on the side of caution in favour of presenting the best possible defences to attacks on validity.

It is readily apparent that in many cases where infringement was not found, different arguments by counsel and different determinations by the court on questions of essentiality would have altered the court's findings on infringement. For example, in *Bombardier Recreational Products Inc v Arctic Cat*,¹¹⁹ the inventions at issue related to new configurations for a snowmobile that would put the rider in a more forward position when sitting on a snowmobile.¹²⁰ The claim element "engine cradle" had been considered by all, including counsel and the parties' experts, to be an essential element of the claim, and the absence of that element (as construed by the trial judge) from the defendant's device resulted in a finding of non-infringement at trial.

There is no doubt that an engine cradle (or engine housing) is essential to the working of a functional snowmobile; but it is another matter entirely to say that the element is essential to the claims of the patent or the invention claimed.¹²¹ If there had been different evidence at trial about the essentiality of the "engine cradle" element in the claims, and if the trial judge

had determined that the "engine cradle" was "non-essential," then the nature or existence of the element in the defendant's snowmobiles would have been irrelevant to the inquiry of infringement, and a finding of infringement would likely to have been obtained at trial.¹²²

It is recommended that any pre-trial or trial management order specify the claim elements in dispute that the patentee intends to prove are non-essential to the working of the invention as described in the disclosure.

7.2.2 Use of the Disclosure

The practice still lingers in which recourse to the disclosure portion of the specification, although permissible, is considered unnecessary where the words of the claim are "plain and unambiguous."¹²³ Accepting the plain (or literal) meaning of a word without consulting the disclosure is inconsistent with construing the claims in an "informed and purposive way." According to *Whirlpool*, a purposive approach to claim construction looks at the whole of the disclosure and the claims to ascertain the nature of the invention and methods of its performance.¹²⁴

In *Bauer Hockey*, Justice Grammond stated that the modern method of claim construction mandates consideration of "clues," which include the text, context, and purpose.¹²⁵ Disregarding the disclosure and drawings merely because the language of the claims is "clear" would amount to adopting the "plain meaning rule," which the modern method rejects:

The modern method aims at helping the interpreter find clues about the meaning of a legal writing. There is no hierarchy of these clues, nor any predetermined order in which they are considered. In particular, the modern method rejects what is known as the "plain meaning rule," or the idea that if one category of clues—the text—provides a "clear" answer, the other categories of clues are to be disregarded.¹²⁶

Prematurely concluding that the words of the claims are plain and unambiguous without recourse to the disclosure can mistakenly overlook an alternative meaning of the words that was intended to describe and claim the invention. Justice Binnie in *Whirlpool* cautioned that it is "unsafe in many instances to conclude that a term is plain and unambiguous without a careful review of the specification."¹²⁷

119 *Bombardier Recreational Products Inc v Arctic Cat Inc*, 2017 FC 207 [*Arctic Cat (FC)*], rev'd in part 2018 FCA 172 [*Arctic Cat (FCA)*].

120 See the claim language set out in appendix A.

121 *Arctic Cat (FCA)*, *supra* note 119.

122 *Arctic Cat (FC)*, *supra* note 119 at para 382.

123 *Monsanto Canada Inc v Schmeiser*, 2002 FCA 309, var'd on other grounds 2004 SCC 34; see also *P&G*, *supra* note 13.

124 *Whirlpool*, *supra* note 21 at para 49(g); *Tearlab Corporation v I-MED Pharma Inc*, 2019 FCA 179 at para 33.

125 *Bauer Hockey*, *supra* note 32 at paras 50, 54–55.

126 *Ibid* at para 55.

127 *Whirlpool*, *supra* note 21 at para 52.

Indeed, if “the words chosen by the inventor will be read in the sense the inventor is presumed to have intended,”¹²⁸ a word that has an otherwise plain and unambiguous meaning may be superseded by the meaning that the inventor had clearly given it in the disclosure. This was expressed in *Lundbeck Canada Inc v Ratiopharm Inc*, where Justice Mactavish’s construction of a claim term involved asking whether the patentee acted as a lexicographer in giving the term a meaning different from its ordinary meaning:

I am satisfied, based upon the evidence of Drs. Sadavoy and Herrmann that as of October, 1990, the term “cerebral ischemia” would have had an accepted, plain and unambiguous meaning to a person skilled in the art in Canada, namely, the interruption or loss of blood flow to the brain.

That is not, however, the end of the matter. The fact that a term may have an accepted and ordinary meaning is immaterial if it is made plain in the specification that the term is being used in a particular sense: see *Western Electric Co. v. Baldwin International Radio of Canada*, [1934], S.C.R. 570 at 582.

The question, then, is whether the patentees “acted as their own lexicographers” in this case, such that the term “cerebral ischemia” should be understood as having a meaning different from its ordinary meaning.¹²⁹

A different approach was taken by Justice Zinn in *Janssen-Ortho Inc v Canada (Health)*:

I do not take the Supreme Court of Canada to be saying that in every case one must examine the disclosure prior to construing the claims of the patent; rather, I take the Court in *Whirlpool* and *Free World Trust* to be raising a caution that one should not reach a firm conclusion as to the meaning of the words in the claims being construed without having tested one’s initial interpretation against the words of the disclosure. When that is done, if the disclosure suggests another interpretation of the terms used in the claims, then resort to the meanings given in the disclosure is proper, subject to the

proviso that the invention that is protected is what is expressed in the claims which cannot be added to by anything mentioned in the disclosure that has not found its way into the claims as drafted.¹³⁰

According to Justice Zinn, the proper approach to claim construction is to come to a meaning of the claims at issue before turning to the disclosure.¹³¹ This approach was adopted in *Cascade Corp v Kinshofer GmbH*, where Justice Southcott stated that he would have “preferred to see a focus upon the meaning of the claims in the Patent before turning to interpretation of the disclosure, to ensure that the jurisprudential principles surrounding claim construction have been respected.”¹³²

This claims-first approach to claim construction contrasts with a disclosure-first approach that has also been applied by Canadian courts. In *Apotex Inc v AstraZeneca Canada Inc*, Justice Gauthier considered what the invention was by “reading the full specification” and then went on to review the disclosure in detail before turning to the claims themselves.¹³³ Recognizing that an inventor may give a particular meaning to a claim word by adopting a “special lexicon,” Justice Gauthier held that “[i]t is trite law that a court will consider the disclosure when it construes the claims.”¹³⁴

The notion that there is a right order to considering the various parts of the patent was rejected in *Bauer Hockey*.¹³⁵ Practically speaking, regardless of whether the claims are construed from a claims-first approach or a disclosure-first approach, so long as the whole of the patent is considered, the two approaches are likely to yield the same construction. As Justice Zinn alluded to in *Janssen-Ortho*, this is because a preliminary meaning given to a claim term by virtue of reading just the claims or disclosure would likely be confirmed or corrected upon reading the rest of the patent.

A limitation on the use of the disclosure to construe the claims is that it may not “enlarge or contract the scope of the claim as written and thus understood.”¹³⁶ The general rule is “what is not claimed is considered disclaimed.”¹³⁷ An inventor is not obliged to claim a monopoly on everything new, ingenious, and useful that is described in the disclosure.¹³⁸ Accordingly, to the extent that the patentee did not claim a possible invention found in the disclosure, the claims cannot be construed broadly to encompass what is considered disclaimed.

128 *Free World Trust*, *supra* note 7 at para 51.

129 *Lundbeck Canada Inc v Ratiopharm Inc*, 2009 FC 1102 at paras 51–53.

130 *Janssen-Ortho Inc v Canada (Health)*, 2010 FC 42 at para 119.

131 *Ibid* at para 121.

132 *Cascade*, *supra* note 33 at para 58.

133 *Apotex Inc v AstraZeneca Canada Inc*, 2017 FCA 9 at paras 41, 48–64, leave to appeal to SCC refused.

134 *Ibid* at para 48.

135 *Bauer Hockey*, *supra* note 32 at para 54.

136 *Whirlpool*, *supra* note 21 at para 52.

137 *Ibid* at para 42.

138 *Ibid*.

Conversely, claims are not necessarily limited to the embodiments shown and described in the disclosure. One should also not presume that everything that is shown or described is essential.¹³⁹ As a general rule, drawings are to be taken as illustrations only, and a claim is not necessarily limited to the form shown in the drawings or described in a preferred embodiment.¹⁴⁰

The disclosure not only gives purposive meaning to the words and elements in a claim, but is also relevant in determining the essentiality of each of the claim elements.¹⁴¹ At the same time, the disclosure should not be used to give the claims an unnecessarily narrow meaning tied to the preferred embodiment in the disclosure.

It is recommended that any pre-trial or trial management order specify those parts in the disclosure upon which each party intends to rely to inform the meaning of the claim elements in issue.

7.3 In the Supreme Court of Canada or in Parliament

Just as a form of file wrapper estoppel was brought to Canada by way of a legislative amendment, the Canadian patent system may need a version of the “doctrine of equivalents” like that in the US and UK patent systems. The doctrine of equivalents and file wrapper estoppel have long gone hand in hand in the United States, and now they go together in the United Kingdom in conjunction with purposive construction. Why not in Canada? If the doctrine of equivalents were recognized in Canada, it would most likely be found in legislative amendments, as was file wrapper estoppel, unless the Supreme Court of Canada were to give leave in a patent case involving issues of claim construction and patent infringement and then follow the approach taken by the UK Supreme Court. If such a legislative amendment were to be considered, it might well reflect the wording in *Actavis* as follows:

Infringement is best approached by addressing two issues, each of which is considered through the eyes and mind of the skilled person:

(i) does the variant infringe any of the claims as a matter of normal interpretation; and if not,

(ii) does the variant nonetheless infringe because it varies from the invention in a way or ways which is or are immaterial?

If the answer to either question is “yes,” there is an infringement; otherwise there is not.¹⁴²

For determining whether infringement had been established under issue (ii) (that is, under the doctrine of equivalents), the following questions need to be asked:

i) Notwithstanding that it is not within the literal meaning of the relevant claim(s) of the patent, does the variant achieve substantially the same result in substantially the same way as the invention, i.e. the inventive concept revealed by the patent?

ii) Would it be obvious to the person skilled in the art, reading the patent at the priority date, but knowing that the variant achieves substantially the same result as the invention, that it does so in substantially the same way as the invention?

iii) Would such a reader of the patent have concluded that the patentee nonetheless intended that strict compliance with the literal meaning of the relevant claim(s) of the patent was an essential requirement of the invention?

In order to establish infringement in a case where there is no literal infringement, a patentee would have to establish that the answer to the first two questions was “yes” and that the answer to the third question was “no.”¹⁴³

8.0 Appendix A

The question “Why is an engine cradle essential to the invention?” was asked of counsel for Arctic Cat (one of the authors of this article) by Justice Pelletier of the Federal Court of Appeal during the hearing of an appeal from a finding of no infringement at trial.¹⁴⁴ The question was received by counsel as a challenge to explain why this claim element was held to be essential. The trial judge had found that the claims to a pyramidal brace assembly in a snowmobile (the quintessential Canadian subject matter) were not infringed, because Arctic Cat’s snowmobiles omitted an essential claim element—namely, the “engine cradle.” It was not contended by the patentee that an engine cradle was a non-essential element of the claims.

The trial decision on infringement was reversed on appeal as an error of law of claim construction. The interpretation given to “engine cradle” as a walled structure by the trial judge was considered by the Federal Court of Appeal to be too narrow and unnecessarily tied to the preferred embodiment in the disclosure.

139 *Bauer Hockey*, *supra* note 32 at para 72.

140 *Northern Electric Co Ltd et al v Photo Sound Corp et al*, [1936] SCR 649 at 656–58; *Whirlpool*, *supra* note 21 at para 54; *Arctic Cat (FCA)*, *supra* note 119 at para 54.

141 *Arctic Cat (FCA)*, *supra* note 119 at para 24; *ViiV*, *supra* note 32 at paras 66, 128.

142 *Actavis*, *supra* note 80 at para 54.

143 *Ibid* at para 66.

144 *Supra* note 119.

What is claimed is:

1. A snowmobile, comprising:
 - a frame including a tunnel and an engine cradle forward of the tunnel; an engine mounted in the engine cradle;
 - a drive track disposed below and supported by the tunnel and connected operatively to the engine for propulsion of the snowmobile; left and right skis disposed on the frame;
 - a straddle seat disposed on the tunnel above the drive track and rearward of the engine;
 - a pair of footrests supported by the frame;
 - a steering column movably connected to the frame without a headpipe and operatively connected to the two skis;

a handlebar connected to the steering column;
a pyramidal brace assembly connected to the frame, the assembly including:

left and right rear legs extending forwardly and upwardly from the tunnel, each of the left and right rear legs having a front end and a rear end, the rear ends of the rear legs being spaced further from each other than the front ends of the rear legs, and left and right front legs extending rearwardly and upwardly from the frame forward of the tunnel, each of the left and right front legs having a front end and rear end, the front ends of the front legs being spaced further from each other than the rear ends of the front legs.

9.0 Appendix B

Appendix B includes two graphs and one table. Figure 1 shows the number of patent trials each year from 1971 (the year in which the Federal Court came into being) to 2020. Table 1 shows the findings on the issues of validity and infringement in those trials. Success for a patentee at trial is defined as any patent trial decision in which, irrespective of any outcomes on appeal, (1) at least one asserted claim was found valid and infringed, or (2) at least

Figure 1 Number of Canadian Patent Trials Between 1971 to 2020

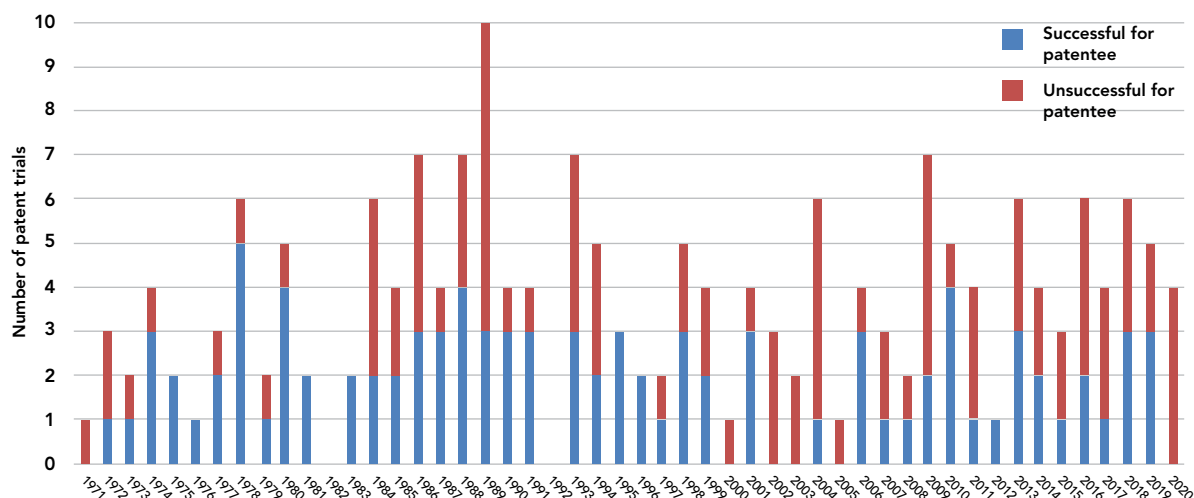


Figure 2 Percent of Findings of Validity, Infringement, and Overall Success for Patentee at Trial

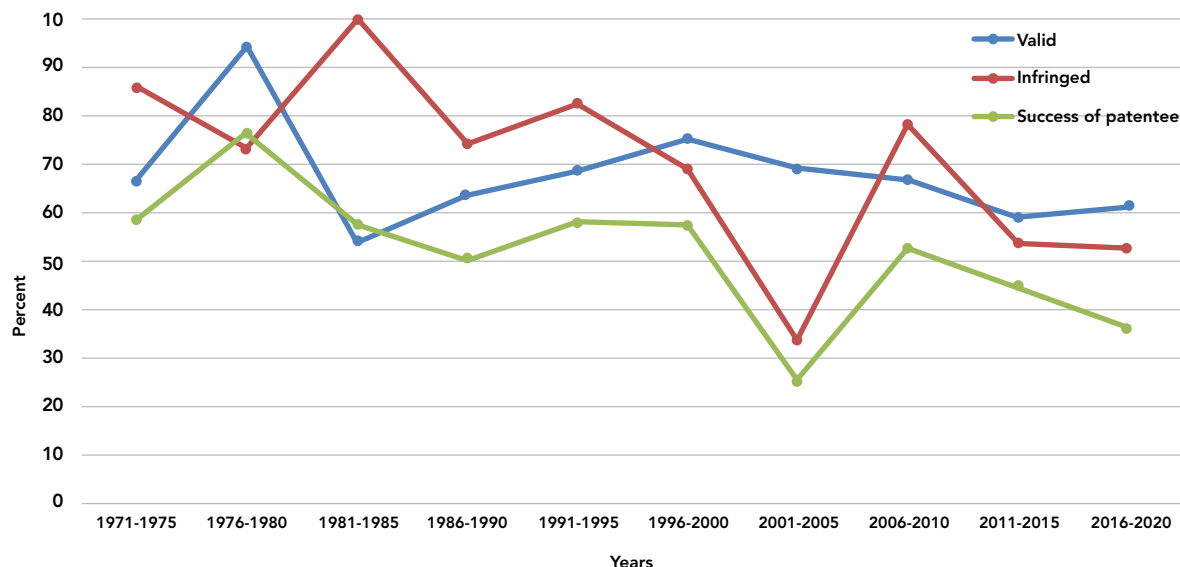


Table 1 Rate of Findings of Validity, Infringement, and Overall Success for Patentee at Trial

Years	Valid	Infringed (irrespective of validity)	Successful for patentee
1971–1975	8/12 (66.7%)	6/7 (85.7%)	7/12 (58.3%)
1976–1980	16/17 (94.1%)	11/15 (73.3%)	13/17 (76.5%)
1971–1980	24/29 (82.7%)	17/22 (77.3%)	20/29 (69.0%)
1981–1985	7/13 (53.8%)	10/10 (100%)	8/14 (57.1%)
1986–1990	19/30 (63.3%)	20/27 (74.1%)	16/32 (50.0%)
1981–1990	26/43 (60.5%)	30/37 (81.1%)	24/46 (52.2%)
1991–1995	13/19 (68.4%)	14/17 (82.4%)	11/19 (57.9%)
1996–2000	9/12 (75.0%)	9/13 (69.2%)	8/14 (57.1%)
1991–2000	22/31 (71.0%)	23/30 (76.7%)	19/33 (57.6%)
1971–2000	72/103 (69.9%)	70/89 (78.7%)	63/108 (58.3%)
2001–2005	9/13 (69.2%)	5/15 (33.3%)	4/16 (25.0%)
2006–2010	14/21 (66.7%)	14/18 (77.8%)	11/21 (52.4%)
2001–2010	23/34 (67.6%)	19/33 (57.6%)	15/37 (40.5%)
2011–2015	10/17 (58.8%)	8/15 (53.3%)	8/18 (44.4%)
2016–2020	14/23 (60.8%)	12/23 (52.2%)	9/25 (36.0%)
2011–2020	24/40 (60.0%)	20/38 (52.6%)	17/43 (39.5%)
2001–2020	47/74 (63.5%)	39/71 (54.9%)	32/80 (40.0%)

one asserted claim was found valid and infringement was not at issue. Figure 2 visually plots the results from those trials.

Note that these charts relate to patent trials in both the Federal Court and provincial courts, but do not include

any summary judgment motions and do not include any proceedings conducted under the prevailing *PM(NOC) Regulations*¹⁴⁵ prior to the amendments in 2017.

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

Shuji Sumi**

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 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 droits de propriété intellectuelle 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.

Contents

1.0	Introduction	82	4.3	Assignments of Canadian Patents	93
2.0	<i>Euro-Excellence</i> and Parallel Imports Questions ...	82	4.3.1	Pre-Sale Assignments	93
3.0	Principles Applicable to Parallel Imports of Patented Products	84	4.3.2	Post-Sale Assignments.....	93
3.1	Independence of Patents and Their Inherent Territorial Limitations.....	84	5.0	Potential Practices to Block Parallel Imports by Related Parties.....	94
3.2	Patentees' Exclusive Rights Under Canadian Patent Law: Written and Unwritten Exclusive Rights.....	85	5.1	Establishing Subsidiaries	94
3.3	Purchasers' Rights Under Canadian Patent Law	85	5.2	Subsidiaries' Attempts to Block Parallel Imports....	95
3.3.1	Purchasers' Rights: Implied and Explicit Licences	85	5.2.1	Subsidiary Exclusive Licensees.....	95
3.3.2	Purchasers' Rights Deriving from the Patentees' Vending Rights.....	87	5.2.2	Subsidiary Assignees.....	96
3.4	Another Theory for Justifying Purchasers' Rights in Other Jurisdictions.....	88	6.0	Licensing and Assigning Foreign Patents	97
4.0	Blocking Parallel Imports of Patented Products	89	6.1	Unrelated Parties	97
4.1	Canadian and Foreign Patents Owned by the Same Party.....	89	6.1.1	Licensee Vendors.....	97
4.2	Granting Exclusive Licences Under Canadian Patents	89	6.1.2	Assignee Vendors.....	98
4.2.1	Exclusive Licensee's Standing	89	6.2	Related Parties: Foreign Subsidiaries	98
4.2.2	Pre-Sale Granting of Exclusive Licences.....	90	6.2.1	Subsidiary Licensees	98
4.2.3	Post-Sale Granting of Exclusive Licences.....	91	6.2.2	Subsidiary Assignees.....	99
			7.0	Licensing or Assigning Both Canadian and Foreign Patents.....	99
			8.0	Conclusion	100

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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 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 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 Canada⁸ and could, therefore, rely on getting trademark protection. KCI

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].

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).”

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.

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 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:

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

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,

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/UQLJ/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.

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.

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.

the Supreme Court rejected KCI's claims based on a secondary infringement of copyright under section 27(2)(e) of the *Copyright 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.

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 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.

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/>>.

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.

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 patents²⁷ 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 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.”

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.

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,

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.

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.

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, Ltd* (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*].

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 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 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 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 Phonograph 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

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.

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].

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*.

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

46 *Ibid* at para 39.

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

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 parties⁵⁰—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 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

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

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

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

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].

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].

55 See Shuji Sumi, “Purchasers’ Rights to Patented Products Under the Common Law Doctrine of Exhaustion” (1998) 15 *CIPR* 81 at 85.

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 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. 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 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

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.

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.

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>>.

purchasers' use, sale, and importation of patented 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 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 right⁷⁴—and thus the purchaser will not be allowed to import the purchased patented product into Canada. It can therefore be asserted:

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-

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.

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.

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>>.

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 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 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 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

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

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].

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.

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 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

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.

Where the sale is unconditional—that is, without a no-export restriction—the patentee impliedly renounces the exclusive

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

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

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, 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>.

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 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 restriction⁸⁷ 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 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 licence⁸⁸—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 patent⁸⁹ 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 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.

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

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

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

88 *Ibid.*

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

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 patentee⁹¹ 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.

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 case⁹² 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 patentee'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.

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 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 product⁹⁵ 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 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

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*.

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

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

⁹⁴ *Ibid* at 186.

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.

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.

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 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

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

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

100 *Ibid.*

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

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, 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."

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 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 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

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

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>>.

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

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

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

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 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

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

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

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 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.

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’

¹¹⁰ *Ibid.*

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.

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 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 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

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

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.

120 *Ibid* at para 3.12.

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 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.

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 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

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

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

¹²³ *Ibid* at paras 99–100.

¹²⁴ *Ibid* at para 100.

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 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 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

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

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

- 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
 - 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.



IN MEMORIAM

Casey Paul August

Casey Paul August passed away peacefully on March 12, 2021, due to complications arising from bladder cancer. Casey was a leader in the Intellectual Property (IP) field in Canada, an active member of the Institute for 45 years and President of the Patent and Trademark Institute of Canada (now IPIC) from 1983-1984. Casey also led the IP

function for IBM in Canada and, following his move to Greenwich, CT, the Americas.

Casey was born on the 7th of April in 1943 as Kestutis Paulius Augustinavičius in Telšiai, Lithuania to Jadvyga and Petras Augustinavičius. As a young boy, Casey emigrated to Canada with his family settling in Toronto. Shortly after graduating, Casey met Eileen (née Naujokas) and were married on December 17, 1964, and traveled the world together, including epic journeys to Machu Picchu, Galapagos, India, Nepal, Israel, Southeast Asia, Borneo, Africa, Turkey, Australia, New Zealand, most of Europe, South America, China, Egypt, Russia and, of course, Lithuania.

Along with a keen appreciation for nature Casey was always interested in science, engineering and ideas and translated his early interest for space flight into a career working at IBM, where he protected engineering research through patents and copyright. "In addition to his prominence in the Canadian IP profession, as a colleague in IBM, Casey was respected throughout the company for his pioneering work to protect computer software, including the fundamental processor and operating system programs, through copyright and patent. He was a wonderful conversationalist and always generous with his time to discuss any issue, whether professional or personal. He is deeply missed," said friend and former colleague Leonora Hoicka.

Casey was also a lover of art, first as a collector and then as a painter. He was a kind and compassionate man, always willing to listen and generous with his time and insightful advice on a wide array of topics to people from all walks of life, including with those suffering from prostate cancer.

"A truly unique past President Casey was a Renaissance Man; a bright engineer, a talented artist, an entrepreneur, a kind and charismatic friend as well as a great family man. Casey did it all. A real 'Energizer Bunny.' Casey is fondly remembered by all, whose paths he crossed in his most busy and successful personal and professional life. I am a better person because he was my friend" said J. Guy Potvin.

He was predeceased by his parents and older brother Al August (Irene). He is survived by his loving wife Eileen, his younger brother Michael Augustinavičius (Sylvia), sons Jason (Shannon), Jonas (Sharon), and Justin (Sophie), grandchildren Casey, Olivia, Eva, Pierre, and Françoise, his beloved cousins, family members and friends.

In lieu of flowers, donations may be made to Prostate Cancer Foundation www.pcf.org. IPIC offers its sincere condolences to Casey's family, friends and former colleagues.

À LA MÉMOIRE DE

Casey Paul August

Casey Paul August est décédé paisiblement le 12 mars 2021, des suites de complications découlant d'un cancer de la vessie. Casey était un leader dans le domaine de la propriété intellectuelle (PI) au Canada, un membre actif de l'Institut pendant 45 ans et le président de l'Institut canadien des brevets et marques (aujourd'hui l'IPIC) de 1983 à 1984. Casey a également dirigé la division de la PI chez IBM Canada, puis chez IBM Amériques à la suite de sa mutation à Greenwich (CT).

Casey est né le 7 avril 1943 à Telšiai (Lituanie) sous le nom de Kestutis Paulius Augustinavičius, fils de Jadvyga et Petras Augustinavičius. Jeune garçon, Casey et sa famille ont émigré au Canada, élisant domicile à Toronto. Peu après avoir complété ses études, Casey a rencontré Eileen (née Naujokas), ils se sont mariés le 17 décembre 1964 et ils ont beaucoup voyagé ensemble un peu partout sur la planète, effectuant des visites épiques à Machu Picchu, aux Îles Galapagos, en Inde, au Népal, en Israël, en Asie du Sud-Est, à Bornéo, en Afrique, en Turquie, en Australie, en Nouvelle-Zélande, presque partout en Europe, en Amérique du Sud, en Chine, en Égypte, en Russie et bien sûr en Lituanie.

Appréciant grandement la nature, Casey a toujours été intéressé par les sciences, le génie et les idées, transformant son intérêt précoce pour le vol spatial en une carrière chez IBM où il a su protéger la recherche en génie par le biais de brevets et de droits d'auteur. « En plus de sa prééminence dans la profession canadienne de la PI, en tant que collègue de travail chez IBM, Casey était respecté par tous les membres de l'entreprise pour ses travaux innovateurs sur la protection des logiciels informatiques, y compris les programmes du processeur fondamental et du système d'exploitation, par le biais du droit d'auteur et du brevet. Merveilleux causeur, Casey a toujours généreux de son temps pour discuter de toute question professionnelle ou personnelle. Il manquera profondément à tous », dit son amie et ancienne collègue Leonora Hoicka.

Casey a toujours été passionné par l'art, d'abord à titre de collectionneur puis en tant que peintre. Gentil et plein de compassion, il était toujours disposé à écouter et généreux de son temps et de ses conseils précieux sur un vaste éventail de sujets pour les gens de tous les milieux, y compris ceux qui souffraient d'un cancer de la prostate.

« Casey a été un président véritablement unique, un homme de la Renaissance, un brillant ingénieur, un artiste talentueux, un entrepreneur, un ami gentil et charismatique et un homme de famille dévoué. Casey a tout accompli. Un vrai lapin Energizer. Tous ceux qui l'ont croisé dans sa vie personnelle et professionnelle très occupé et prospère en garderont un tendre souvenir. Je suis une meilleure personne parce que je l'ai eu comme ami », dit J. Guy Potvin.

Prédécedé par ses parents et son frère aîné Al August (Irene), il laisse dans le deuil sa tendre épouse Eileen, son plus jeune frère Michael Augustinavičius (Sylvia), ses fils Jason (Shannon), Jonas (Sharon) et Justin (Sophie), ses petits-enfants Casey, Olivia, Eva, Pierre et Françoise, ainsi que ses cousins, d'autres membres de sa famille et ses amis bien-aimés.

Plutôt que d'envoyer des fleurs, vous êtes invités à faire un don en son nom à la Prostate Cancer Foundation. L'IPIC offre ses sincères condoléances à la famille de Casey, ainsi qu'à ses amis et anciens collègues.



IN MEMORIAM

David Langdon

April 12, 2021, marked the passing of David Langdon, retired partner and friend to many at Bereskin & Parr, due to complications from Alzheimer's Disease.

David was a long-time and dedicated member of the Institute for 39 years including a term as President of IPIC from 1994-1995. During his time as an IPIC member David also served as a member of, and later Chair of, IPIC's Patent Legislation Committee. Additionally, David was also a passionate and regular speaker during the IPIC-McGill program courses on intellectual property.

Born and raised in Leicester, England, David came to Canada in 1974 to join the law firm, Bereskin & Parr, where he became a partner in 1978. He stayed with the firm, specializing in intellectual property, until retiring in April 2014 after more than 30 years. "Through his work with many international clients and organizations including FICPI, EPI, ITMA, IPIC, AIPPI, and CIPA, David was known around the world for his intelligence, competence, and kindness. He will truly be missed," said his former colleagues and friends at Bereskin & Parr.

David was a close trusted colleague and mentor to many at Bereskin & Parr and his impact on this firm was truly significant. "The value of David's service and his devotion to clients have been integral to the growth and success of Bereskin & Parr. We thank him for his immeasurable contributions."

"I worked with David on IPIC Council, now the IPIC Board of Directors, during my term as President from 1991 to 1992 where we attended all of the IPIC meetings together and travelled to AIPPI international meetings and some FICPI meetings together as well. David was a gentle soul, always helpful when it came to volunteering. He and Sue, as I, enjoyed the social aspects of these events, especially the after hours. However, as I recall, we managed to be present when the bell rang, the following morning, for the start of the business sessions" said friend and former IPIC Board colleague Robert Mitchell.

David loved dogs, Porsches, and his granddaughters, not necessarily in that order. He leaves behind devoted wife, Millie Waicus, and her children, Frank and Sarah; sister, Jane; children, James (Carolyn) and Clare (Dave); and his beloved granddaughters, Hannah, Ella, Ava and Fiona. Predeceased by first wife, Sue; sister, Celia; and stepson, Evan. David's family gives special thanks to the exceptionally dedicated staff at Presentation Manor who made David's final months as comfortable as possible (Globe and Mail).

In lieu of flowers, donations to the Alzheimer Society of Ontario are welcomed. IPIC offers its sincere condolences to David's family, friends and former colleagues.

À LA MÉMOIRE DE

David Langdon

David Langdon est décédé le 12 avril 2021, des suites de complications liées à la maladie d'Alzheimer; David était un associé à la retraite et un ami de plusieurs membres du cabinet Bereskin & Parr.

David a été membre de l'Institut pendant 39 ans, notamment à titre de président de l'IPIC de 1993 à 1994. Au cours de cette longue période au sein de l'IPIC, David a été membre, puis président du Comité de la législation en matière de brevets. En plus, David a été un conférencier passionné et régulier pour les cours du programme IPIC-McGill sur la propriété intellectuelle.

David est né et a grandi à Leicester, en Angleterre. Il a émigré au Canada en 1974 pour se joindre à la grande famille du cabinet juridique Bereskin & Parr où il est devenu associé en 1978. À titre de spécialiste en propriété intellectuelle, il est demeuré dans ce cabinet pendant plus de 30 ans, jusqu'au moment de sa retraite en avril 2014. « En raison de son travail auprès d'une importante clientèle et de plusieurs organisations internationales, y compris la FICPI, l'EPI, l'ITMA, l'IPIC, l'AIPPI et la CIPA, David s'est fait connaître dans le monde entier pour son intelligence, sa compétence et sa gentillesse. Nous en garderons tous un tendre souvenir », selon ses anciens amis et collègues du cabinet Bereskin & Parr.

Pour plusieurs membres de l'équipe du cabinet Bereskin & Parr, David a été un collègue et un mentor proche et fiable et il a eu un impact considérable sur ce cabinet. « La valeur du service et du dévouement de David pour ses clients a été une partie intégrante de la croissance et de la réussite du cabinet Bereskin & Parr. Nous tenons à le remercier pour son incommensurable contribution. »

« J'ai travaillé avec David au sein du Conseil de l'IPIC (aujourd'hui le Conseil d'administration de l'IPIC) au cours de mon mandat de président (de 1991 à 1992); nous participions à toutes les réunions de l'IPIC (alors l'ICBM) et nous voyagions ensemble pour nous rendre aux rencontres internationales de l'AIPPI et à certains événements de la FICPI. David était une âme douce; il était toujours disposé à se porter volontaire. David, Sue et moi aimions les volets sociaux de ces événements, surtout les activités en soirée. Cependant, je me souviens que nous étions toujours à l'heure le lendemain matin pour le début des séances de travail », dit Robert Mitchell, un ancien ami et collègue du Conseil de l'IPIC.

David adorait les chiens, les automobiles Porsche et ses petites-filles, mais pas nécessairement dans cet ordre. Il laisse dans le deuil sa tendre épouse Millie Waicus et ses enfants Frank et Sarah, sa sœur Jane, ses enfants James (Carolyn) et Clare (Dave), ainsi que ses petites-filles bien-aimées Hannah, Ella, Ava et Fiona. Il a été prédécédé par sa première épouse Sue, sa sœur Celia et son beau-fils Evan. La famille de David a tenu à exprimer ses très sincères remerciements au personnel exceptionnellement dévoué de la résidence Presentation Manor qui a veillé à ce que David soit le plus confortable possible durant les derniers mois de sa vie (Globe and Mail).

Plutôt que d'envoyer des fleurs, vous êtes invités à faire un don en son nom à la Société Alzheimer de l'Ontario. L'IPIC offre ses sincères condoléances à la famille de David, ainsi qu'à ses amis et anciens collègues.

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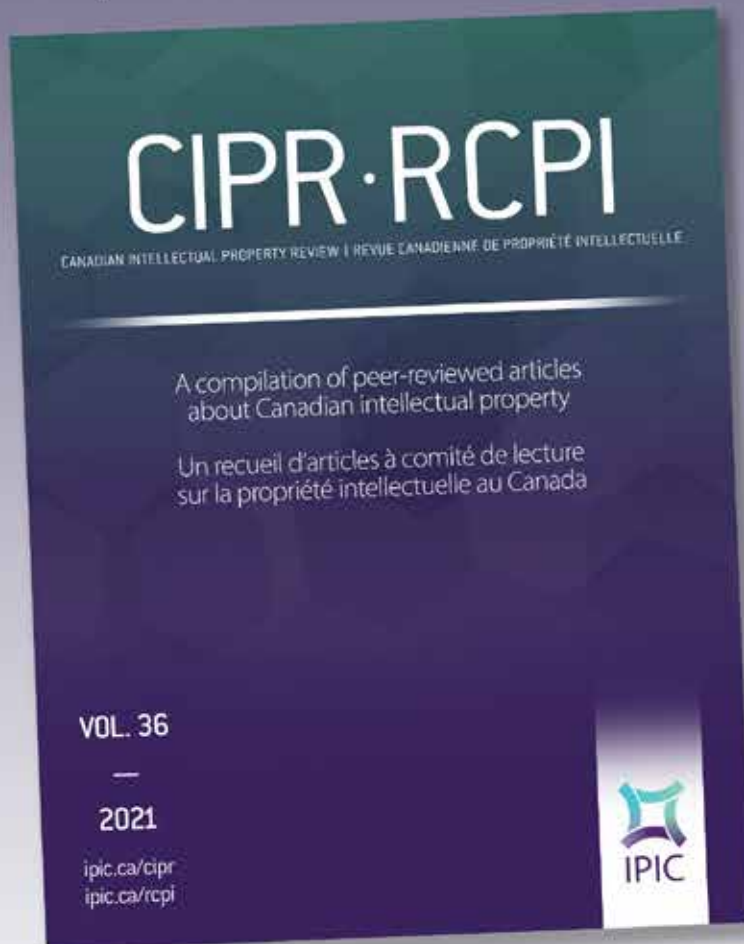
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For more information or to submit an article, contact Christina Locmelis at clocmelis@ipic.ca.

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Pour plus d'information ou pour soumettre un article, veuillez contacter Christina Locmelis par courriel à clocmelis@ipic.ca.



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